



Economic and Social Council

Distr.: Limited
16 April 2015

Original: English

For information

United Nations Children's Fund

Executive Board

Annual session 2015

16-19 June 2015

Item 7 of the provisional agenda*

UNICEF management response to the annual report of the Office of Internal Audit and Investigations for 2014

Summary

The present report is submitted to the Executive Board in accordance with decisions 2010/17, 2011/21, 2012/13 and 2013/14. It presents the management response of UNICEF to the annual report of the Office of Internal Audit and Investigations for 2014 ([E/ICEF/2015/AB/L.2](#)) and the concluding observations in the 2014 Annual Report of the Audit Advisory Committee.

A status update on the implementation of recommendations from earlier audits that have remained open for 18 months or more is provided in the annex to the present report.

* [E/ICEF/2015/4](#).



Contents

| | <i>Page</i> |
|---|-------------|
| I. Introduction | 3 |
| II. Public disclosure of internal audit reports | 4 |
| III. Management actions and plans to address the overall findings | 4 |
| IV. Management actions and plans to address the recommendations of country office audits | 8 |
| V. Management actions and plans to address the recommendations regarding headquarters/thematic areas, regional offices, joint audits and advisory services | 11 |
| VI. Management actions to address the findings of investigations | 13 |
| VII. Management actions to address the concluding observations in the 2014 annual report of the UNICEF Audit Advisory Committee | 15 |
| Annex | |
| Progress update on audit recommendations that remained open for more than 18 months as of 31 December 2014 | 17 |

I. Introduction

1. This report has been prepared by the management of UNICEF in response to the Office of Internal Audit and Investigations (OIAI) 2014 annual report to the Executive Board. This report describes the actions that management has taken to address the key issues identified in the audits and investigations undertaken by OIAI in 2014, as summarized in their annual report.
2. The management of UNICEF is committed to having an effective internal audit and investigations function and to having OIAI carry out its activities in accordance with its Charter. In 2014, OIAI capacity was expanded with the establishment of an additional P-4 Investigator position in accordance with the OIAI approved 2014–2017 Office Management Plan.
3. Management appreciates the quarterly internal reporting by OIAI on the status of the implementation of its annual workplan and on the follow-up to its agreed actions. The quarterly reporting continues to enhance the capacity of management to monitor the implementation of audit agreed actions in a systematic manner. Management capacity to monitor the status of agreed actions by offices, and to analyse groups of issues for patterns and underlying causes, will be further strengthened in 2015 when the audit software procured by OIAI in 2014, with funding provided by management, is introduced.
4. UNICEF welcomes the valuable contribution of the independent UNICEF Audit Advisory Committee (AAC) in reviewing and commenting on OIAI workplans and reports and in providing general advice. The specific advice provided by the AAC is addressed in section VI of this report.
5. Management notes that a total of 39 internal audit reports of UNICEF offices and functions were issued in 2014, with 127 high-priority actions out of a total of 525 actions agreed between OIAI and management. This includes two inter-agency audits that also covered UNICEF offices; and management notes that no recommendations were issued to UNICEF from the inter-agency audits. Management also notes that the ratio of high-priority actions to the total number of actions has decreased for the second year in a row, to 24 per cent of the total in 2014, down from 25 per cent in 2013, and 30 per cent in 2012.
6. Management appreciates the advisory services provided by OIAI, and recognizes the contribution made by OIAI in the seven advisory engagements undertaken in 2014, including three related to partnership management. Management also notes that it has significantly increased its own capacity on the harmonized approach to cash transfers (HACT) and other forms of partnership management over the course of 2014, and now provides expanded support to country and regional offices.
7. Management notes that OIAI remains *generally compliant* with both the International Standards for the Professional Practice of Internal Auditing (Standards) of the Institute of Internal Auditors and the Uniform Guidelines for Investigations (endorsed by the 10th Conference of Internal Investigators in 2009), based on an independent quality assurance review conducted in 2013.

II. Public disclosure of internal audit reports

8. Pursuant to Executive Board decision 2012/13, all internal audit reports are subject to public disclosure. The same decision provides for the Executive Director or a concerned Member State to request the Director of OIAI to redact or withhold reports on certain conditions. Of the 27 audit reports ready for disclosure in 2014, the Executive Director requested that one audit report be withheld as it was deemed to contain particularly sensitive information. The Director of OIAI agreed with the request and withheld the report from public disclosure.

III. Management actions and plans to address the overall findings

9. The 2014 OIAI annual report lists 20 audit actions that remained open for more than 18 months as of 31 December 2014, compared to 5 as of 31 December 2013. Eighteen of the open actions arose from audits of headquarters/thematic areas and 2 from country offices. OIAI has reported to management that 5 of the 20 actions that remained open for more than 18 months at the end of 2014 were closed as at 31 March 2015. Four of the closed actions were from the 2013 Audit of Programme Division, and one was from the 2013 audit of the Democratic Republic of the Congo Country Office — for which all actions are now closed.

10. Management notes the significant increase in the number of open actions at the end of 2014 compared to the end of 2013. The unresolved issues at headquarters level involve complex policy and system issues that require broad consultation and modifications of multiple policies, procedures and information systems. As recognized by OIAI, the implementation of these unresolved actions was affected by the organizational changes underway at headquarters during 2014. The one open agreed action from a country office is of an administrative nature; it is complex but is moving forward. Details of follow-up action on the 15 remaining recommendations are contained in the annex to the present report.

11. UNICEF management notes that of the 39 audit reports of UNICEF offices and functions issued in 2014, 3 had an overall ‘unqualified’ rating (indicating fully satisfactory controls) and 22 had a ‘moderately qualified’ rating. As stated in the OIAI 2014 annual report (paragraph 37), ‘unqualified’ and ‘moderately qualified’ ratings “signal to management that controls and processes are generally established and functioning as intended.” Conversely, 12 audited country offices had a ‘strongly qualified’ rating, and 2 had an ‘adverse’ rating (one country office and one thematic area). For the audit reports that received a strongly qualified or adverse rating in 2014, the Executive Director wrote to the concerned country representative or headquarters director and the head of office’s supervisor to emphasize the criticality of the audit findings, the urgency of acting on the agreed remedial actions and the importance of learning and improvement going forward.

12. The UNICEF Enterprise Risk Management (ERM) framework identifies 12 risk areas. OIAI reviews all 12 risk areas, but in 2014 the Office made most of its recommendations in relation to 7 risk areas. Of the 39 audit reports of UNICEF offices and functions issued in 2014, more than 65 per cent of all high-priority actions were in three risk areas: results-based management (RBM) and reporting; governance and accountability; and supply and logistics. Forty-two per cent of all

high-priority recommendations were made in the area of RBM and reporting — which is largely the same percentage share as was reported in 2013. Management is pleased to report that the risk category of budget and cash management fell from 13 per cent of all high-priority actions in 2013 to 8 per cent in 2014.

13. Management notes that OIAI considers UNICEF policies and procedures to be generally appropriate to manage the risks in country office governance, programme management and operational support, and acknowledges the OIAI analysis of the underlying reasons for identified weaknesses to largely be insufficient compliance in some offices. Management is taking actions to strengthen staff awareness and capacity to fully apply policies and procedures, and to strengthen monitoring and oversight to more quickly identify and address weaknesses. A selection of the most important actions is presented in the following section.

Results-based management and reporting

14. Management acknowledges that the risk area RBM and reporting includes the largest number of agreed actions in country office audit reports issued in 2013 and 2014. To strengthen RBM and reporting, UNICEF has taken significant action in 2014 and continues to do so in 2015.

15. In June 2014, the Executive Board approved the establishment of a fourth UNICEF Deputy Executive Director post dedicated to field results. The new post is supported by the Field Results Group (FRG), which includes 13 professional-level posts that will contribute to advancing the organization's commitment to achieve and demonstrate results for children. The posts for the FRG were drawn from other divisions as a component of the 2014 headquarters reorganization. Also in 2014, management provided a total of \$8.3 million to UNICEF regional offices to develop and implement multi-year commitments to strengthen management for results in their regions. Regional offices modified their 2014-2017 Office Management Plans to reflect this expanded commitment. The headquarters reorganization also strengthened RBM capacity in UNICEF with the reconfiguration of the Division of Data, Research and Policy.

16. To accompany the launch of the Strategic Plan 2014-2017 in January 2014, UNICEF issued new guidance to offices for the development and use of “theories of change” that are an important component of effective approaches to RBM.

17. In 2014, UNICEF revised the structure for country office annual reports to strengthen the attention to reporting on results. At the end of 2014, UNICEF revised the Results Assessment Module (RAM) of inSight, which is designed to both ease and improve the capacity of UNICEF offices at all levels to define the results they are committed to achieve; to record monitoring data; and to effectively report on the status of actions towards the achievement of agreed results. The revised RAM was first used by all offices as a component of the end-2014 reporting. The RAM supports individual country offices to strengthen their analysis and reporting of achievements towards their own office's results, and also supports consolidated reporting of all offices' programme performance towards achieving the global results established in the Strategic Plan. These system improvements make it easier for offices to report, and for regional offices and headquarters to oversee and quality assure defined results and performance reports.

18. Management is also working to improve the guidance available to all offices on RBM and will issue an e-learning course on core RBM topics by the third quarter of 2015.

19. The improvements to the RAM and the e-learning course support hands-on training actions at country and regional level to strengthen the application of established policies and procedures, which is noted by OIAI as an underlying reason for many of the RBM weaknesses identified during country office audits. In 2014, more than 900 staff participated in Programme Planning Process (PPP) training through more than 30 workshops. Building on lessons learned in previous years, UNICEF now encourages offices to undertake PPP training at country level at the outset of a programme cycle milestone, particularly during the development of a new programme or at the start of the mid-term review process, to strengthen the application of knowledge gained from the training into country programmes. A special version of the PPP was developed for offices operating in emergency environments, and training courses were held in the Middle East and North Africa (MENA) region for staff from several country offices, and in the West and Central Africa region (WCAR), in the Central African Republic and the Democratic Republic of the Congo.

20. Sound partnership management is a key feature of effective RBM and of several aspects of supply and logistics management.

21. To strengthen partnership management, UNICEF is taking action to improve the application of HACT. In 2014, UNICEF issued a new procedure on the application of HACT within UNICEF to improve clarity of what is to be done by country and regional offices, and at headquarters. To build staff skills in the application of the new procedure, training workshops have been held at global, regional and country levels in 2014 and have continued in 2015. Completion of the new HACT e-learning course is mandatory for all staff who manage resources and results that include cash transfers to partners. A workshop was held in March 2015 for country and regional office staff working with partners in high-risk country environments. While UNICEF is strengthening the application of HACT in all field offices, management is devoting particular attention to 10 high-burden countries through combined headquarters and regional office support missions; frequent teleconferences; and close performance monitoring. The improved HACT monitoring tools are also used by regional offices and headquarters for real-time performance monitoring of all offices on HACT implementation. In addition, management established a team of four professional staff in the newly created FRG at headquarters, and created five dedicated posts in five regional offices to support and strengthen HACT implementation.

22. In addition, to improve partnership management and the clarity of the organization's agreements for programme activity implementation with civil society organizations (CSOs), in March 2015, management issued a new procedure with regard to partnerships with CSOs for implementation of UNICEF country programmes, together with revised standard legal agreements. Also in March, staff were introduced to the new procedure through interactive sessions. The sessions were attended by more than 700 staff. Relevant regional office staff are participating in the orientation courses so that they are fully prepared to apply the new procedure in their regions and to monitor its application. Partners were consulted in the development of the new procedure and have participated in orientation meetings

held by UNICEF at global level, which were well received. Materials have been developed to support UNICEF offices to orient country-level partners. The new procedure and legal agreements are being disseminated in multiple languages.

Governance and accountability

23. In the area of governance and accountability, OIAI identified a “lack of compliance with existing policies related to the use of statutory and advisory committees and delegation of authority in managing risks”. Management has taken or will take the following actions:

(a) In 2014, to further reinforce the accountabilities for effective functioning and oversight of committees and bodies, the Deputy Executive Director for Management wrote to all regional directors and relevant division directors to reinforce existing guidance concerning well-established and functioning mandatory statutory committees, advisory groups and other bodies.

(b) The revised procedure on UNICEF agreements with CSOs, issued in March 2015, provides offices with standard processes for the establishment and functioning of Partnership Review Committees. The introduction of the procedure has been supported by staff training and practical guidance on its application.

(c) In 2014, UNICEF established a certificate programme on public accounting, in partnership with the Chartered Institute of Public Finance and Accountancy. The programme had 155 registered participants as at 31 March 2015.

(d) In 2015, UNICEF is revising the performance indicators and associated inSight dashboards to include, inter alia, strengthened attention to aspects of office governance. The electronic document and records management system to be introduced will strengthen access and improve oversight for country office governance processes by regional offices.

Supply and logistics

24. The Supply Division management plan establishes a range of actions to strengthen supply and logistics management in the field and to improve oversight from regional offices and headquarters. Actions completed or in progress include:

(a) **Staff skills development:** In 2014, more than 550 staff participated in training events that covered procurement, contracting of services, construction, project management and supply monitoring. In 2015, the training syllabus is being expanded to include distance learning coursework on innovation, project management, data analysis, logistics and supply chain strategy, and monitoring. Supply Division is also developing a supply chain toolkit and a VISION e-learning package for supply and logistics issues, for use by country office staff.

(b) **Information system improvements:** In 2015, UNICEF will introduce barcoding that will facilitate in-country receipt of goods, improved reports to strengthen information on vaccine stocks and the status of new vaccine orders, and a product feedback mobile application for use by supply end-users.

(c) **Monitoring:** In 2014, a new supply dashboard was designed, piloted and used extensively in Level 3 emergency countries. The dashboard supports the monitoring of supply issues at country, regional and global levels. The global roll-

out of the supply dashboard by the end of 2015 will be supported by introductory workshops at regional level.

IV. Management actions and plans to address the recommendations of country office audits

A. Overview

25. UNICEF management appreciates the continued attention given to governance, programme management and operational support in the audits of country offices and the findings reported by OIAI. UNICEF appreciates that OIAI engaged management in 2014 to review the Office's audit guidelines for country offices in order to assure OIAI awareness of the latest changes in policies, procedures and guidance. UNICEF is committed to improving performance and strengthening management for results in all audited areas. UNICEF management notes that in 2014 OIAI continued the positive practice of including in each audit report a plan developed by the country office (with support from and oversight of the regional office) and agreed with OIAI, which specifies the agreed actions to be taken to address each audit recommendation.

26. The OIAI annual report notes that 463 actions, of which 116 are high-priority actions, were issued in the 33 audit reports of country offices during 2014. The total number of actions, and the number of high-priority actions, is very similar to what was issued in 2013: 448 actions, of which 113 were high-priority.

B. Status of activities to strengthen controls in country offices with medium- and high-priority actions

27. As at 31 March 2015, OIAI had closed 44 of the 116 high-priority actions (38 per cent) from audit reports issued in 2014 following the review of implementation reports submitted by country offices. Among the 76 high-priority actions in the 22 audit reports issued before October 2014, more than 55 per cent were closed as at 31 March 2015. These country office actions are the result of decisive country office management, as well as the support and oversight of regional offices.

28. Regional offices regularly participate in audit exit meetings on-site or remotely to obtain a first-hand understanding of identified issues and to assist country offices in developing practical action plans. The implementation of agreed action plans is among the key performance indicators monitored by regional offices. Capacity to monitor the status of country office actions will be significantly enhanced in 2015 with OIAI new audit software. The software will provide data to the inSight performance dashboards so that audit action implementation status can be viewed, along with other indicators of programme and operations performance data.

29. In MENA region, 28 of the 37 agreed actions (76 per cent) from the 2014 audits of the Djibouti and Sudan Country Offices issued before October 2014 were closed by 31 March 2015. The regional office is working with the Lebanon, Libya, Jordan and Morocco Country Offices to address the 63 agreed actions (including

13 high-priority actions) contained in the audit reports issued in December 2014. To further strengthen country office capacity in the region, the Operations Officer posts in three country offices were reclassified in 2014 to a level commensurate with the scale of programme activity and risk. The regional office strengthened its capacity for supply and HACT management with the establishment of new professional positions in 2014. The MENA regional office introduced systematic monitoring of country programme performance against key indicators of programme and operations performance, and regularly interacts with offices to address issues that fall below expected standards. To assure awareness and application of policies and procedures among new personnel in rapidly expanding humanitarian actions, the regional office conducted an emergency-focused PPP workshop for more than 120 staff working in Level 3 emergencies in 2014 and will conduct similar training in 2015.

30. In WCAR region, 44 of the 73 agreed actions (60 per cent) from the 2014 country office audit reports of Côte d'Ivoire, Ghana, Liberia and Mali issued before October 2014 were closed by 31 March 2015. The regional office is working with the Cameroon Country Office to address the 19 agreed actions (including 7 high-priority actions) contained in the audit report issued in November 2014. The regional office is also working with the Mali Country Office to address the 13 remaining open actions included in the audit report, which had the only adverse audit conclusion issued to a country office audit in 2014; 9 actions directed to the Mali Office have already been closed by OIAI. Specific follow-up actions for the Mali Country Office to date include 12 on-site support missions that have addressed, inter alia, programmes, humanitarian response and RBM — including HACT and human resources. A dedicated senior staff focal point in the West and Central Africa Regional Office (WCARO) maintains close contact with senior management in the Mali Country Office and monitors the status of actions to address the remaining open audit actions. The regional office is also working with the Office of the UNICEF Legal Adviser to support the Nigeria Country Office to close the one outstanding action open for more than 18 months at 31 December 2014. To further strengthen WCARO capacity for support and oversight, the regional office requested advisory assistance from OIAI in 2014 and is working to introduce the advised actions. The regional office continues to build awareness and skills on ethical behaviour among staff in the region.

31. In the Eastern and Southern Africa region (ESAR), 6 of the 16 agreed actions (38 per cent) from the 2014 audit of the Eritrea Country Office issued in March 2014 were closed by 31 March 2015. The regional office is working with the Mozambique and Malawi Country Offices to address the 33 agreed actions (including 5 high-priority actions) contained in the audit reports issued in September and October 2014, respectively. Direct engagement by UNICEF in supply and logistics is actively reviewed by the regional office. The number of offices with UNICEF-managed supply warehouses decreased from 15 in 2013 to 12 in 2014, in recognition of increased Government capacity in the respective countries. The value of UNICEF-held inventories fell by more than 58 per cent from end-2013 to end-2014. These changes reduce the scale of UNICEF supply and logistics risk exposure across the region, which helped the regional office to concentrate its support in 2014 on offices with a significant supply component, including Eritrea and Somalia.

32. In the Latin America and Caribbean region (LACR), 37 of the 51 agreed actions (73 per cent) from the 2014 audits of the Eastern Caribbean Area Office, and the Argentina, Belize, Plurinational State of Bolivia and Bolivarian Republic of Venezuela Country Offices issued before October 2014 were closed by 31 March 2015. The regional office is working with the Chile, Mexico and Peru Country Offices to address the 33 agreed actions (including 4 high-priority actions in the audit of Chile) contained in the audit reports issued in December 2014. The regional office is devoting particular attention to supporting the nine country offices with private fundraising and partnership (PFP) activities in the region, and has introduced region-wide actions to strengthen performance in those offices, building on the findings of the six audits of country offices with PFP activities conducted in 2014.

33. In the Central and Eastern Europe and the Commonwealth of Independent States (CEE/CIS) region, 9 of the 12 agreed actions (75 per cent) from the 2014 audit of the Turkey Country Office reported before October in 2014 were closed by 31 March 2015. The regional office is working with the Belarus and Turkmenistan Country Offices to address the 17 agreed actions (including 3 high-priority actions) contained in the audit reports issued in December 2014. The regional office continues to devote particular attention to strengthening staff skills in managing performance for results (including programme design, monitoring and reporting); in 2014, the office trained an additional 24 staff from the region, which contributed to a cumulative total of 211 staff trained in the past four years. The regional office worked with all country offices in the region in 2014 to strengthen the quality of programme indicators and performance reporting. In addition, the regional office strengthened the awareness and capacity of country office staff to improve the practices and governance over competitive selection of service providers.

34. In the East Asia and Pacific region, 21 of the 51 agreed actions (41 per cent) from the 2014 country office audits of China, the Democratic People's Republic of Korea, Myanmar and the Pacific Island Countries were closed as of 31 March 2015. All 2014 audit reports of country offices in this region were issued before October of that year. The regional office is working with the four country offices to address the remaining open agreed actions. The regional office is strengthening its monitoring and support to country offices on elements of RBM, including the quality of indicators and performance reporting. The office continued to advance awareness and skills for ethical behaviour in 2015 through the establishment and training of 20 ethics dialogue facilitators to support country offices; nine offices held ethics training for staff in 2013–2014 and five other offices in the region will conduct training in 2015.

35. In South Asia, 22 of the 23 agreed actions (96 per cent) from the country office audits in Bangladesh and Nepal reported before October 2014 were closed by 31 March 2015. The regional office is working with the Pakistan Country Office to address the 22 agreed actions (including 2 high-priority actions) contained in the audit report issued in December 2014. The regional office supported all country offices in the region to strengthen the quality of their programme performance indicators and clarity of performance reporting in 2014, and promoted continued ethics training in the region — including completion of the online ethics course.

V. Management actions and plans to address the recommendations regarding headquarters/thematic areas, regional offices, joint audits and advisory services

A. Audits undertaken prior to 2014

36. The OIAI annual report notes that 18 agreed actions remained open for more than 18 months at the end of 2014 from audits of headquarters and thematic areas (compared to 4 agreed actions outstanding for more than 18 months at the end of 2013). At 31 March 2015, OIAI had closed 4 of the 18, following actions taken by Programme Division. As reported by management to the Executive Board, there were important changes in 2014 within and between several headquarters functions. These changes were made to strengthen the effectiveness and efficiency of headquarters functions; however, in 2014, these changes affected the timing of actions to address some open audit actions as responsibilities for action shifted between divisions. The status of each agreed audit action outstanding for more than 18 months at the end of 2014 is presented in the annex to this management response. Management has reviewed the plans to address the actions with all responsible directors to secure early resolution of the outstanding actions. Resolution of most actions will be through the issuance of revised policies and procedures, which will in some cases be accompanied by information system changes that require contracting of external vendors for specialized software.

B. Audits undertaken in 2014

37. OIAI issued two audit reports of regional offices, two headquarters and thematic area audit reports, and contributed to two joint audits with other United Nations agencies.

1. Regional Offices

38. *Regional Office for South Asia.* The audit assessed the functioning of the regional office's governance and operations management, and its oversight and support to country offices in the region. OIAI issued a conclusion of 'moderately qualified', with 17 agreed actions — none of which were ranked high priority. In February 2015, the regional office reported to OIAI on the actions it had taken to address the agreed actions; the office is awaiting review by OIAI to secure closure.

39. *Regional Office for Central and Eastern Europe and the Commonwealth of Independent States.* The audit assessed the functioning of the regional office's governance and operations management, and its oversight and support to country offices in the region. OIAI issued a report in December 2014 with a conclusion of 'moderately qualified', with 19 agreed actions — including one rated as high-priority by OIAI, related to the role of the Regional Chief of Information and Communication Technology (ICT). The regional office is addressing the issues raised.

2. Headquarters and thematic audits

40. *Management of UNICEF websites.* Management appreciates the contribution made by OIAI to assess this technical area. Actions are being taken by the Directors

of the Division of Communication, Information Technology Services and Solutions, and Private Fundraising and Partnerships to address the 17 agreed actions (of which 7 are high-priority). A position for digital governance coordination has been created and filled. Two of the agreed actions have been closed by OIAI. The three divisions note that the actions are challenging to address; several require contracts with external vendors that have now been identified through competitive selection processes. The responsible divisions have provided progress reports to OIAI and management on their actions and have presented plans to complete most of the agreed actions by mid-2015.

41. ***Payroll management in UNICEF, including information and communication technology systems.*** The audit assessed the governance, risk management and controls over the payroll function — which was consolidated globally with the introduction of VISION at the start of 2012. In September 2014, OIAI issued a conclusion of ‘moderately qualified’, with 9 agreed actions addressed to the Division of Human Resources (DHR), the Division of Financial and Administrative Management (DFAM) and the Information Technology Solutions and Services Division (ITSSD), 7 of which have been agreed to be completed by mid-2015. As at 31 March 2015, OIAI had closed one of the actions, following satisfactory demonstration of actions taken by the responsible divisions. The other actions are being actively addressed by the divisions. The audit report, including the agreed actions, is informing the procedures and controls to be applied to the payroll function when it is integrated into the Global Shared Services Centre in early 2016.

C. Advisory services undertaken in 2014

42. Management values the guidance on risks and controls that the OIAI advisory work provides. Advisory services assist management in ensuring timely intervention on issues of concern. OIAI issued six reports from advisory services provided in 2014.

43. Three of the advisory services reports were related to aspects of partnership management in the field and were conducted in Côte d’Ivoire, the Pacific Islands and the Philippines. The advisory services supported partnership management in the specific country offices and the reports informed the UNICEF revised procedures on the management of HACT issued in 2014 and on UNICEF work with CSOs issued in 2015. The analysis and conclusions in these three reports also influenced the actions of the recently established FRG and the work of the regional HACT specialists who were established in five regional offices at the end of 2014.

44. Two of the advisory engagements were related to management of UNICEF ICT functions: Advice from OIAI on reinforcement of the governance of the project to revamp the UNICEF global website, <www.unicef.org>, and a risk assessment of the ICT function in UNICEF. The advice from OIAI is being incorporated into the actions to strengthen controls over UNICEF websites (which is also covered in the 2014 audit on that issue), and in continued refinements to the ICT function across UNICEF, which includes country and regional offices, and other headquarters divisions, as well as ITSSD.

45. OIAI also provided advisory services at the request of the regional office for WCAR to support their efforts to further strengthen the regional office’s oversight capability. This support, which was undertaken at the height of the Ebola crisis

response, will strengthen the regional office's capacity to oversee programme and operations functions of the 24 countries in the region, which is chronically affected by humanitarian crises and challenging implementation environments.

D. Joint audits and inter-agency audits

46. The OIAI 2014 annual report summarizes the findings of two audits jointly undertaken with other United Nations agencies.

47. OIAI contributed to a coordinated inter-agency audit of the Pooled Fund for humanitarian activities in the Democratic Republic of the Congo. The 2014 consolidated report issued by the United Nations Development Programme (UNDP) did not include any recommendations directed to UNICEF. Three related actions were presented to the UNICEF country office following an audit of that office, which contributed to the inter-agency coordinated audit effort. These three actions have been addressed and have been closed by OIAI.

48. OIAI participated in a joint audit of Delivering as One in Pakistan, led by UNDP along with the audit services of six United Nations agencies. The audit report, which was issued by UNDP, did not include any actions specifically addressed to UNICEF. The UNICEF Representative in Pakistan is working with other members of the United Nations country team to support the Resident Coordinator to address the recommendations directed to the UNCT.

VI. Management actions to address the findings of investigations

49. UNICEF has a policy of zero tolerance for all forms of fraud and corruption and is fully committed to ethical practices. The organization strongly encourages reporting of misconduct and protects staff from all forms of harassment and reprisals for whistle-blowing. The Executive Director issues an annual memo to all staff reporting the disciplinary actions taken by UNICEF to address proven wrongdoings by staff. Annex 4 of the OIAI report for 2014 summarizes the allegations it received and informs on the investigation result in those cases where an investigation took place.

50. The 2014 annual Report of the Ethics Office of UNICEF to the Executive Board provides extensive information on actions taken during the year by the Ethics Office to further strengthen UNICEF staff skills to identify issues of ethical choice and take appropriate actions. These actions included face-to-face training activities with more than 800 staff participants in 2014, and the November 2014 introduction of an e-learning ethics course, which will be available to all staff in three languages in 2015.

51. A dedicated Investigations Unit in OIAI carries out investigations in accordance with the Uniform Guidelines for Investigations, and in conformity with due process principles, as laid out in chapter X of the United Nations Staff Rules and Staff Regulations. In 2014, the capacity of the OIAI Investigations Unit was strengthened with the addition of a fifth investigator post. The established channels, including a dedicated anonymous e-mail address <integrity1@unicef.org>, are being used to bring concerns and allegations of wrongdoings to the attention of OIAI.

52. Management notes that 79 allegations of wrongdoings were reported in 2014 compared to 127 in 2013. In addition, 45 allegations were carried over from 2013, making a total of 124 cases managed in 2014. OIAI closed 72 of the 124 cases in 2014 and carried 52 forward to 2015.

53. Management notes with appreciation that OIAI assesses all allegations and investigates those allegations that it believes warrant additional consideration.

54. Management was concerned that two of the allegations received in 2014 were classified as whistle-blower retaliation. As with all allegations, these two cases were investigated by OIAI, which concluded that there was no evidence of retaliation in either case. The investigation reports were submitted to the UNICEF Ethics Office, which also reviewed the cases and the background documentation. The Ethics Office concurred with the conclusions of the investigation reports.

55. Management notes that of the 72 cases closed in 2014, 9 were referred for action to a UNICEF office or a United Nations body without further investigation by OIAI.

56. Management notes that when an investigation of wrongdoing is discontinued against a staff member because she or he has separated from the organization and a loss has occurred, efforts are continued to recover that loss. Management notes that six allegations were closed in 2014 because the subject left the organization during the investigation. Of these six allegations, four did not result in any financial loss to UNICEF. In one case, the full amount of \$8,300 identified in the investigation was recovered; in the other case, \$12,590 was recovered out of a loss of about \$18,600.

57. Management further notes that the majority of the cases in 2014 were classified as “fraud involving misuse of programme funds by third parties” (15 cases); “inappropriate staff conduct” (12 cases); and “harassment and abuse of authority” (9 cases). Management notes that the number of cases related to alleged medical insurance plan fraud fell for the second year in a row, to 3 cases in 2014 compared to 6 cases in 2013 and 16 cases in 2012. Ethics training and communication from country representatives focused on medical insurance plan fraud in 2013. This effort may have contributed to the continued reduction in the number of cases.

58. UNICEF pursues and seeks recoveries of all identified financial losses. Of all the cases OIAI investigated, OIAI reported potential financial losses in 16 cases. Of these 16 cases, full recovery was possible in 6 cases. Of the remaining 10 cases, 2 are being reviewed for possible referral to Governments and disciplinary action was taken in one case. Recovery efforts continue in one case. For the remaining six cases, where the amount of potential loss is \$29,987.72, recovery was not possible due to unknown or inaccessible perpetrators.

59. Twelve investigation reports relating to 11 staff members were submitted to the Policy and Administrative Law section of DHR in 2014 for disciplinary actions. In 2014, disciplinary actions against nine staff members were as follows: one dismissal, four demotions, one written reprimand, one written censure, one separation with compensation, and one report that resulted in no further action. The two cases carried over to 2015 led to one reprimand and one closure with no further action.

VII. Management actions to address the concluding observations in the 2014 annual report of the UNICEF Audit Advisory Committee

60. UNICEF management appreciates the important contribution of the UNICEF AAC to the effective and independent oversight of the organization. As noted in the annual report of the AAC for 2014, the Committee members regularly interacted with the Deputy Executive Director for Management and other senior managers, and met with the Executive Director during the year.

61. UNICEF management notes and appreciates the structured review conducted by the AAC of the organization's core mandate areas and the specific advice the AAC has provided in its 2014 report. Management has given careful consideration to this advice and:

(a) Agrees that management should continue to improve the timeliness and quality of responses to evaluations and notes that this issue is covered in 2014 Annual Report on the evaluation function and major evaluations, which reports that "implementation of agreed actions (including actions completed and ongoing) increased from 57 per cent in 2010 and is now consistently around 80 per cent." Management will continue to further strengthen actions by responsible offices.

(b) Agrees that it is important to continue to reinforce the ethical environment in UNICEF by promoting a 'speak-up culture', and notes that the Strategic Plan 2014-2017 includes a performance indicator on speaking up and that the 2014 Global Staff Survey included four questions relevant to speaking up. The results of the 2014 survey found that 51 per cent of staff feel they work in an environment that supports a speak-up culture. Management is working to further strengthen this result, and strives for 100 per cent (see the 2014 annual Report of the Ethics Office of UNICEF to the Executive Board);

(c) Agrees that it is important to further strengthen the oversight of National Committees for UNICEF, and management notes that this is an area of significant management action in 2015 and is within the scope of the United Nations Board of Auditors' programme for 2015;

(d) Agrees that is important to assure effective change management during the introduction of new programming approaches, and notes that the actions to establish the Global Shared Services Centre continue to give sustained attention to change management with close involvement of the UNICEF Staff Association at global, regional and country levels;

(e) Appreciates the recognition by the AAC of efforts by UNICEF to strengthen the application of HACT and notes that many of the actions referred to throughout this management response profile the actions management is taking;

(f) Notes the AAC advice that UNICEF should consider requiring management to provide a signed assertion regarding the effectiveness of internal controls each year. UNICEF agrees that such a statement can further strengthen internal controls and is aware that a number of United Nations organizations include such a statement in their annual accounts. To meaningfully adopt this practice, UNICEF is first strengthening its ERM tools and their application in all UNICEF

offices. UNICEF is also following the efforts and integrating the lessons learned from other United Nations organizations; and

(g) Notes the AAC advice that the AAC annual report should be separate from the OIAI annual report. Management also notes Executive Board decision 2009/8 requiring the AAC annual report to be included in the OIAI annual report.

62. In 2015, management will provide the draft annual financial statement to the AAC at the same time as it is provided to the United Nations Board of Auditors so that input can be received from both oversight bodies before the annual financial statement is certified by the Comptroller.

Annex

Progress update on audit recommendations that remained open for more than 18 months as of 31 December 2014

| <i>Agreed action in OIAI Annual Report</i> | <i>Progress update</i> |
|---|---|
| Audit of staff rotation, issued June 2011 (one action) | |
| The action pertains to a governance structure for managing organizational policies, procedures and guidance that balance the practical realities of the UNICEF business model with good practices. | The Director of Human Resources has led consultations and risk assessments with headquarters and field-based staff, including staff associations, to revise the staff rotation policies. It is expected that the new directive will be issued by mid-2015. |
| Audit of the framework for managing policies, issued June 2012 (three actions) | |
| Two actions pertain to a governance structure for managing organizational policies, procedures and guidance; and establishing minimum standards for policy development and management. One recommendation pertains to defining a common organizational platform for storing all policies and procedures. | As of November 2014, the relevant functions to address the three open recommendations are with the Division of Financial and Administrative Management. A proposed regulatory framework covering the governance structure and minimum standards is pending the identification of the financial resources required to establish a system which will support a common organizational platform for storing policies and procedures. |

| | |
|--|---|
| Audit of administration of separation benefits and entitlements, issued September 2012 (one action) | |
| The action pertains to the protection of personnel information by exploring the possibility of having an electronic personnel filing system and other disaster backup management controls, especially increased security over personnel files. | The Division of Human Resources and the Information Technology Solutions and Services Division (ITSSD) have defined a solution, and UNICEF is in the process of contracting a vendor to start implementation in the third quarter of 2015. The actions will be completed before the start of the Global Shared Services Centre. |
| Audit of budgeting process in UNICEF, issued October 2012 (three actions) | |
| Two actions pertain to revising the Budget Policy to ensure that the responsibilities, authorities and accountabilities of headquarters divisions, regional and country offices cover all aspects of the budgeting process; and ensuring that the revised Budget Policy explicitly supersedes previous guidance in order to avoid confusion, gaps and overlaps. One action pertains to development and communication of a results-based budgeting implementation strategy for both programme and institutional budgets. | The revised budget policy will address all three agreed actions. The policy is scheduled to be issued in the second quarter of 2015. The issued policy will be reported to the Office of Internal Audit and Investigations (OIAI) for review and closure of the agreed actions. |

| | |
|---|---|
| Audit of Programme Division, issued December 2012 (seven actions) | |
| The OIAI 2014 annual report to the Executive Board notes that the relevance and responsibilities for addressing the seven open actions have been affected by the headquarters restructuring and the outcomes of Effectiveness and Efficiency initiatives. OIAI requested Programme Division (PD) and the Deputy Executive Director (DED) Programme Group to review all agreed actions established in the audit report and to propose and address new actions relevant to the revised structure. | PD and the DED Programme Group presented a revised action plan to OIAI and reported on completed actions. As a result, OIAI closed four of the agreed actions in March 2015 following the demonstration of completion by PD. The Division also presented a plan to complete the additional three actions in the second quarter of 2015. |
| Nigeria Country Office report, issued March 2013 (one action) | |
| The country office agrees to maintain a record of all premises provided by the Government, with full supporting documents such as memorandums of agreement between UNICEF and the Government; and to establish procedures on the use of these premises by staff for billing and collection of rent; and to ensure that only authorized persons are allowed to occupy these premises. | The country office is working to address the issue. |

| | |
|--|---|
| Audit of user access controls and segregation of duties, issued April 2013 (two actions) | |
| <p>One action pertains to drawing up a policy formalizing the governance structure over user roles, documenting the processes relative to the oversight bodies and the supporting teams, and seeing that governance and oversight over the Enterprise Resource Planning (ERP) system user access security becomes fully operational.</p> <p>One action pertains to taking action so that Heads of Offices acknowledge accountability for the mitigating controls undertaken after segregation of duty conflicts are detected by the Approval governance, risk and compliance tool.</p> | <p>The revised internal control policy is expected to be issued in the second quarter of 2015. The issued policy will be reported to OIAI for review and closure of the agreed actions.</p> <p>UNICEF is revising the electronic tools for managing user access to VISION. The revision, which will be completed in 2015, will address the agreed action from the audit report.</p> |
| Audit of baseline security in UNICEF ERP system, issued April 2013 (one action) | |
| The action pertains to updating the set of procedures covering all aspects of ERP system security, including the monitoring of ERP security. | ITSSD has drafted a systems development lifecycle standard that will address the agreed audit action. The new standard and associated procedure and guidelines will be issued in the second quarter of 2015. |
| Democratic Republic of the Congo Country Office report, issued May 2013 (one action) | |
| The country office agrees to: (i) Request the advice of the Principal Adviser to the Executive Director to ensure compliance with the lease contracts, such as the completion of additional works on the office space and related penalty clauses, and immediate repairs to the roof of the second building, which includes the warehouse; and to clarify the contractual status for the old warehouses, taking into | OIAI closed the agreed action in January 2015 following the demonstration of completion by the country office. |

| | |
|--|--|
| <p>account the time that will be needed to fix the roof in the new warehouse. (ii) Document its plan to finance the additional rental cost over the duration (five years) of the lease contract for the main office space. (iii) Further pursue with the competent authority of the Government of the Democratic Republic of the Congo to obtain rent-free premises as foreseen in the cooperation agreement signed between UNICEF and the Government on 12 August 2000.</p> | |
|--|--|