

UNICEF Audit Advisory Committee
2022 Annual Report to the Executive Board

Summary

The present report provides information on the activities of the Audit Advisory Committee (AAC) of UNICEF for the calendar year 2022. It presents an overview of the AAC, describes the key areas covered by the Committee and summarizes the advice provided to the UNICEF Management during 2022.

The report is being made available to the UNICEF Executive Board at its annual session of 2023 (13–16 June).

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I. Overview

1. The UNICEF Audit Advisory Committee (AAC, or “the Committee”) is an independent advisory body, without management powers or executive responsibilities, that advises the Executive Director (and informs the Executive Board through its annual report) in accordance with its Charter (Terms of Reference), which was approved by the UNICEF Executive Director on 17 March 2020. The Committee took note of the report of the accountability system of UNICEF ([E/ICEF/2022/24](#)) presented to the Executive Board, which now recognizes the AAC as an institutional independent external oversight mechanism.
2. The AAC comprises six members who are independent of both UNICEF and its Executive Board and serve on the Committee on a pro bono basis. The Committee collectively possesses expertise in governance, risk management, internal control, oversight, finance, sustainability, digital transformation, financial reporting, internal and external auditing, investigation and evaluation. At each meeting held in 2022, all members declared the absence of any actual or potential conflicts of interest in exercising their responsibilities. (See the annex for the membership and meeting schedule in 2022.)
3. In undertaking its duties, the AAC is mindful of the contextual environment in which UNICEF is required to: (a) respond and deliver results for children effectively, efficiently and equitably, in both development and humanitarian contexts; (b) manage partnerships for results in a difficult aid funding environment and regular resources in particular; and (c) conduct itself in accordance with its core values of care, respect, integrity, trust, accountability and sustainability. The Committee also appreciates the efforts of the dedicated UNICEF staff in serving the organization’s mandate.
4. In 2022, the Committee resumed in-person meetings for the first time after two years of virtual meetings. It met thrice for regular sessions in March, June and November and the last regular session (in November) was attended in-person by all members.
5. The Committee’s activities were undertaken in line with the rolling workplan that is mapped to the responsibilities outlined in its Charter, matters of interest to the Executive Director and key topical themes (e.g., governance learnings from the United Nations Office for Project Services (UNOPS) for UNICEF and the AAC, sustainability, the Headquarters Efficiency Initiative (HQEI), risk and change management, and innovative financing for children). Together, they constitute a significant portfolio of work to cover in just three meetings, although consistent with the recent trend of increased responsibilities for the oversight committees in the United Nations system. Given the continuing discussion on oversight responsibilities in the governing bodies of the United Nations, which is accompanied by a system-wide discussion on the reporting, design and responsibilities of the oversight committees, the AAC plans to share the findings from its review of the UNICEF AAC Charter in 2023 to ensure an optimal balance of responsibilities and convergence with best emerging practices.
6. The AAC met thrice with the Executive Director in 2022 for private dialogues and maintained regular engagement with the Deputy Executive Director, Management, as the key management liaison with the AAC. The Committee also met with the other Deputy Executive Directors, a Regional Director, a Deputy Regional Director and a country Representative, several Directors of headquarters divisions, the Ombudsman for United Nations Funds and Programmes, the Board of Auditors and the Chairperson of the Global Staff Association, all of whom made useful presentations.
7. The AAC relies on submissions from and discussions with the participating offices, and the Committee’s advice is limited by the quality, accuracy and completeness of the information and explanations they provide.
8. The Committee issued memorandums containing strategic advice to the Executive Director, which were appended to the minutes of each Committee meeting. The Executive Director acknowledged these memorandums and provided her perspectives on the key advice provided. The

AAC did not seek a response to each point of advice (as if they were audit recommendations); rather, it expected that they would be considered by Management in the conduct of the work of UNICEF. Nonetheless, the Committee monitors the management actions on the key strategic advice provided at its sessions, within the relevant items under consideration.

9. The Committee was pleased to note that Management has taken actions to implement some critical long-standing advice shared by the AAC. These include the appointment of a Chief Risk Officer, review of the UNICEF accountability framework, strengthening the independence of oversight functions and management monitoring of internal and external audit recommendations. The Committee will continue to monitor management actions on other AAC advice from previous years, including on the following:

(a) **Policy:** Formulate policies on sustainability (environmental, social and governance (ESG)), artificial intelligence and anti-money laundering.

(b) **Risk management:** Finalize risk appetite and tolerance statements; generate incisive and informative risk reports on a periodic basis; mitigate donor grant conditionalities through a United Nations system-wide approach; create a single institutional repository for legal agreements; include an external industry expert on the Information and Communication Technology Board; test organizational business continuity and disaster recovery plans; and develop policy positions on cyberinsurance and data protection.

(c) **Oversight:** Conduct audits of treasury, business continuity, the regulatory framework and change management; strengthen the overall annual audit plan for completeness and risk ranking, and inform the Executive Director and the Executive Board on assurance gaps; explore the potential for combined or integrated assurance mapping; create a charter for the Ethics Office; and tighten the provisions for independence and the absence of conflict of interest for the independent offices.

10. Details of the key advice provided by the Committee to the Executive Director in 2022 are reflected in section IV of this report. Without prejudice to all the advice rendered in 2022, the areas of advice that have the most significance related to the following: donor conditionalities, para. 29; environmental, social and governance, para. 33; enterprise risk management, para. 34; anti-fraud, para. 36; innovative financing, para. 38; information technology and cybersecurity, para. 41; internal audit and investigations, para. 48; evaluation, para. 49; and ethics, para. 50.

11. The AAC shared the results of its 2022 self-assessment, in addition to discussing the feedback received from the Office of the Executive Director on its work for 2022.

II. Mandate of the Audit Advisory Committee

12. The UNICEF Audit Advisory Committee operates in accordance with its Charter (Terms of Reference), which was approved by the UNICEF Executive Director on 17 March 2020. The Committee is an independent advisory body, without management powers or executive responsibilities, which was established to advise the Executive Director regarding the discharge of his/her governance, management and oversight responsibilities. In June 2022, the UNICEF paper to the Executive Board titled report of the accountability system of UNICEF ([E/ICEF/2022/24](#)) formalized the AAC as part of the institutional independent external oversight mechanism.

13. In 2022, the AAC reviewed its Charter to ensure that it reflects the expectations of the Executive Director and that it remains contemporary and in line with applicable good practices. The Committee plans to make concrete proposals to the Executive Director in 2023 for necessary revisions to its Charter to better serve the Executive Director and UNICEF in an independent advisory capacity. It is expected that the proposals will address outstanding recommendations from the Joint Inspection Unit (JIU) and, importantly, lessons learned from failures in UNOPS governance, and ensure an optimal balance of responsibilities and convergence with best emerging practices. In keeping with good governance practices followed in a number of other United Nations oversight committees, the AAC advised UNICEF that the time is appropriate for revising the methodology for

the recruitment of new members using an open advertisement process instead of the existing competitive interview-based process involving candidates referred by the AAC or from within UNICEF.

14. The Committee provides an annual report to the UNICEF Executive Board that summarizes its work during the reporting period and its advice to strengthen the robustness of the UNICEF management, audit and evaluation systems.

15. The primary responsibility of the Committee is to advise the Executive Director in fulfilling responsibilities in the following areas:

- (a) Governance and accountability;
- (b) Risk management and internal controls;
- (c) Financial management and reporting;
- (d) Ethics and integrity;
- (e) Internal oversight;
- (f) External oversight.

III. Discussion on the United Nations Office for Project Services

16. In 2022, the Committee held discussions on the implications and learnings for UNICEF from the institutional weaknesses in UNOPS that led to irregularities, potential financial losses and alleged misconduct. The AAC advised UNICEF to document the lessons learned, risks and impacts (including from the review of UNOPS external consultants and Executive Board decisions related to UNOPS) and discuss them with the UNICEF Executive Board.

17. On its part, the AAC had its own internal reflections that were supplemented by discussions with the Chairs of the United Nations system oversight committees. While the AAC looks forward to the final outcomes from the UNOPS Board decisions, it proposed two specific ideas in the interim: (i) periodic one-on-one private meetings between the Chair of the Committee and the Executive Director (as the primary client of the AAC); and (ii) providing for the Chair of the Committee to have free and unrestricted access to the President of the Executive Board, and for the Executive Director to invite the Chair of the Committee and the President of the Executive Board to a trilateral meeting to discuss matters of shared interest on an annual basis or as needed.

IV. Audit Advisory Committee 2022 workplan

18. The Committee's rolling multi-year workplan that guided its 2022 activities is mapped to the responsibilities outlined in its Charter and supplemented by additional areas of interest outlined by the Executive Director, or emerging risks. The workplan enabled the AAC to map its responsibilities to the concerned offices, assess the degree of engagement required and provide advice to strengthen organizational systems of governance, risk management and oversight.

19. In 2022, the AAC held discussions with the former Executive Director, Ms. Henrietta H. Fore, the current Executive Director, Ms. Catherine Russell, two Deputy Executive Directors, the Regional Director for Europe and Central Asia, the Deputy Regional Director for Eastern and Southern Africa, the country Representative for Somalia, the Directors of several headquarters divisions, all Regional Evaluation Advisers, the Chairperson of the Global Staff Association, the Director of the Board of Auditors and the Ombudsman for United Nations Funds and Programmes. The Committee held discussions with Ms. Hannan Sulieman, Deputy Executive Director, Management, at each of the three

regular sessions¹ (as the liaison for the Executive Director) and appreciates her support, information and insights.

V. Summary of the Committee's advice

20. The Committee recognizes the inspired efforts of UNICEF staff globally to deliver programmatic results, including in complex and fragile environments. While the challenges from the coronavirus disease (COVID-19) pandemic had only begun to subside in 2022, newer threats emerged including in Afghanistan, the Horn of Africa and Ukraine.

21. The AAC appreciates the Executive Management's positive intent and commitment to promoting a healthy organizational culture and respectful workplace. The need to strengthen UNICEF for the next decade has meant addressing key questions about its future business model, partnerships and innovative financing, fiduciary strengthening and strengthening oversight functions. The Committee noted a number of organizational change initiatives with a focus on innovations, including for new financing instruments and process efficiencies.

22. The Committee took note of the actions taken and planned to reinforce enterprise risk management, restructuring of the human resources and information and communications technology (ICT) functions, and strengthening the independence and effectiveness of the independent offices.

23. The efforts of UNICEF Management in recent years for closer monitoring of the status of implementation of the recommendations made by the internal and external independent offices is also noteworthy.

24. Based on the information provided by Management, the organizational strategic priorities, structures and systems for governance, risk management and oversight appeared to be generally well established, articulated and functioning in 2022, except for the areas highlighted in the key advice as outlined in the paragraphs that follow. The AAC relies on the submissions from and discussions with the participating offices, and the Committee's advice is limited by the quality, accuracy and completeness of the information and explanations they provide.

25. Paragraphs 27 to 51 of this document summarize the key advice provided by the AAC (for the responsibilities defined in its Charter) as follows:

- (a) Paras. 27–33: Strategy, governance and accountability;
- (b) Paras. 34–41 Risk management, internal control, financial management and reporting;
- (c) Paras. 42–51: Internal oversight (internal audit, investigations, evaluation, ethics and Ombudsman services);
- (d) Para. 52: External oversight (Board of Auditors, Joint Inspection Unit).

26. The paragraphs below are a consolidation of the advice rendered by the Committee at different points in time during 2022. While it is possible that UNICEF Management may have subsequently considered, taken action or have ongoing actions on the advice rendered, this report refers to the advice provided to the Executive Director immediately following the deliberations with Management. The AAC did not seek a response to each point of advice as if these were audit recommendations; rather, it expected that the advice provided would be considered by Management in the conduct of the work of UNICEF.

¹In addition to the three regular sessions, several ad hoc meetings were held to discuss special matters, including to provide advice on the UNICEF draft financial statements, the revised Charter of the Office of Internal Audit and Investigations (OIAI), the OIAI 2022 draft audit workplan, structured feedback from the Office of the Executive Director on the AAC, feedback on shortlisted candidates for the post of Director, Evaluation, and potential new members for the Committee.

A. Strategy, governance and accountability

27. The Committee reviewed the UNICEF strategic priorities, structures and systems for governance. It was apprised of the key discussions at the meetings of the Global Management Team, which is the highest forum for UNICEF senior management. The effectiveness of the Global Management Team is pivotal for management assessment of governance effectiveness, clarifying accountabilities, building consensus on setting the organizational risk appetite and tolerance, reviewing the highest risk exposures (including those identified by the oversight offices), and exemplifying the culture and core values of UNICEF. In 2022, the Committee advised UNICEF on matters of strategy, governance and accountability, as follows:

28. **Accountability framework:** The Committee appreciates the consultative organizational efforts made in revising the accountability system, on which an update was presented to the Executive Board in September 2022. This is a key document for clarifying and restructuring accountabilities and responsibilities that are fit for purpose to meet the needs of the next generation of UNICEF financing, partnerships, programmes and risk management. Recognizing that a delegation of authority policy will be issued soon, the AAC advised on the issuance of and training on the entire package of the main and supplementary documents on the accountability system (e.g., the report presented to the Executive Board, the compendium of office responsibilities, the delegation of authority policy, and the internal control and enterprise risk management policy) to all levels of staff to facilitate a common understanding and practical application.

29. **Donor conditionalities:** The Committee notes that donor requests have become increasingly varied and onerous, and hence there is an urgent need for better harmonization of donor agreements, for work with other parts of the organization and for inter-agency coordination. The increasing proportion of humanitarian work by UNICEF work might only increase the scope for greater earmarked funding. The Committee advises organizational reflections on how to incentivize unearmarked contributions, strengthen reporting on the use of such funds, provide more visibility on results achieved and enhance attribution of credit to donors.

30. **Development of the UNICEF artificial intelligence strategy:** Prioritize the development and implementation of a clear artificial intelligence strategy and policy to leverage the opportunities that it presents for UNICEF programming, operations and oversight globally. Applications include, among others, blockchain technologies, big data mining and machine learning capabilities for prescriptive and predictive analytics (across a complex system architecture), robotic process automation for process efficiencies, and natural language processing in sentiment analysis. It is important to also have clear guidelines on ethics in artificial intelligence to take cognizance of and negate algorithmic biases. UNICEF should also pay attention to the emerging legislation and legal frameworks in this area around the world.

31. **Change management:** In view of the multiplicity of key ongoing organizational change management initiatives, and HQEI in particular, the Committee advised UNICEF as follows:

(a) *Organizational change management:*

(i) Rationalize the high number of recommendations (144) emanating from the organizational improvement initiatives and generate a heat map for monitoring the status of the most impactful recommendations.

(ii) Assess whether ongoing change initiatives are making UNICEF more effective; and simplify the work in country offices, drawing from lessons learned, and make timely adjustments.

(iii) Preserve the independence of the oversight offices while implementing organizational change management (e.g., HQEI decisions, revisions to the rotation and mobility policy).

- (iv) Coordinate with other United Nations entities for system-wide standardization of job descriptions by levels (for corporate support and oversight functions) and on applying principles of mutual recognition for talent mobility.
 - (b) *Headquarters Efficiency Initiative:*
 - (i) Conduct a formative evaluation of HQEI within a more holistic review of the organizational change management exercise; and consider the possibility of an alternative collaborative review exercise organized by the Evaluation Office and the Office of Internal Audit and Investigations (OIAI).
 - (ii) Closely manage the risks from HQEI related to fragmentation; inadequacy of functional or risk analysis preceding relocation decisions; non-examination of the relevance of existing models of performance management considering flexibility, geographically distant teams and managers, and loss of institutional knowledge and key skills disrupting activities and posing reputational risks for UNICEF.
 - (iii) Recognize the impacts on staff morale and the potential perception of staff about senior management who remain posted in headquarters locations while the operational staff are transferable to the field.
 - (iv) Ensure that the agreements with new host countries for new UNICEF locations or expansions are for a longer term, so that the projected savings are sustainable.
 - (v) Ensure that the funding for additional costs to support implementation of HQEI have been quantified and provided for in budget estimates.
32. **Data:** The AAC noted the appointment of a Chief Data Officer in 2022 and advised UNICEF to:
- (a) Ensure that the new investment in data is aligned with and supports UNICEF work in countries on statistics, and strengthens the evidence base for policy formulation, implementation and monitoring, and for public action.
 - (b) Encourage collaboration beyond UNICEF and develop capacity in partners to generate and use relevant data to improve programme development and monitoring by UNICEF.
 - (c) Treat data as a public good that is widely accessible so that it can be used for advocacy and to claim children’s rights.
 - (d) Ensure that the Chief Data Officer collaborates closely with the data ethics function in the UNICEF Innocenti – Global Office of Research and Foresight, and with the Chief Information Officer in the area of cybersecurity.
33. **Sustainability and environmental and social safeguards:** The Committee welcomes the inclusion of “sustainability” within the UNICEF core values (care, respect, integrity, trust, accountability and sustainability) and will focus on this area in 2023 to monitor the organization’s progress. The Committee advises UNICEF:
- (a) On the need for a cohesive environmental social and governance (ESG) strategy and policy with directive principles. Key elements of effective ESG governance and management include goal setting, ESG reporting, stakeholder engagement, collection and monitoring of key performance indicators, oversight and risk management, identification of new needs for data and technology application, process improvements and disclosure.
 - (b) That donors are also increasingly expected to seek ESG reporting from the international public sector. Examples of ESG application within the United Nations system include sustainable agriculture (Food and Agriculture Organization of the United Nations), sustainable rural development (International Fund for Agricultural Development), human rights and child labour (International Labour Organization), and climate change and sustainable finance (International Monetary Fund).

(c) That the role and responsibilities of internal audit as relates to ESG is defined and implemented.

(d) To carefully consider the global best practices, including within the United Nations system, while designing the grievance redressal mechanisms for UNICEF environmental and social safeguards, to ensure independent arrangements, clarity of accountabilities of the offices that will be entrusted with grievance redressal responsibilities, and that they are resourced with appropriate skills.

(e) To include language relating to sustainability standards in contracts with vendors, partners and donors, since it is the newest addition to the UNICEF core values.

(f) To provide ESG-related education and training for employees, including for managers and the leadership team.

B. Risk management, internal control, financial management and reporting

34. **Enterprise risk management:** The Committee welcomes the appointment of the Chief Risk Officer effective December 2022, and looks forward to closer engagement with the incumbent in 2023. The appointment follows the long-standing advice provided by the AAC on this matter in recent years. The Committee's view, consistent with leading governance practices, has been that the Chief Risk Officer should report to the Executive Director since the risk function covers all forms of risks (strategic, operational, regulatory, partnerships and programmatic, fiduciary, reputational. etc.) while enhancing staff perceptions and credibility among other stakeholders of the function. The Committee expressed concern that, notwithstanding plans for reconstitution of the Senior Management Risk Committee, that Committee had not met even once during 2022. Based on the minutes of the meetings of Senior Management Risk Committee for 2021, the last two years' annual organizational risk report had not been prepared and the risk appetite statements are yet to be finalized. This gap was exacerbated given the significant external risk events during the year (humanitarian crises at scale like in Ukraine, donor conditionalities, cyberattacks and fraud risks), a slew of internal change management and transformation exercises and the innovative financing for children initiative. While UNICEF may have other bespoke risk management mechanisms for day-to-day management, the Committee advises UNICEF to prioritize the resumption and reconstitution of the Senior Management Risk Committee (to include the General Counsel and Chief Information Officer), finalize the UNICEF risk appetite/tolerance statements, and respond to the urgent overdue need for timely, periodic and insightful high-level risk reporting for the attention of the Executive Director and the Executive Board, taking into account the likelihood, impact and velocity of risks.

35. **Programmes:** The Committee discussed the humanitarian-development nexus with regional leadership and noted that the cost of doing business in conflict areas is not well reflected within donor contributions, and that opportunities exist for reflecting lessons learned from different humanitarian programmes. Other points emerging in the discussions relate to the need for better articulation of country and regional office needs in prioritizing change management efforts; simplifying yet enhancing the effectiveness of the harmonized approach to cash transfers; simplifying procedures for agility of response, whether in crisis or otherwise, to support implementation; improving the ability to scale up faster; and ensuring that the contractual obligations of implementing partners to monitor and address non-compliance on sexual exploitation and abuse or breaches of obligations is met.

36. **Anti-fraud:** The Association of Certified Fraud Examiners estimates that organizations globally lose an average of 5 per cent of their revenue annually to fraud. The financial losses reported by UNICEF over the past three years (2021: \$1.3 million – 23 cases; 2020: \$0.6 million – 11 cases; and 2019: \$0.7 million – 17 cases) are, however, far lower compared to this estimate, considering the annual revenue of UNICEF (\$8.6 billion in 2021). These indicate the potential for under-detection of fraud, particularly in the risk landscape that UNICEF operates under – without formalized risk appetite statements involving decentralized operations, wherein about 10,000 implementing partners globally operate in difficult environments with limitations in national capacity and higher corruption indices, and manage significant volumes of cash transferred by UNICEF. The Committee also advises

the development of a cohesive mechanism for systematic identification and trend monitoring of ineligible expenses. Together, the above indicate the need for a robust and continuous monitoring and anti-fraud detection and deterrence system that provides assurance on its design and operating effectiveness.

37. **Financial statements:** The AAC received useful updates from the Comptroller, including on the financial overview, treasury operations, audited financial statements and report of the Board of Auditors. In April 2022, UNICEF shared the draft 2021 UNICEF financial statements with the AAC for its review and comments, following which the Committee provided substantive formal feedback. The AAC is pleased to note that the 2021 financial statements received an unqualified audit opinion from the Board of Auditors. The Committee advised UNICEF to prioritize the implementation of three overdue recommendations from the 2019 Board of Auditors audit that relate to:

- (a) Testing disaster recovery plans, which is critical especially until such time that UNICEF is substantially on cloud infrastructure and the risks are transferred to the service providers;
- (b) Periodic cyberpenetration testing to evaluate the security of the network and applications;
- (c) Implementing the data warehouse strategy for information management and analytics.

38. **Innovative financing:** The Committee received excellent briefings from the Comptroller's Office and is pleased to note the proactive efforts under way to manage the risks from inflation and/or recessionary pressures. The AAC took note of the plans to develop a policy for the innovative financing for children initiative, which is critical to ensure that all offices involved are aligned and that the spirit of innovation is balanced with risk management. The Committee advised UNICEF to:

(a) Establish clear lines of accountability and responsibility for offices working on innovative financing for children, clarifying the authority of the Comptroller on all decisions that have implications on the UNICEF financial statements.

(b) Categorize the innovative financing for children initiative under (a) financial facilities that have financial implications on the UNICEF balance sheet, and (b) coordination/partnership facilitation without a direct impact on the UNICEF balance sheet. It would be especially prudent that any products that have financial implications on the UNICEF balance sheet are managed under the auspices of the Comptroller only.

(c) Develop a comprehensive legal, financial, and operational framework and guideline to guide the implementation of innovative financing for children. A deep understanding of the legal and reputational risks of innovative financing for children is critical. After conducting a technical competency and skills gap analysis, this undertaking should be fully resourced and coordinated by expert consultants under the auspices of the General Counsel and the Comptroller. This includes getting advice from lawyers with expertise in investment instruments for international investors to adequately mitigate the legal risks for UNICEF.

(d) Ensure clearer understanding by all levels of Management and the Executive Board, about the authority to approve pilot projects on borrowings (e.g., the World Bank loan), given the views from the Board of Auditors, the Advisory Committee on Administrative and Budgetary Questions and the Office of Legal Affairs that such approvals are to be granted only by the General Assembly.

(e) Enhance oversight over the National Committees for UNICEF in the context of innovative financing for children to ensure compliance with the mandates in the cooperation agreements.

(f) The use of historical trust funding and escrow funding needs to be revitalized and reengineered by the Comptroller under the innovative financing for children initiative to reduce costs and place more funds at the disposal of UNICEF. Increased use of guarantee and insurance facilities should be explored as a form of financial innovation for UNICEF.

39. **Legal:** The Committee appreciates the legal briefings that cast light on a number of key risks that merit the attention of UNICEF senior management. The AAC encourages closer engagement between the General Counsel and the Chief Risk Officer, and periodic meetings with the Executive Director for proactive risk responses. The AAC notes the plans for the development of a new legal office strategy in 2023. The Committee advises due consideration of underserved legal needs and capacity relating to inherently high risks, and the risk of spreading the small legal office workforce too thin across multiple locations. The AAC also reiterated its advice to create a repository of all legal contracts and to carry out spot checks to see that contracts comply with templates and exceptions have been approved by the Legal Office.

40. **Knowledge management:** The Committee advised UNICEF to:

- (a) Formalize lessons learned from recent humanitarian experiences and disseminate them for future pandemics or other emergencies.
- (b) Document and share positive lessons from UNICEF support to countries to recover immunization and education programmes following the pandemic.
- (c) Advocate for pandemic preparedness, including the ability to produce vaccines, personal protective equipment, etc. in countries in the global South.
- (d) Communicate successes in combating COVID-19 more widely.
- (e) Focus on the advocacy and bundling strategy for vaccinations (routine and COVID-19) for children and adults that are critical to delivering impactful interventions.

41. **Information technology and cybersecurity:** The Committee advised UNICEF to closely monitor cybersecurity in view of the organization's increased reliance on vendors and hybrid work arrangements. This assumes significance as less than half of UNICEF staff had completed the mandatory cybersecurity training course, and the phishing simulation campaigns identified a small proportion of users compromising their credentials. The Committee learned that the main challenge with ICT portfolio management is a vertical and siloed culture within a suboptimal organizational budget process that is not driven by a cross-sectoral business strategy. Going forward, the Committee anticipates the ICT function to contribute to ESG and sustainability priorities, due diligence on platform proliferation and leading organizational positions on financing technologies like blockchain. UNICEF may also benefit from closer collaboration with leading researchers and research institutions globally to keep pace with emerging and leading practices within ICT and with evolving technologies. Lastly, the AAC reiterates its long-standing advice to include an external expert on the ICT Board.

C. Internal oversight

42. The AAC assessment of the UNICEF internal oversight system comprised reviews of the independence, objectivity and effectiveness of the internal audit, investigations, evaluation and ethics functions. The review was also informed by interactions with the executives responsible for financial, management and programme accountability. The Committee underscores the importance of strong independent internal oversight to provide reasonable assurance on the effectiveness of UNICEF risk management. This is especially important considering the rapidly evolving state of myriad risks applicable to UNICEF, which operates in a decentralized environment that is based on a partnership-oriented business model, and with a second line of defence striving to scale up its maturity level.

43. The Executive Director would benefit significantly by having regular planned one-on-one meetings with the Directors of the Office of Internal Audit and Investigations, the Evaluation Office, the Ethics Office, the Board of Auditors and the Chair of the Audit Advisory Committee.

44. In 2022, the Committee took note of the OIAI report to the Executive Board on an assessment of its independence and the pathways to further strengthen its independence. It also noted the plans for the peer review of the evaluation function and review of the evaluation policy, as well as the plans

for drafting a charter for the Ethics Office. While explicit term limits and bars from re-entry as staff are in place for the heads of the oversight offices, the AAC provided suggestions to further enhance the independence of the oversight offices by:

- (a) Ensuring that the hiring, renewal and removal of the heads of the oversight functions are done in consultation of the Executive Board.
- (b) Formalize the dual reporting of the heads of the oversight offices by emphasizing the functional reporting relationship with the Executive Board, while maintaining direct reporting with the Executive Director.
- (c) Heads of the oversight offices holding periodic meetings with the Executive Board without the presence of management and also having regular bilateral meetings with the Executive Director.
- (d) Ensuring autonomy in hiring decisions by the Directors of the oversight offices for their staff.
- (e) Exploring new ideas for alternative funding (e.g., percentage set-aside for oversight) and disclosure of the impact of non-post budget shortfalls as part of the approval of annual workplans.
- (f) Disclosing any assurance gaps to the Executive Director and the Executive Board, for their decisions on accepting the assurance risk exposure.
- (g) Providing exceptions on mandatory rotation and mobility policies for staff in oversight functions giving due consideration for their independence and to avoid potential conflicts of interest.

45. The independent offices should also collaborate with the new Chief Risk Officer to share insightful risk intelligence on a real-time basis. This provides an excellent opportunity for the functions to scale up their individual and collective expertise from *'reporting in hindsight to sharing insight to providing foresight'*. The Committee also advised on the inclusion of responsibilities for timely and effective implementation of oversight recommendations (audit, evaluation, JIU, etc.) within the performance management processes for senior managers responsible for implementing oversight recommendations.

46. ***Combined or integrated assurance:*** Combined assurance aims to align assurance processes between internal audit and all other assurance providers to deliver deeper insights on governance, risk and control management to the Executive Board, senior management and the Audit Advisory Committee. The Committee advises UNICEF to produce a mapping of all assurance services (potentially led by OIAI) to organizational risks to better identify overall assurance gaps and direct scarce resources appropriately for effective assurance coverage.

47. Overall, the oversight functions were generally well established and functioning, and the Committee provided specific advice to these functions, as summarized in paragraphs 48 to 52 below.

48. ***Internal audit and investigations:*** The Committee met the Director, OIAI at each of its regular sessions, including private sessions, and organized special sessions to share its feedback on the revised OIAI Charter and annual workplans. The advice provided to UNICEF on the audit and investigations functions is summarized below.

(a) ***Strategic plans:*** The Committee took note of the OIAI office management plan, 2022–2025 and its strategic priorities and approaches. The Committee appreciated the emphasis for internal audit on closing the audit assurance coverage gap, leveraging data analytics and communications, and addressing the resource deficit for internal audit. Similarly, for investigations, it noted the proposed increased focus on fraud risks, and on resolving conflicts using the least intrusive response mechanism. The AAC was pleased to learn that most of the additional staff resources requested by OIAI for the quadrennium were made available by the UNICEF Management.

(b) ***Audit workplan:*** The AAC reviewed the draft internal audit workplan for 2022 at the beginning of the year, its progress during the year and the 2023 draft workplan in December 2022. The Committee acknowledged the incremental efforts made in developing the internal audit risk assessment and planning methodology. Based on its holistic review with other submissions, the Committee made the following observations and provided advice on the 2022 and 2023 workplans as follows:

(i) Review the comprehensiveness of auditable entities, the frequency of coverage and the risk ranking. The inclusion of treasury is a welcome addition to the 2023 workplan (which also follows previous advice provided by the AAC), as it was last audited 10 years ago and the treasury portfolio has grown manifold since then. However, key subjects like third-party vendor management, organizational change management, business continuity planning and disaster recovery planning have not been audited as a thematic subject in many years.

(ii) The Committee was unable to provide an opinion on the adequacy of the audit coverage since the draft workplan did not disclose any assurance gap, i.e., the perceived shortfall in audit coverage with the listing of the high-risk rated audits that are not part of the 2023 workplan. Thus, the plan implies that all entities and subjects that needed to be audited in the judgement of the office are being covered within available resources, or that the office itself assumes the assurance gap risk. The Committee advised the office to articulate the resources necessary for the desired audit coverage, to provide a clear comparison to available audit resources and to disclose the impact of any ‘assurance gap’ due to a shortfall in resources or other reasons, to the Executive Director and the Executive Board, who are best placed to either accept the risk exposure or provide required additional support to mitigate it. The AAC advises UNICEF to assess and record the assurance gaps by better clarifying in the annual audit workplan the integrated audit approach, continuous auditing versus continuous monitoring and combined assurance concepts.

(iii) The audit universe shared with the Committee was incomplete without inclusion of risk-ranked information technology (IT) audits, or the visibility of the auditable IT subjects and the time since they had been last audited. The gap in the audit universe may be significant given the high risks relating to cybersecurity and the absence of periodic penetration testing and vulnerability assessments of IT portfolio management and audits of business continuity planning. The AAC expects the ICT audit universe to be included in the audit workplan after completion of the ICT strategy that will be developed by consultants engaged by OIAI (following advice previously provided by the Committee). The Office should dedicate resources for specialized areas like cybersecurity and other IT activities to reduce audit risk.

(iv) Introduce a timesheet record-keeping system to track productivity and aid in more accurate budgeting and planning of resources for audit activities.

(v) The workplan would benefit from a refinement of weights assigned as it is skewed heavily towards management views (60 per cent) compared to the auditor’s own judgement (10 per cent). It would also benefit from classifying audit subject risks as high, medium and low.

(vi) The AAC is concerned that the feasibility of OIAI delivering the planned audits in 2023 could be impacted by divisional reorganization exercises like setting up a new office in Nairobi, filling audit vacancies and the evaluation of the two years’ experience of the first OIAI office outside New York (none of which was indicated in the plan). Although time recording for audits commenced in 2022, its results have not informed the budgeting for the 2023 workplan. While acknowledging the cyclical nature of carry forward of audit engagements from one year to another, its proportion

appears to be high, as about 40 per cent of the engagements for 2023 were carried forward from 2022. Thus, the type of audits not concluded in 2022 may impact the usefulness of OIAI annual opinion for the year.

(c) **Trend of audit conclusions:** There has been a gradual increase in the proportion of audit report conclusions that have received generally satisfactory conclusions, i.e., from 70 per cent in 2017 to 100 per cent in 2021² (and the trend in 2022 was similar at the time of the AAC meetings). While this is suggestive of a UNICEF model of strong and effective internal control and operational risk management, nevertheless the AAC advises the audit function to reflect on the reasons for this level of generally satisfactory outcomes and to consider the risk of overstated audit opinions, especially in view of the high-risk landscape for UNICEF programmes and operations.

(d) **Advisory services:** The Committee recognizes the need for increased advisory services with professional safeguards and providing them without impacting core assurance services. The AAC advises UNICEF that the decision for the use of advisory services should be in conformance with transparent and clear policy guidelines for both OIAI and its clients to ensure independence, avoid abuse and maintain consistency in application.

(e) **Investigations:** The Committee notes the trend of increases in the portfolio of investigations cases. The Committee made the following observations and advised that:

(i) The issue of donor conditionalities and the impact on the independence of investigations, and on confidentiality and due process, needs senior management attention. The effectiveness of OIAI investigative work may, from a materiality perspective, be impacted by increasing donor reporting obligations, which also entail a significant demand on the resources of OIAI. The AAC is concerned that OIAI is devoting considerable efforts to negotiating donor agreements related to disclosure of investigations related to donor-funded projects. There should be a UNICEF policy that is adhered to by all offices on what disclosure obligations, if any, may be acceptable. It would be best to have such a policy urgently adopted across the United Nations system.

(ii) The human resources function should take a greater lead in conflict resolution using alternative mechanisms to reduce the burden on the investigations team in having to deal with cases that do not warrant investigative focus (especially considering the steep increase in the intake of cases). Such matters should be driven by a conflict resolution policy that might include mandatory conciliation under certain circumstances.

(iii) In accordance with the Vendor Review Committee procedure, offices are required to report allegations of fraud and corruption implicating suppliers directly to that Committee. While OIAI and the Vendor Review Committee have agreed that all allegations reported to the Committee will promptly be referred to OIAI for assessment and potential investigation, the AAC advises that the revisions to the Vendor Review Committee procedure formalize these interim arrangements to avoid incomplete reporting.

(iv) The Committee supports the proposal of the Investigations Section to create a time-bound fraud investigations task force. It is anticipated that the task force, comprised of experienced investigators and forensic accountants, will focus on several complex fraud schemes that require a team approach and extensive complex

² United Nations Children's Fund, UNICEF Office of Internal Audit and Investigations 2021 annual report to the Executive Board, E/ICEF/2022/AB/L.5, UNICEF, New York, 2022.

fact-finding. The task force will strengthen the section's long-term fraud investigation capacity.

(v) The absence of a single institutional repository for legal agreements and the risks of country offices entering into agreements with donors without necessarily being guided by previous agreements needs to be adequately mitigated.

(vi) OIAI should continue to track and report on the progress of the recommendations of the external quality assessment for investigations.

(f) **Data analytics:** The Committee is encouraged by the use of dedicated resources for data analytics and the tools developed by OIAI, including the diagnostic 'build your risk model' tool designed for use by the leadership of OIAI, the Ethics Office and the Principal Adviser, Organizational Culture for proactive engagement with country and regional offices. The AAC also advises continued refinement of the analytics in use and increase uptake of data mining, scripts, forensic analysis, artificial intelligence and cognitive prediction. More dedicated resources may be necessary while also upgrading the analytics skills of audit and investigation staff.

(g) **Public disclosure:** The Committee advised OIAI to revert to the long-standing practice of simultaneous issuance of the final internal audit reports of country offices to the Executive Director and the respective Permanent Missions preceding public disclosure, to effectively respond to Executive Board decision 2012/13. While revisions to the process may have been made to preclude the inadvertent release of sensitive information, the internal quality assurance mechanism and the safeguards within the Executive Board decision should continue to be relied upon to avoid the appearance of impairment of independence and to maintain consistency in oversight practices within the United Nations oversight offices.

49. **Evaluation:** The Committee appreciates the progress made in recent years by the corporate evaluation office and regional evaluation teams on the independence arrangements, number and quality of evaluations, decentralized capacity and positive impacts of the pooled fund arrangements. The AAC Vice-Chair (and evaluation expert) independently met with the peer reviewers of the evaluation function in informing their review in late 2022. Following the Committee's discussions with the Evaluation Office at each of its regular sessions and jointly with the seven Regional Evaluation Advisers, the Committee advised UNICEF to:

(a) Avoid rushing to finalize the new evaluation policy review prior to the Executive Board's planned internal review of its governance and its views on the recommendations from the KPMG reports on UNOPS. It is also critical to seriously respond to the recommendations from the peer review for making necessary adjustments to the evaluation policy and culture.

(b) Have clear signalling by the Executive Director to the Deputy Executive Directors, Regional Directors and country office Representatives on the importance of evaluation, from both the accountability and learning perspectives, and reflect it in their performance management. Learning from evaluations and accountability for responding to evaluation and meeting evaluation funding targets should be normalized among senior managers. Evaluation learnings will help them to avoid repeating mistakes so that the impact of the organization's work for children is greater.

(c) Review the effectiveness of the current reporting arrangements of the Regional Evaluation Advisers (i.e., primary reporting to the Regional Directors and dotted-line reporting to the Director of Evaluation) particularly in view of the Executive Board's interest in the independence of the oversight functions. The current design, when it works well, helps to embed evaluative work within programme and emergency response planning, but it affects the independence of the Regional Evaluation Advisers when it does not work well.

(d) Secure funding to preserve the independence and effectiveness of decentralized evaluation, which is critical for UNICEF as a country-based organization. The Committee notes the progress reported by UNICEF in getting closer to achieving the target of allocating at least 1 per cent of its overall programme expenditure to evaluation, as outlined in the evaluation policy, which was

approved by the Executive Board. This should not, however, be interpreted as setting a standard 1 per cent target for every programme, but rather as a means to establish a fund that can meet the critical and strategic needs of evaluation for the organization. Currently some countries are not benefiting from evaluations due to the funding shortage of pooled funds.

(e) Promote uniform understanding of the purpose and benefits of evaluation across Management to enhance the utility of evaluation. Learning from evaluation across the organization would strengthen programme effectiveness.

(f) Explore greater collaboration between the audit and evaluation offices by experimenting with joint exercises such as performance audit, which uses elements of evaluative evidence. This could be fostered and formalized through memorandums of understanding for the joint exercises.

(g) Increase the use of risk lens in evaluations and increase appreciation for the role of evaluations in mitigating risks.

(h) Strengthen coordination and collaboration between and among the evidence functions (evaluation, monitoring, research, audit) for a more holistic approach to knowledge generation.

(i) Assess the effectiveness of the current systems for follow-up of the implementation of evaluation recommendations (as compared to the systems and standards used by OIAI for audit agreed actions). Entrust the Deputy Executive Director, Programmes, with responsibility for the robustness of the management responses (i.e., timeliness, content and follow-up) to evaluation recommendations for programmes at the country, regional and headquarters levels.

50. **Ethics:** The Committee notes positively that some additional resources for the Ethics Office have been approved, but advised UNICEF to strengthen the capacity of the Ethics Office, with specific guidance as follows:

(a) Draft and finalize a charter/terms of reference for the Ethics Office since it has been designated as an independent office for more than two years. The draft charter should be compiled after benchmarking with similar institutions and consistent with the recommendations of JIU reports JIU/REP/2021/5 and JIU/REP/2018/4, and presented to the Executive Board for review.

(b) Strengthen the capacity of the Ethics Office by providing it with sufficient resources and staff of requisite seniority to carry out their responsibilities, thus enabling the Ethics Office leadership to devote time and focus on more strategic matters.

(c) Consider outsourcing of the administration of the Conflict of Interest and Financial Disclosure Programme (CIFDP), potentially in collaboration with other United Nations entities, due to the limited staffing in the Ethics Office. This will also free up the office to carry out its more substantive preventive role. Sharing the services of a provider already contracted by other United Nations funds and programmes that outsource their CIFDP administration could help to reduce costs and also maintain confidentiality. This will also aid in responding to the JIU recommendation that sought value-added and efficiency assessments of CIFDP administration and outcomes.

51. **Ombudsman's services:** The Committee also met with the Office of the Ombudsman for United Nations Funds and Programmes.³ The AAC notes that the Deputy Ombudsman has been managing the office on an ad interim basis and the ombudsperson post has been vacant since February 2022. Acknowledging that the ombudsman function is joint function for five United Nations funds and programmes, the Committee advises prioritization of the recruitment of the ombudsperson post. The Committee notes that the role of the ombudsperson should be more than reactive, in particular with

³ The Office of the Ombudsman for United Nations Funds and Programmes serves five United Nations entities: the United Nations Development Programme, the United Nations Population Fund, the United Nations Children's Fund, the United Nations Office for Project Services and the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women).

regard to educating management on systemic issues, and also encourages UNICEF leadership to raise awareness on the use of the mediation pledge to lessen the investigative overload.

D. External oversight

52. The AAC held meetings with key constituents of the UNICEF external oversight system to complement the review of the internal oversight system and inform its own assessments.

(a) **Board of Auditors:** The Committee had constructive discussions (including private sessions) with the Board of Auditors on the key observations from its 2021 audit report. The Committee noted the Board's confirmation that there had been no impairment to its independence or any scope limitations, and was pleased to note that UNICEF received an unqualified audit opinion for 2021. In December 2022, the Board of Auditors briefed the Committee on its workplans for the interim audit and the financial audit for 2022. The Committee appreciates the candid discussions and emphasizes the importance of the Board of Auditors for independent oversight. The Board's recommendations and the status of implementation were also regularly discussed with the Comptroller.

(b) **Joint Inspection Unit:** The Committee noted that there are monitoring mechanisms for following up on the implementation of JIU reviews, including an annual report that is made available to the Executive Board. UNICEF also tracks the recommendations that are not accepted and notes the reasons. The AAC nonetheless advised UNICEF to review recommendations from JIU reports that were previously not accepted. In particular, review was merited on the recommendations that related to the independence arrangements on internal audit, investigations and audit committees, especially in view of recent events at UNOPS and the consequent interest from the Executive Board.

VI. Reporting to the Executive Director and the Executive Board

53. **Executive Board:** The Chair of the AAC attended the annual session of the Executive Board in 2022 and delivered the Committee's statement on its 2021 annual report. The Chair was available to respond to questions or comments from the Board related to the report. The Committee was glad to note the references to the AAC annual report in the deliberations of the Executive Board.

54. **Executive Director of UNICEF:** The AAC appreciated two constructive discussions with the Executive Director, Ms. Catherine Russell, and benefited from an understanding of her reflections and priorities. After each of its regular meetings in 2022, the AAC submitted to the Executive Director a summary of strategic advice, together with the minutes of the meeting. The summaries focused on the most-pressing topics arising from each meeting and the Executive Director provided acknowledgement memorandums sharing management perspectives and updates on the Committee's key advice.

55. The Committee also shared the results of its self-assessment for 2022 with the Executive Director, which was very positive in the areas of mandate coverage, independence, leadership, collective member expertise, quality of reports and secretariat support. The self-assessment also identified areas for improvement, including the need for a review of the AAC Charter in view of the events at UNOPS, recommendations from JIU and bringing responsibilities for the Ethics Office on a par with responsibilities for OIAI and the Evaluation Office. The AAC also acknowledges the Executive Director's feedback on the work of the Committee, in particular on the quality and relevance of the advice rendered.

VII. Networking within the United Nations system oversight committees

56. **Joint meeting of the Chairs of the oversight committees of the United Nations system:** The seventh annual meeting of the Chairs of the United Nations system oversight committees, hosted by the Independent Audit Advisory Committee of the United Nations, was held in December 2022. The meeting was attended by 32 participants representing the leadership of the 23 oversight committees

from entities within the United Nations Secretariat, funds and programmes and specialized agencies. Mr. Jayantilal Karia, Chair of the AAC, attended on behalf of UNICEF.

57. The session entailed briefings from the Under-Secretary-General for Management Strategy, Policy and Compliance and the Chair of the High-Level Committee on Management on UN-system work on Recruitment, Outreach, Workforce Planning and Mental Health and well-being strategy, updates from JIU inspectors on their key findings, and external speakers on themes covering ESG, third-party risk management and roles of the oversight committees for ethics. The group also deliberated on the recent events at UNOPS and their impacts for the oversight committees and governance arrangements in other United Nations organizations.

VIII. Conclusion and acknowledgements

58. The AAC trusts that the Executive Board will find this report informative and useful for its oversight.

59. The AAC thanks Mr. Stephen Zimmermann, Director, OIAI, for facilitating the secretariat and budgetary support to its work. The Committee is also appreciative of all the UNICEF staff members who made presentations, provided information and/or facilitated its meetings.

60. Finally, the Committee is particularly grateful for the professional support it receives from Mr. Sunil Raman, Committee Secretary (OIAI), in managing the AAC secretariat and for the continuous improvements and innovations in the Committee's working modalities.

Annex

Audit Advisory Committee membership and schedule of meeting attendance in 2022

<i>Regular meetings in 2022</i>				
<i>Member name</i>	<i>March</i>	<i>June</i>	<i>November</i>	<i>Comments</i>
Ms. Amalia Lo Faso	N/A	N/A	N/A	Former Chair from October 2021 and member since February 2016 whose second term ended in February 2022.
Mr. José Urriza	Attended	Attended	N/A	Member since August 2016 whose second term ended in August 2022.
Mr. Jayantilal Karia	Attended	Attended	Attended	Chair from February 2022, Member since June 2017; serving on second term, which ends in June 2023.
Ms. Saraswathi Menon	Attended	Attended	Attended	Vice Chair and member since June 2017; serving on second term, which ends in June 2023.
Ms. Anni Haraszuk	Attended	Attended	Attended	Member since September 2020; serving on first term, which ends in September 2023.
Ms. Enery Quinones	Attended	Attended	Attended	Member since September 2021; serving on first term, which ends in September 2024.
Mr. Chukwuma Okonkwo	Attended	Attended	Attended	Member since March 2022; serving on first term, which ends in February 2025.
Mr. Richard Chambers	N/A	N/A	Attended	Member since September 2022; serving on first term, which ends in August 2025.

N/A = Not applicable.