UNICEF Audit Advisory Committee
2013 Annual Report
(28 February 2014)

I. Introduction

1. As an independent external oversight advisory body, the UNICEF Audit Advisory Committee (AAC, or the Committee) advises the Executive Director and informs the Executive Board on the conduct of management responsibilities in accordance with the UNICEF Financial Regulations and Rules, the United Nations Staff Regulations and also all directives, policies and procedures applicable to UNICEF. The areas of responsibility of the AAC include the following:

   (a) Review of the functioning of the UNICEF oversight system;
   (b) Review of the quality and integrity of UNICEF accounting and reporting practices, internal control systems, risk management and governance practices;
   (c) Review of compliance with applicable regulations, rules and ethical standards and Executive Board decisions;
   (d) Review of the effectiveness of the internal and external audit processes; and
   (e) Reporting of the results of the above reviews to the Executive Director and Executive Board.

2. This report summarizes the work performed by the AAC during 2013 in each of the core mandate areas described above. During 2013, the AAC met in person in March, July and November. For each meeting, the management of UNICEF provided to the AAC all requested materials and facilitated the participation of the relevant UNICEF officers. The AAC met with the Executive Director at the March 2013 meeting. It is also worth highlighting that the Deputy Executive Director (Management) participated in the relevant sections of all three meetings during the year. The matters discussed during 2013 and the observations and recommendations of the AAC pertaining to each of the areas of responsibility noted above are summarized below.

II. Review of the functioning of the UNICEF oversight system

3. In addition to the review of the internal and external audit processes, which is covered in section V of this report, the work of the AAC during 2013 consisted of regular updates from management on a wide variety of matters relevant to the effective execution of the AAC mandate. Such updates provided the AAC with not only useful information and insights but also opportunities to provide advice, including suggestions for improvements. The AAC also conducted reviews of the work of the Evaluation Office.

   (a) Global management team updates

4. To help inform its work, the AAC has received regular updates from the Deputy Executive Director (Management) on the meetings of the Global Management Team. The AAC noted in particular the approval of the UNICEF Strategic Plan, 2014-2017, and the progress of work on the Effectiveness and Efficiency initiative.

   (b) Evaluation Office

5. To further strengthen the independence of the Evaluation Office, the AAC had recommended to UNICEF management that the term of appointment of the Director of the Evaluation Office should be similar to that of the Director of the Office of Internal Audit and
In the need for greater scrutiny and management of the assurance activities in the areas of cash transfers. We concur with the external auditors regarding the removal of the emphasis towards resolving the difference in opinion with the external auditors, thereby paving the way for accounting treatment of such income is reasonable, we still urge UNICEF management to work towards resolving the difference in opinion with the external auditors, thereby paving the way for the removal of the emphasis of matter, which appears in their opinion.

(b) Review of the external auditors’ management letter comments

The AAC reviewed and noted with satisfaction the progress on implementation during 2013 of accepted recommendations made by the external auditors. The AAC also noted that the external auditors had raised some of the same issues of concern to the Committee, i.e., the need for attention to assurance activities in the areas of cash transfers. We concur with the external auditors regarding the need for greater scrutiny and management of the risks relating to the relationship of UNICEF with the National Committees for UNICEF.

IV. Review of compliance with applicable regulations and rules

The AAC obtained regular updates on the implementation of VISION and on the Harmonized Approach to Cash Transfers (HACT).
(a) VISION – Reaping full benefits

11. Since the information system VISION went live on 1 January 2012, the AAC has taken particular interest in the extent of its use to manage and drive performance management. The Committee has obtained updates from UNICEF management on the following: metrics or indicators of active use of the system by managers; measures taken to ensure the timeliness and accuracy of underlying data; and information on how the reported results are being used in decision-making. The AAC noted the efforts by management to enhance the integrity of VISION, including the implementation of a system to detect and correct unacceptable concentrations of access rights. The AAC continues to seek updates on work in this area.

(b) Harmonized Approach to Cash Transfers

12. The management of cash transfers remains the single largest source of financial and reputational risk for UNICEF. Accordingly, the extent of compliance with HACT, and the broader control framework to assure that resources are used only for the intended purposes, has received considerable attention from the AAC throughout the year. The Committee requested and received an analysis of country office internal audit report findings related to deficiencies in cash transfers as well as issues related to the implementation of the HACT system itself. The Committee received briefings from the Comptroller on internal controls in place for managing direct cash transfers, and on systems for continued measurement of cash transfer compliance in VISION. In addition, the Committee was kept apprised of the participation of UNICEF in the wider United Nations effort led by the United Nations Development Group to revise the overall framework for HACT to address issues identified in various assessments of HACT implementation in the larger United Nations system.

13. The AAC welcomes the commitment by management, conveyed to the AAC at its November 2013 meeting, to dedicate additional resources to capacity-building for overall assurance activities, which had been a key recommendation of past reviews of HACT.

14. In December of 2013, a member of the AAC participated in a joint meeting held with the audit advisory committees of the United Nations Development Programme and the United Nations Population Fund to review the revised HACT framework, including changes made to address issues of accountability, and measurement of implementation status.

15. The results of the joint meeting affirmed that each United Nations agency is responsible for HACT implementation in its programmes, and that each agency should have accountability clearly assigned within its structures. The recommendations from that meeting also affirmed a request that the AAC had made to UNICEF management, which is to develop metrics on the overall implementation of HACT, including measures of both efficiency and effectiveness. The AAC will continue to follow up, with management, actions on these two aspects of cash transfer assurance in the coming year.

V. Review of the effectiveness of internal and external audit processes

16. The highlights of the work of the AAC during the year in this mandated area included the following:
(a) Internal Audit

(i) Leadership of the Office of Internal Audit and Investigations

17. A new Director of OIAI was appointed at the end of 2012 and effectively started working in January 2013. Further, a new Deputy Director of OIAI was appointed in mid-July 2013. The Director and Deputy Director have actively supported and facilitated the work of the AAC.

(ii) Review of the 2013 OIAI workplan

18. At its March 2013 meeting, the AAC reviewed and endorsed the final workplan of OIAI for 2013, noting that the level of resourcing was reasonable relative to the work to be undertaken. It should be noted that the AAC in November 2012 had approved a draft of the 2013 workplan prepared by the interim Director of OIAI. This was done with the understanding that a discussion of the workplan could be reopened in early 2013 with the new Director of OIAI, so that any justifiable changes could be incorporated. The Committee noted that the revisions made were justified.

(iii) Review of the 2014 OIAI workplan

19. At the November 2013 meeting of the AAC, OIAI presented the methodology it was using to prepare its 2014 workplan, along with the preliminary results related to the major risks and assignment selections. The AAC endorsed the methodology and agreed to review the final draft workplan. In mid-January 2014, the AAC received from OIAI the final 2014 draft workplan, which was reviewed and endorsed.

(iv) Review of OIAI activity reports

20. As in prior years, the AAC reviewed the quarterly OIAI activity reports, paying particular attention to the volume of items carried over from previous periods and the overall aging of audits and investigations. On the basis of such reviews, the AAC has highlighted for management attention the continued need for vigilance and improvements in the monitoring and control of cash transfers and the management of assets in field offices.

21. In general, the AAC provided professional advice on the various issues brought to its attention by the Director of OIAI to enhance the efficiency of the audit and investigations function. In some areas it was a matter of gaining assurance that issues are handled accordingly.

(v) Public disclosure of internal audit reports

22. Following Executive Board decision 2012/13 of UNICEF as part of the move towards even greater transparency to publicly disclose internal audit reports, the Director of OIAI has provided to the AAC at each meeting a report on the status of public disclosure of audit reports. The AAC has examined the reasons for redaction or non-disclosure of certain internal audit reports and concluded that such actions were compliant with the relevant policies and guidelines.

(vi) External Quality Assurance

23. The OIAI office issued a contract for an External Quality Assurance review of both the internal audit function and the investigation functions. The Committee welcomed this effort as a standard practice in assuring adherence to overall best standards, and was involved in review of the Terms of Reference for these studies. The Committee received draft reports on the results for each
function late in the year, as well as a draft action plan for review. The AAC welcomed the positive conclusions on general conformity of both audit and investigation functions with the applicable international standards and guidelines as well as with UNICEF internal governing frameworks. In mid-January 2014, the AAC received the final reports for both functions, which included OIAI’s detailed action plan to address the recommendations. The AAC will monitor the progress of the implementation of the related action plan, based on the submission of periodic status reports on OIAI and management actions on the specific recommendations, as part of its work programme in 2014. The AAC will be particularly interested in the recommendations in the External Quality Assurance report related to its role.

(b) **External Audit**

(i) **Meeting with the United Nations Board of Auditors**

24. The AAC met with the United Nations Board of Auditors during its July and November meetings. The AAC concurs with the focus areas selected by the Board of Auditors, namely the effectiveness of oversight over National Committees, and also over programme, budget and human resource management.

(ii) **Follow-up of Management Letter Comments**

25. As previously noted, the Committee noted with satisfaction the progress made in ensuring ownership for the implementation of the external auditors’ recommendations and has encouraged the prompt closure of pending matters, especially those dependent on the implementation of IPSAS.

VI. **Reporting to the Executive Director and Executive Board**

(a) **Executive Board**

26. For reasons of economy, an AAC member based in the United States represented the Chair of the AAC at the annual session of the Executive Board (June 2013), at which the annual report of the Committee was presented. The AAC member’s presence was acknowledged at the beginning of the OIAI presentation to the Executive Board. The AAC has recommended to the management of UNICEF that the report of the AAC should be tabled separately at the annual session, rather than as part of the report of the OIAI, consistent with the independent external character of the AAC.

(b) **Executive Director of UNICEF**

27. The AAC has submitted minutes of all of its meetings to the Executive Director, highlighting matters that in the view of the Committee require his special attention. As noted earlier, the AAC appreciated the presence of the Executive Director at its meeting in February 2013. Such presence helps to reinforce the “tone at the top” regarding the important attention that needs to be continuously paid to the proper functioning of the oversight and accountability framework of UNICEF.

(c) **UNICEF Deputy Executive Director (Management)**

28. The AAC also appreciated the opportunity to meet with the Deputy Executive Director (Management) at each of its meetings. His presence allowed the Committee to obtain updates on meetings of the Global Management Team and Executive Board and on preliminary management responses to AAC members’ observations or queries.
VII. Membership of AAC during 2013

29. The AAC comprises five external members, who are independent of both UNICEF and the Executive Board. The membership of the AAC and the record of attendance at AAC meetings during 2013 are summarized below:

<table>
<thead>
<tr>
<th>Name</th>
<th>March 2013</th>
<th>July 2013</th>
<th>November 2013</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charles Boamah</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Current Chair. Member since February 2011. Reappointed for service until 2015.</td>
</tr>
<tr>
<td>Mary Ann Wyrsch</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Member since 2011. Reappointed for service until 2016.</td>
</tr>
<tr>
<td>John Fitzsimon</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Member since 2011. Reappointed for service until 2016.</td>
</tr>
<tr>
<td>Alan Siegfried</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Member since May 2012. Appointed for service until May 2014.</td>
</tr>
<tr>
<td>Lesedi Lesetedi</td>
<td>n/a</td>
<td>Yes</td>
<td>Yes</td>
<td>Member since February 2013. Appointed for service until 2016.</td>
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VIII. Concluding Observations

30. Based on the information presented to the Committee in 2013, the AAC is satisfied with the overall effectiveness of the internal control environment. To help ensure the continued effectiveness of the internal control environment and compliance with all applicable rules and regulations, the AAC recommends the following actions for UNICEF management:

(a) With regard to the Effectiveness and Efficiency initiative, management should:

(i) Ensure that strong attention is given to the Change Management challenges that may result from necessary organizational or process-related changes;

(ii) Undertake a review of the UNICEF accountability system, presented to the Executive Board in June, 2009, with a view to updating the assignments of accountability roles and responsibilities that may have changed as a result of the Effectiveness and Efficiency Review;

(b) Follow up on the implementation of the outstanding recommendations relating to the need for broad ownership and consistent implementation of HACT, to help assure that cash transfers are utilized for the intended purposes, as well as work to ensure the clear measurement of implementation within UNICEF;

(c) Consistent with the stated desire of UNICEF to be a leader in accountability and good governance, UNICEF should consider requiring the Executive Director to provide, on an annual basis, a signed management assertion regarding the effectiveness of internal controls;

(d) The report of the AAC should be separated from the annual report of OIAI, consistent with the external independent oversight nature of the AAC;

(e) Undertake a review of the UNICEF accountability system, presented to the Executive Board in June, 2009, with a view to updating its assignments of accountability roles and responsibilities that may have changed as a result of the Effectiveness and Efficiency Review.
IX. Acknowledgements

31. The AAC wishes to thank the many staff members from several departments across UNICEF who made themselves available to respond to the numerous queries of the Committee and provide requested data and other information. In particular, the AAC appreciates the support provided throughout the year by current and former OIAI staff and officers.