

**UNICEF Audit Advisory Committee**  
Annual Report for 2012  
(15 March 2013)

**1. Introduction**

1.1. The UNICEF Audit Advisory Committee (AAC) is an independent body that advises the Executive Director and informs the Executive Board on the conduct of management responsibilities in accordance with the UNICEF Financial Regulations and Rules, the United Nations Staff Regulations and all other directives, policies and procedures applicable to UNICEF. The broad areas of AAC responsibility include (a) review of the functioning of the UNICEF oversight system; (b) review of the quality and integrity of UNICEF accounting and reporting practices and systems of control; (c) review of compliance with applicable regulations, rules and ethical standards and Executive Board decisions; (d) review of the effectiveness of the internal and external audit processes; and (e) reporting of the results of these reviews to the Executive Director and the Executive Board.

1.2. This report summarizes the work performed by the AAC in each of the areas of its core mandate during 2012. In carrying out its work, the members of the AAC met in person in February and June, but were unable to meet in October 2012 as originally planned due to Tropical Storm Sandy. To partially make up for the inability to meet in October 2012, the AAC convened three meetings by teleconference to discuss certain urgent matters that could not be postponed to the next formal meeting in March 2013. The key issues, recommendations and decisions during 2012 in each of the broad areas of responsibility are summarized below.

**2. Review of the functioning of the UNICEF oversight system**

2.1. In addition to the review of the internal and external audit processes, which is covered in section V of this report, the AAC's work during 2012 consisted of review of the charter of the AAC itself, regular updates from the Deputy Executive Director for Management regarding matters discussed by the Global Management Team and reviews of the work of the Evaluation and Ethics offices.

2.2. **Review of AAC charter.** In November 2012, the Executive Director approved certain changes to the ACC charter that had been discussed with management over the previous several months. The changes, intended to enhance the independence and smooth running of the Committee, include:

- (a) A waiting period of at least one year before former UNICEF staff and Executive Board members may be appointed to the AAC; and
- (b) A change of the duration of the term served by AAC members, from two years to three years, with a two-term limit and also with a staggering of the rotation of members to assure continuity.

2.3. The AAC also proposed that it take a more active role than that currently provided for in the charter in the process of appointing, renewing the term of, and removing, if necessary, the

Director of the Office of Internal Audit and Investigations (OIAD). The AAC agreed to leave this issue for future consideration, taking into account the evolution of relevant best practices.

2.4. **Global Management Team updates.** The AAC has appreciated the updates received from the Deputy Executive Director on the meetings of the Global Management Team, particularly the focus on the following: the roles of UNICEF in fragile states and middle-income countries; the strengthened documentation of results and programme monitoring; and the attention given to proper functioning of the internal control system, including timely follow-up and implementation of internal audit recommendations. At the June 2012 meeting, the AAC also took note of progress in preparation of the UNICEF Strategic Plan for 2014-2017 and looks forward to receiving a copy of the final plan, when approved, to help inform the work of the Committee in the future.

2.5. **Evaluation Office.** The AAC took note of the Integrated Monitoring and Evaluation Framework for 2012-2013 and the Global Evaluation Reports Oversight System. The Committee discussed the possible effect on the independence, or appearance of independence, of the Evaluation Office under the current structure by which it reports to the Executive Director rather than to the Executive Board. In 2013 the Committee will review the results of the internal self-assessment and peer review of the Evaluation function of UNICEF.

2.6. **Ethics.** The AAC noted the good progress of work on the financial disclosure programme and encouraged the timely completion of the link between the financial disclosure system and VISION. The AAC also noted the launch of online Ethics Training by the Ethics Office and looks forward to the completion and dissemination of the final version of the Ethics Strategic Plan in 2013.

### 3. **Review of the quality and integrity of UNICEF accounting and reporting practices**

3.1. The AAC assured itself of the overall soundness of the UNICEF accounting and reporting practices through: interviews conducted with the Comptroller and officers of the Division of Financial and Administrative Management; review of the implementation of International Public Sector Accounting Standards (IPSAS); and follow-up of comments on the management letter by external auditors. The specific activities undertaken by the Committee in 2012 are detailed below.

3.2. **Review of the draft 2010-2011 Financial Statements.** The AAC had the opportunity to review and provide comments on the draft financial statements for the biennium 2010-2011 prior to their finalization. This practice should continue in future years.

3.3. **Review of IPSAS implementation.** The AAC has closely followed the implementation of IPSAS and notes its satisfactory completion. In March 2012, the AAC reviewed pro forma IPSAS financial model statements and provided comments to the Division of Financial and Administrative Management. The main areas of concern related to resolution of differences with the United Nations Board of Auditors over the treatment of cash transfers and private sector funds. Due to the inability to meet in October 2012, the AAC will seek to obtain confirmation on the resolution of these issues at its first meeting in 2013.

3.4. **Review of Management Letter Comments.** The AAC noted with satisfaction the process for ensuring that the respective organizational units take greater ownership of the prompt implementation of accepted recommendations made by the external auditors. This included the regular reporting to the Executive Director on the status of implementation of the recommendations. The Committee is to follow up in the first half of 2013 on the closure of the recommendations dependent on the production of IPSAS-compliant financial statements.

#### **4. Review of compliance with applicable regulations and rules**

4.1. In addition to the review of the work of the Ethics Office (described in section II of this report), the AAC obtained regular updates on the implementation of VISION and on the Harmonized Approach to Cash Transfers (HACT).

4.2 **VISION.** The AAC applauds the Management of UNICEF for the successful implementation of VISION, which went live on 1 January 2012, and urges Management to continue to follow up on the change-management challenges to ensure full realization of the expected benefits. In particular, the Committee noted that the VISION performance management system (VISION dashboard) represents an excellent opportunity to enhance management oversight of country operations. Accordingly, the Committee will periodically request and review the following: metrics or indicators of active use of the system by managers; measures taken to ensure the timeliness and accuracy of underlying data; and information on how the reported results are being used in decision-making.

4.3. **Harmonized Approach to Cash Transfer Governance Joint Audit.** As part of a series of joint audits of HACT implementation conducted with the cooperation of the audit offices of UNICEF, of the United Nations Development Programme and the of United Nations Population Fund, a joint audit of governance arrangements for HACT was completed in November 2012. The Audit Advisory Committees of the three agencies met to discuss this audit in December 2012. The three AACs endorsed and forwarded to Management 11 recommendations for action by either individual agencies or by the HACT oversight bodies. Among these recommendations, the following are of importance to UNICEF: establish clear accountability at country level for HACT implementation; review the causes of poor implementation, including review of country office skills and capacity; and establish compensating controls when HACT implementation is lacking.

4.4. The AAC also notes that the United Nations Board of Auditors included recommendations on improving HACT implementation and on assurance of accountability in payment processes.

4.5. The ACC is encouraged by the October 2012 communications sent from Deputy Executive Directors Geeta Rao Gupta and Martin Mogwanja to all Regional Directors and Representatives. In 2013, the Committee will focus attention on follow-up to the required actions and particularly development of the global strategic approach to assurance activities.

## **5. Review of the effectiveness of internal and external audit processes**

5.1. The highlights of the work of the AAC during the year in this mandated area included the following:

### **Internal Audit**

5.2. **Revision of the Charter of OIAI.** In May 2012, the Executive Director approved a revised charter for the Office of Internal Audit and Investigations. The revisions, which include important changes to the process for appointing, renewing and removing the Director of OIAI, are intended to further enhance the Office's objectivity and independence. The AAC reviewed the changes prior to their approval by the Executive Director and confirms that they are in line with good practices.

5.3. **Appointment of the new Director of OIAI.** Following the departure of the former Director of OIAI, UNICEF embarked on a process to recruit a new Director. The AAC is satisfied with the final selection made by Management and appreciates Management's consultation with the Chair of the Committee prior to the appointment of the new Director. Nonetheless, the Committee believes that a greater level of involvement – such as attendance by the Chair of the Committee at interviews as an observer, or as a selection panel member – in future recruitment exercises is desirable and consistent with good practices.

5.4. **Review of the work programme of OIAI.** At its February 2012 meeting, the AAC reviewed and endorsed the risk-based workplan of OIAI for 2012, noting with satisfaction the increase in staff resources. The Committee requested OIAI to flag for Committee consideration at future meetings any audits and investigations with important and broader implications for the integrity of the UNICEF internal control system. Further, the AAC requested OIAI to clarify how its audit coverage relates to other oversight functions and activities and to discuss, from a risk point of view, the areas that OIAI does not plan to cover. In a teleconference meeting in November 2012, the AAC approved the draft workplan prepared by the interim Director of OIAI for 2013. The Committee noted that through the plan OIAI had responded to these requests, with the understanding that a discussion of the workplan may be reopened with the new Director of OIAI in 2013, to incorporate any changes that may be justified.

5.5. **Review of OIAI activity reports.** The AAC reviewed the quarterly OIAI activity reports, paying particular attention to the volume of items carried over from previous periods and the overall aging of audits and investigations. With regard to the broader internal control implications of the findings in specific audits and investigations, the Committee noted that many of the investigations and audits (for example investigations covering the Peshawar zone office in Pakistan and the Zimbabwe country office) pointed to the need for improvements in the monitoring and control of cash transfers and the management of assets in field offices. This formed the basis for the Committee's decision to focus closely in 2012 on the results of the joint internal audit review of the HACT, described in section 4.

5.6. **Public disclosure of internal audit reports.** The AAC noted the decision of UNICEF to publicly disclose internal audit reports as part of the move towards even greater transparency and

accountability and with a view to further enhancing public confidence. At the June 2012 meeting, the Committee agreed with the Director of OIAI that, at each future AAC meeting, OIAI will provide to the AAC, for its review, a report on information redacted or withheld from public disclosure and the rationale for such actions.

## **External audit**

5.7. **Meeting with the Board of Auditors.** The planned discussions with the United Nations Board of Auditors did not take place in October 2012 as planned due to Tropical Storm Sandy and will instead take place at the first meeting of 2013.

5.8. **Follow-up of Management Letter Comments.** As previously noted, the Committee noted the progress made in ensuring ownership for the implementation of the external auditors' recommendations and has encouraged the prompt closure of pending matters, especially those dependent on the implementation of IPSAS.

## **6. Reporting**

6.1. **Executive Board.** The Chair of the AAC attended the annual session of the Executive Board (June 2012), at which the annual report of the Committee was presented as part of the annual report of OIAI.

6.2. **Executive Director of UNICEF.** The AAC has submitted minutes of all of its meetings to the Executive Director. It has highlighted matters that, in the view of the Committee, required his special attention, such as the internal control and reputational risk implications of the Peshawar zone office investigation. The AAC appreciated the presence of the Executive Director at its meeting in February 2012 and his commitment to attend an AAC meeting each year, for the purpose of gaining first-hand feedback from the Committee and of sharing with the Committee the strategic perspectives of UNICEF. Such interaction will help to inform the work of the Committee.

6.3. **UNICEF Deputy Executive Director, Management.** The AAC also appreciated the opportunity to meet with the Mr. Mogwanja at each of its meetings. His presence allowed the Committee to obtain updates on meetings of the Global Management Team and Executive Board and on preliminary management responses to AAC members' observations or queries.

## **7. Other matters**

7.1. **AAC Membership.** The AAC operated throughout much of 2012 with fewer than five members. Filling the one remaining vacancy is a priority for the first quarter of 2013.

7.2. **Periodic consultation with the President of the Executive Board.** In 2012, the AAC discussed with Management a recommendation for periodic consultations with the President of the Executive Board and agreed that the current practice of presentation of the annual report of the Committee to the Executive Board would suffice.

## 8. Membership of AAC during 2012

8.1. The membership of the AAC and the record of attendance at AAC meetings during 2012 are summarized below:

NAME	February 2012 Meeting	June 2012 Meeting	November 2012 Teleconference	COMMENTS
Daniel Nelson	Yes	n/a	n/a	<i>Term ended in February 2012</i>
Charles Boamah	Yes	Yes	Yes	<i>Current Chair</i>
Jessie R. Mabutas	Yes	n/a	n/a	<i>Resigned after February 2012 meeting</i>
Mary Ann Wyrsh	Yes	Yes	Yes	
John Fitzsimon	Yes	Yes	Yes	
Alan Siegfried	n/a	Yes	Yes	<i>Appointed to AAC in May 2012</i>

## 9. Acknowledgements

9.1. The AAC wishes to thank the many staff members from several departments across UNICEF who made themselves available to respond to the numerous queries of the Committee and provide requested data and other information. In particular, the AAC appreciates the contributions of former OIAI Director David Kanja, former Acting OIAI Director Hamish Young, Interim OIAI Director Peter Maertens, former Secretary to the AAC Lisa Sutton and current Secretary to the AAC Louise Wolfgang.

9.2. The AAC also acknowledges the valuable contributions of Daniel Nelson and Jessie Rose Mabutas, who left the AAC during 2012.

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