

UNICEF Audit Advisory Committee 2014 Annual Report

13 March 2015

I. Introduction and overview

1. The UNICEF Audit Advisory Committee (AAC, or the Committee) is an independent external oversight advisory body that 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 all directives, policies and procedures applicable to UNICEF.

2. In undertaking its duties, the AAC has been mindful of the evolving context of UNICEF operations and the implications for the UNICEF accountability system. The fiscal challenges in several countries and related increased and competing demands on donors, the rising share of private sector funds out of total funds mobilized, and the increased security risks in several countries in which UNICEF operates all have important effects on the accountability system of UNICEF. During 2014, the AAC met in person in March, July and November. For each meeting, the management of UNICEF provided the AAC with all requested materials and facilitated the participation of the relevant UNICEF officers. The AAC met with the Executive Director on 1 July 2014. As in prior years, the Deputy Executive Director (Management) engaged with the Committee in all three meetings held during the year. Other members of the UNICEF management team also made valuable presentations to the AAC meetings.

3. The observations of the AAC are organized and presented for each of its core mandate areas, as follows:

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

4. The sections that follow present highlights of the work performed by the AAC in 2014 for each of the mandate areas.

II. Review of the functioning of the UNICEF oversight system

5. The AAC review of the functioning of the UNICEF oversight system comprises reviews of the effectiveness of the internal and external audit processes, the Evaluation Office, the Ethics

Office and updates on the activities of the Global Management Team (GMT). The results of the AAC review of the internal and external audit processes are presented in section V of this report.

(a) Global Management Team updates

6. As in prior years, during 2014 the AAC received regular updates from the Deputy Executive Director (Management) on the meetings of the GMT. The AAC took good note of the progress of work on the Effectiveness and Efficiency Initiative, including the considerations for establishing a Global Shared Service Centre (GSSC), discussions by the GMT of the Post-2015 goals for children, private sector fundraising and the progress of implementation of the UNICEF Strategic Plan 2014–2017. The AAC has appreciated the level of management attention to effectiveness and efficiency and looks forward to continued briefings on the implementation of these efforts.

(b) Managing for results

7. The AAC reviewed the roles and responsibilities of the new Deputy Executive Director (Field Results) and notes with satisfaction that such added focus on results, properly and consistently executed, will enhance the overall effectiveness of the accountability framework and consequently the UNICEF brand. The work of the AAC in this area included receiving a live demonstration of the UNICEF inSight dashboards and gaining an understanding of the work of the Field Results Group.

8. *To ensure that UNICEF obtains the full benefits of the inSight dashboard system, the AAC encourages management's continued close attention in the following three areas:*

(1) Assurance that the data in the system is complete and accurate;

(2) Promotion of the data for knowledge management purposes, in terms of programme outcomes and other indicators of programme progress; and

(3) Continued vigilance on corporate information technology governance to promote the use of common systems and the avoidance of possibly competing systems. This will be an area of continued AAC focus in 2015.

(c) Evaluation Office

9. At the July 2014 meeting, the AAC met with the head of the Evaluation Office and noted with satisfaction the feedback from the Office about the steady improvement in the quality of both central and field evaluations. *The AAC advises that management should continue to improve the timeliness and quality of responses to evaluations.* In this regard, the AAC will monitor the implementation of the electronic Integrated Monitoring and Evaluation Plan, which, among other things, is designed to improve compliance. Further, the AAC will continue to monitor the effectiveness of the systems in place to ensure that evaluation results inform the design of future programmes.

(d) Ethics Office

10. The AAC reviewed the 2014 workplan of the Ethics Office and noted with satisfaction the follow up on all cases reported to their office and on the progress of work on web-based training. Further, the efforts to promote a 'speak-up culture' throughout UNICEF should be strongly encouraged.

(e) Change Management

11. The AAC noted the many change initiatives being implemented, including discussions about preparing UNICEF for dynamic changes in the medium to long term (UNICEF 3.0 and 4.0), the GSSC, reorganization of headquarters offices and functions, and increased use of matrix organization management. While these changes are intended to respond to the evolving operating environments of UNICEF, to help assure the effectiveness and efficiency of the measures arising from these initiatives, the AAC wishes to highlight the importance of strong change management. Further, active vigilance is required to assure the continued effectiveness of the control systems during this period of change and transitions. The AAC will continue to prioritize attention to these matters, including the oversight roles of the Office of Internal Audit and Investigations (OIAI) and the Division of Financial and Administrative Management (DFAM) in this regard.

12. The AAC strongly encourages UNICEF Management to organize periodic forums for the purpose of communicating the overall findings and conclusions of the key oversight functions, such as audit, investigations and ethics, to the organization.

III. Review of the quality and integrity of UNICEF accounting and reporting practices, internal control systems, risk management and governance practices

13. At each meeting in 2014, the AAC received updates and explanations from DFAM on external audit matters, the application of the International Public Sector Accounting Standards (IPSAS) and on measures to assure the continued effectiveness of the internal control framework for UNICEF. The AAC also reviewed the 2013 financial statements prepared in accordance with IPSAS, and was updated on actions taken by management to address recommendations in the management letters from the United Nations Board of Auditors. The specific comments of the Committee in 2014 are detailed below.

(a) Review of the 2013 financial statements based on IPSAS

14. The 2013 financial statements were submitted to the AAC for information in April 2014. The AAC reiterates its request that, in the future, draft financial statements should be submitted to the AAC sufficiently ahead of their finalization for external audit to enable the AAC to more effectively play its advisory role vis-à-vis the Executive Director, and in line with current practice in other audit advisory committees.

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

15. At each meeting in 2014, the AAC reviewed the progress of implementation of the recommendations of the external auditors that had been accepted by management. The AAC was pleased to note the progress of work on these recommendations, particularly those relating to the National Committees for UNICEF. The AAC noted with satisfaction the strengthened monitoring of National Committee reserves and investment activities.

16. The AAC has recommended to Management to develop and adopt a statement of internal control, a practice that pertains in many other organizations. Such statement will present Management's assertion regarding the effectiveness of the internal control systems, typically supported by specific recommendations from the relevant business areas. The Committee believes that such a statement will further enhance the image of UNICEF.

17. **Private Sector Fundraising:** The Committee notes that the United Nations Board of Auditors draft report for the current year recognizes the changes underway in the overall management of National Committees, and that as a result of actions taken by UNICEF, any risk of audit qualification or continuing reference as a matter of emphasis in the Board report on this issue appears to have abated.

18. The Committee also takes note of the fact that private sector funds are representing an increasing percentage of core resources. While this is a positive outcome, the AAC notes that the detailed work outlined for increased oversight of the National Committees and of the private sector fundraising effort overall requires continued vigilance and oversight, due to the strong reputational risk to UNICEF of negative findings.

IV. Review of compliance with applicable regulations and rules

19. The AAC continues to pay particular attention to compliance with the relevant rules and regulations. Chief among the areas dealt with in 2014 were the activities surrounding the implementation of the policies and procedures related to the revised framework for the harmonized approach to cash transfers (HACT), adopted in early 2014 by the United Nations Development Group.

20. The Committee received materials on UNICEF policies, procedures and the Global Strategy to strengthen the management of HACT in UNICEF. The Committee was pleased to note the comprehensive set of actions and responsibilities scheduled for implementation in the UNICEF workplan for 2014–2015 as well as the commitment of funds to local improvements. The four-year strategy and the two-year workplan signal a management commitment to addressing the deficiencies and risks in cash transfer mechanisms.

21. The Committee requested and received copies of recent updates on the status of implementation of the Global HACT Strategy and noted the establishment of accountability for various aspects of implementation as well as the measurement of implementation via the VISION system.

22. These actions support one of the recommendations in the AAC's most recent report regarding development of implementation plans for the new framework, as well as metrics on local office compliance with the requirements. The Committee has requested that at each of its subsequent meetings over the coming two-year workplan implementation period, it should receive a short briefing from those responsible for implementation on the status of the workplan as well as data on compliance across UNICEF offices. The Committee looks forward to receiving this information. The AAC also notes the designation of 10 pilot programmes and will follow up with relevant managers in future to determine how these pilot programmes are progressing.

23. The Committee notes that the two-year implementation plan is ambitious and is dependent on efforts across the organization, as well as some changes in thinking about processes and reporting. We encourage management's continued support of the accountability mechanisms put in place to make these changes. The HACT framework documents call for specific assignment of accountability for HACT results. In line with the request the Committee has made for systematic updates, it looks forward to hearing more in future meetings about how UNICEF is building this accountability.

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

24. The highlights of the work of the AAC during 2014 in this mandated area included the following:

(a) Internal Audit

(i) Follow Up on the Recommendations of the External Quality Assurance of the Internal Audit Function

25. An external independent review was conducted in 2013 on the effectiveness of the UNICEF internal audit function. While the overall conclusion was that the internal audit function was generally in compliance with the International Professional Practices Framework and generally in line with best practices, a number of recommendations were made to help improve the function even further. The AAC notes with satisfaction the overall progress made on the implementation of the recommendations. One open issue is the recommendation that the AAC should provide input into the annual evaluations of the Director of OIAI. The AAC believes that this recommendation is in line with best practices and contributes to the independence and objectivity of the Director of OIAI. The Executive Director also agrees to the input of the AAC on the Director OIAI appraisal and he further suggests that the AAC Charter should be amended to specifically outline this responsibility.

(ii) Review of the 2014 OIAI workplan

26. The AAC reviewed and endorsed the final workplan of OIAI for 2014, which covers both the audit and investigations functions of the Office, and noted that the level of resourcing was reasonable relative to the work to be undertaken. The results of the AAC monitoring of the progress of implementation of the workplan are summarized below.

(iii) Review of OIAI activity reports

27. 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 ageing 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.

28. 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.

29. The AAC has noted that audits carried over from 2013 were completed in 2014, but that a number of audits included in the original 2014 workplan were cancelled or carried over into the next year due to staffing gaps, security concerns or headquarters reorganization. These changes were offset by additional advisory services undertaken during 2014. While the Committee is satisfied with the overall assurance level provided by OIAI in the circumstances, it will further review workplanning assumptions for its assurance audits with OIAI in 2015.

(iv) Public disclosure of internal audit reports

30. As stipulated in the standard operating procedures implementing the public disclosure of internal audit reports, the AAC has at each meeting 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. *The AAC however noted a slight increase in the average time between completion of the audit and actual public disclosure. The AAC urges attention in this regard to ensure timely disclosure of OIAI reports.*

(b) External Audit

(i) Meeting with the United Nations Board of Auditors

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

(ii) Follow-up on management letter comments

32. 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 the Executive Board

(a) Executive Board

33. Following the practice from the past two years that has been motivated by reasons of economy, an AAC member based in the United States represented the Chairperson of the AAC at the annual session of the Executive Board (June 2014), at which the annual report of the Committee was presented in conjunction with the OIAI annual report. The AAC member's presence was acknowledged at the beginning of the OIAI presentation to the Executive Board. The AAC recommended to UNICEF management in its 2013 annual report, and reiterated in 2014, the recommendation that the report of the AAC should be presented separately at the annual session, consistent with the independent external character of the AAC.

(b) Executive Director of UNICEF

34. 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. The AAC appreciated the presence of the Executive Director at its meeting on 1 July 2014. 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)

35. 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 GMT and the Executive Board and on preliminary management responses to AAC members' observations or queries.

VII. Audit Advisory Committee membership and attendance in 2014

36. 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 2014 are summarized as follows:

Name	March 2014	July 2014	November 2014	Comments
Mr. Charles Boamah	Yes	Yes	Yes	Current Chairperson. Member since February 2011. Reappointed for service until 2015.
Ms. Mary Ann Wyrsh	Yes	Yes	Yes	Member since 2011. Reappointed for service until 2016.
Mr. John Fitzsimon	Yes	Yes	Yes	Member since 2011. Reappointed for service until 2016.
Mr. Alan Siegfried	Yes	Yes	Yes	Member since May 2012. Reappointed for service until 2017.
Ms. Lesedi Lesetedi	No	Yes	Yes	Member since February 2013. Appointed for service until 2016.