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### **UNICEF management response to the report of the United Nations Board of Auditors**

#### *Summary*

In July 2018, the United Nations Board of Auditors formally issued its financial report and audited financial statements for the year ended 31 December 2017 and its report for UNICEF ([A/73/5/Add.3](#)) and awarded the organization an unqualified audit opinion for the year ended 31 December 2017. This achievement also marks the sixth year of unqualified audit opinions for UNICEF financial statements prepared under the International Public Sector Accounting Standards (IPSAS) starting in 2012. This demonstrates the commitment of UNICEF to the implementation of IPSAS.

The UNICEF Executive Director continues to emphasize economy, efficiency and effectiveness as top priorities. The work of UNICEF staff around the world who are at the front line of implementing the governance, risk management and internal controls (including anti-fraud) mechanisms ensures that funds entrusted to UNICEF are managed with appropriate fiduciary accountability to achieve results for children.

Pursuant to UNICEF Executive Board decision 2018/3 paragraph 7, the present report provides a separate management response to the key findings and recommendations of the annual report of the Board of Auditors for the year ended 31 December 2017. The report includes management comments on the recommendations issued and progress updates on the implementation of those recommendations. This report should be read in conjunction with portions relevant to UNICEF of the report of the Secretary-General on the implementation of the recommendations of the Board of Auditors ([A/73/353/Add.1](#)) and the long-form report of the Board of Auditors. This report also takes into consideration comments of the Advisory Committee on Administrative and Budgetary Questions ([A/73/430](#)) and the Fifth Committee in their respective reviews of the annual report of the Board of Auditors ([A/73/5/Add.3](#)) and the concise summary of the principal findings and conclusions contained in the reports of the Board of Auditors for the 2017 annual financial period ([A/73/209](#)).

\* [E/ICEF/2019/1](#).



UNICEF has also included in this report, a summary update on the anti-fraud strategy pursuant to the Executive Board decision 2018/3 paragraph 6.

UNICEF greatly appreciates the insights of the Board of Auditors and the related observations and recommendations included in the report. UNICEF has committed to the implementation of all the recommendations by the end of the first quarter of 2019 and is looking forward to the assessment of the management actions and closure of these recommendations by the Board of Auditors during their audit of the 2018 financial statements.

## I. Introduction

1. UNICEF has received an unqualified audit opinion from the United Nations Board of Auditors on its financial statements for the year ended 31 December 2017. This marks the sixth year of unqualified audit opinions since the implementation of the International Public Sector Accounting Standards (IPSAS) in 2012. This achievement is important as it demonstrates the commitment of UNICEF to continuous improvement in financial management and transparency in financial reporting and accountability. UNICEF will continue to strive for greater operational excellence, efficiency and effectiveness while ensuring that adequate internal controls, risk management and fiduciary responsibilities are satisfactorily fulfilled. The tone set at the level of senior management by the Executive Director, the Deputy Executive Directors, the Comptroller and Heads of Office has been instrumental in enabling UNICEF to receive unqualified audit opinions. Equally important has been the effort of staff members in all locations who are at the front line of ensuring internal controls, governance and risk management are efficiently and effectively implemented.

2. Annex I presents a summary table of the number of recommendations issued by the Board of Auditors in 2017 by priority and risk area. The Board of Auditors issued 36 recommendations, of which 7 were classified as main recommendations (high priority) and 29 were classified as other recommendations (medium priority). The Board of Auditors reiterated 4 recommendations out of the 36 issued. UNICEF strives to implement management actions, prioritizing the main recommendations as designated by the Board of Auditors. To sustain progress and realize additional gains from implementing recommendations from the Board of Auditors, UNICEF will continue to strengthen management and operations through proactive innovation of its oversight, monitoring, risk management and internal control mechanisms and activities.

3. This report also takes into consideration comments of the Advisory Committee on Administrative and Budgetary Questions (ACABQ) ([A/73/430](#)) and the Fifth Committee in their respective reviews of the report of the Board of Auditors ([A/73/5/Add.3](#)) and the concise summary of the principal findings and conclusions contained in the reports of the Board of Auditors for the 2017 annual financial period ([A/73/209](#)).

4. With respect to the timing of implementation, every effort has been made by the UNICEF Comptroller to establish target dates to complete the implementation of the recommendations. UNICEF has committed to implementing management actions on all recommendations by the end of the first quarter of 2019 and is looking forward to having them assessed for closure by the Board of Auditors during their audit of the 2018 financial statements.

5. With regards to prioritization, it is noted that the Board of Auditors categorizes the most important recommendations as ‘main’ recommendations. While all accepted recommendations of the Board of Auditors will be implemented in a timely manner, the main recommendations will be of the highest priority, and actions for their implementation will be monitored closely by senior management.

## II. Management response to audit recommendations by risk and priority area

6. The following is a summary of the management response to audit recommendations issued by the Board of Auditors. This management response is consistent with the information provided in the 2017 report of the Secretary-General

on the implementation of the recommendations of the Board of Auditors Report ([A/73/353/Add.1](#)).

7. The Office of the Comptroller has been tasked with monitoring implementation of the recommendations including providing regular updates on progress to the Executive Director. Management actions will be targeted to prioritize the 7 main recommendations, however, actions to address the other 29 recommendations will be taking place concurrently to meet the implementation deadlines that UNICEF has committed to for each recommendation.

8. Progress on all the recommendations is on track per the implementation deadlines that were presented in the 2017 report of the Secretary General on the implementation of the recommendations of the United Nations Board of Audit report.

## **A. Financial management**

9. The recommendations classified under financial management were mostly related to observations by the Board of Auditors as to where UNICEF could enhance disclosures in the notes to the financial statements to provide additional information to stakeholders. There were five recommendations in total, of which one was considered as a main recommendation and four classified as other recommendations. UNICEF has committed to implementing the recommendations by end of the first quarter of 2019.

### **Main recommendation (high priority)**

10. In paragraph 37, the Board recommended that UNICEF explain the material differences between the actual amounts and budgeted amounts in the financial statements in accordance with the IPSAS requirement.

11. UNICEF provided a variance analysis in chapter IV of the financial statements in the discussion and analysis section of the financial overview. This disclosure in the financial overview is in line with the applicable IPSAS standard. UNICEF is however making arrangements to provide supplementary explanations for material differences between actual amounts and budgeted amounts in its 2018 financial statements.

### **Other recommendations (medium priority)**

12. In paragraph 15, the Board recommended that UNICEF review all multi-year donor agreements and decide whether their stipulations satisfy the criteria of conditions.

13. UNICEF agrees to continue to review both the contribution agreements as grants are created and to develop a documented mechanism for the process.

14. In paragraph 19, the Board recommended that UNICEF suitably disclose its accounting policy for recognition of in-kind revenue.

15. For 2017, all in-kind contributions were recognized and disclosed in the financial statements based on receipt, which is the most common approach. UNICEF considers such disclosure to be in line with IPSAS requirements. UNICEF will however revisit the IPSAS policy position and the policy disclosure in the notes to the financial statements for the year ending 31 December 2018.

16. In paragraph 21, the Board recommended that UNICEF disclose the net assets of institutional and regular resource programme segments as distinct segments.

17. The institutional budget of UNICEF is an allocation of its regular resource funds to cover institutional costs and any unused funds returned to regular resources.

UNICEF combined the net assets of institutional and regular resource programme segments and disclosed them under the institutional segment. UNICEF agrees to move the combined figures under the regular resource segment, but it may be inappropriate for these to be shown separately.

18. In paragraph 28, the Board recommended that UNICEF depict the contributions receivable at their fair value in compliance with IPSAS.

19. UNICEF continues to monitor the impact of discounting receivables on an annual basis and to adjust when the impact is considered material. UNICEF will put in place a clear materiality framework which will guide the reviews conducted by management on this matter.

## **B. Travel management**

20. The recommendations classified under travel management mostly relate to the VISION enterprise resource planning (ERP) module for travel management and the controls imposed by the end-to-end process of creation and closure of trips in the module. UNICEF remains confident in the VISION ERP system and the automated controls that have provided for efficient management of travel across all UNICEF offices, including the ability to book, record and close a trip electronically without manual intervention. UNICEF acknowledges that there is always room to improve some practices. The management actions being taken by UNICEF in this area will address the risks raised by the auditors, while also making efforts to retain the efficiencies that have been created over time by eliminating manual interventions in the travel process and instead relying on automated controls which are more consistent, reliable, effective and efficient. The recommendations issued under this category were four, from which three are main recommendations and one is classified as other recommendation. UNICEF has committed to implementing the recommendations by end of the first quarter of 2019.

### **Main recommendations (high priority)**

21. In paragraph 48, the Board recommended that UNICEF review and ensure compliance with the internal control mechanism in the travel management and related processes.

22. UNICEF anticipates improved compliance with the internal control mechanism globally based on the implementation of new certification measures that include three functional enhancements in the VISION system, as follows: (a) a formal warning mechanism for staff having more than two trips open; (b) automated reminders for open travel authorizations; and (c) a “hard stop” (i.e., an automatic control that would not allow the system to process any further travel authorizations) on new travel authorizations when more than three are already open. UNICEF further plans to enhance required system changes to improve other internal control mechanisms related to travel.

23. In paragraph 50, the Board further recommended that UNICEF review its policy of releasing 100 per cent of daily subsistence allowance and expensing it on creation of a trip.

24. UNICEF is reviewing its policy on the release of 100 per cent of the daily subsistence allowance. UNICEF is planning that for non-staff members (consultants), the policy will be updated to advance only 80 per cent of the daily subsistence allowance. For staff, emphasis will be placed on travellers completing their trip certifications within the compliance period, with those failing to do so risking having travel advances deducted from their salary.

25. The actions related to staff have taken into consideration that the use of the 80 per cent advance of the daily subsistence allowance was eliminated as an efficiency measure to reduce the volume of reconciliations and the number of staff resources that were required to perform them, which did not mitigate in any way the risk that staff members may not have closed their trips in the system in a timely manner after completion. The proposed policy change of charging the cost of trips to staff members who do not certify their trips on time is more efficient and effective in addressing the risk. The implementation of the recommendation for consultants recognizes that they tend to be short-term employees, hence their contracts may end before actions can be taken to deduct the cost of the trip. Management also considers that the additional work required for reconciliation will be less as the volume of consultant travel is much lower than that of staff members.

26. In paragraph 55, the Board recommended that UNICEF perform a verification of the compatibility and customization process of VISION, including the travel management functionality.

27. UNICEF observes rigorous application development and lifecycle standards in every instance of solutions management and delivery. In this regard, there are tightly controlled and applied applications development processes. In 2016, UNICEF engaged an external consultancy that carried out a partial review of custom-developed systems in preparation for future improvements of such systems. The code review exercise provided useful inputs for actions that have been incorporated in the ongoing enhancement of the VISION solution landscape.

28. UNICEF does not believe that completing a verification of the compatibility and customization process of VISION will add value since it was conducted recently in 2016. However, the elements listed in the Board's audit findings on the travel process will be addressed with enhancements to the system and training for the users. In this regard, UNICEF is planning to make the required enhancements to the travel management system after the ongoing upgrades to the VISION system are completed.

#### **Other recommendation (medium priority)**

29. In paragraph 49, the Board further recommended that UNICEF make travellers and managers aware of their duties and roles as envisaged in the travel policy.

30. UNICEF issues global broadcast messages to serve as reminders to staff of their responsibilities to comply with the travel policy, specifically on the need for the closure of open trips. In addition, there are ongoing training sessions for staff responsible for managing travel, to improve compliance rates. UNICEF considers this recommendation to be implemented. UNICEF is looking forward to presenting the mitigation actions already taken to the Board of Auditors and to request the closure of the recommendation.

### **C. Internal control**

31. The recommendations under internal controls are related to the management actions of UNICEF to address exposure regarding segregation of duties in the system and the review of violation reports to address identified conflict in processes and transactions. There were two recommendations issued under this category, both classified under other recommendations. UNICEF is committed to implementing the recommendations by the end of the first quarter of 2019.

### **Other recommendations (medium priority)**

32. In paragraph 61, the Board recommended that UNICEF complete a review of the user access management guide and the segregation of duties rules and update them in a time-bound manner.

33. UNICEF is working on the updates of the user access management guide and the rules. The updated guide will be issued for use in the first quarter of 2019.

34. In paragraph 62, the Board further recommended that UNICEF update the segregation of duties violation report to incorporate transaction-level monitoring and mitigate any conflict in processes at the Global Shared Services Centre.

35. UNICEF is updating the segregation of duties exception report and is planning to incorporate transaction-level monitoring as recommended by the Board. Progress has been made in reconfiguring the report, and it is currently being tested before implementation as a management monitoring report.

## **D. Management of consultants**

36. The recommendations classified under management of consultants relate to UNICEF compliance with the procedures for hiring consultants and the reliability of the related information and documents available in VISION. There were two recommendations issued under this category, both under other recommendations. UNICEF committed to implementing one of them by the end of the second quarter of 2018 and had a difference of opinion on the best course of action in respect to the other recommendation, as explained in paragraph 40 below.

### **Other recommendations (medium priority)**

37. In paragraph 77, the Board recommended that UNICEF ensure compliance with the procedures for hiring consultants.

38. In July 2018, the Division of Human Resources (DHR) issued revised procedures to further strengthen the management of consultants and individual contractors, which continues to be decentralized. The new procedures provide more clarity to ensure a common understanding and compliance among offices. DHR will remind offices on a regular basis to ensure compliance with these procedures.

39. In paragraph 78, the Board further recommended that UNICEF ensure that VISION is updated with the latest information and all supporting documents are uploaded on a real-time basis.

40. UNICEF notes that due to the varied contexts in which it operates, its offices will continue to keep documents both physically and electronically, in accordance with its document retention policy and guidelines. All supporting documents are retained by the offices in either electronic or physical form at a minimum for 10 years before being destroyed in line with the document retention policies and procedures. DHR issued revised procedures in July 2018 to further strengthen the management of consultants and individual contractors.

41. Requiring UNICEF offices to upload documents in VISION is not the best way to efficiently manage document retention and to ensure efficient use of the ERP system. Uploading too many documents slows down the system and leads to inefficiencies in processing transactions and in obtaining management reports. UNICEF will continue to work with and support offices in strengthening their knowledge of the policy and will also provide guidance to offices on the implementation of and compliance with applicable procedures, including those on retention of supporting documents. Document retention policies and procedures will

be based on both electronic and physical documents using the filing and archiving systems available in the organization implemented through the new Enterprise Content Management system.

## **E. National Committees**

42. The recommendations classified under the National Committees relate to UNICEF interaction and oversight of the National Committees. There were two recommendations issued under this category, both under other recommendations. UNICEF is committed to implementing the recommendations by the end of the first quarter of 2019.

43. In its report [A/73/430](#), the ACABQ provided advice on compliance related to retention of 25 per cent of the gross revenue collected by National Committees for covering their costs and building up minimum reserve requirements. The overall contribution from National Committees exceeded the 75 per cent of gross revenue for 2015, 2016 and 2017. In 2017, overall National Committees exceeded their target by \$3.1 million, contributing \$1.2 billion to UNICEF. Each National Committee has different contribution targets ranging from 30 to 75 per cent, including a road map for reaching the desired target over a defined period. Most of the National Committees met their targets within 5 per cent of the agreed joint strategic plan. Specific to the 21 National Committees observed, 10 of them were within 10 per cent of meeting the target of 75 per cent contribution. There were also 13 National Committees that met or exceeded the target of 75 per cent. UNICEF will continue engaging and jointly planning with National Committees to maximize contribution rates and will monitor closely when targets in the joint strategic plan are not met.

### **Other recommendations (medium priority)**

44. In paragraph 89, the Board recommended that UNICEF periodically interact with, guide and direct National Committees that are consistently delaying submission of audited financial statements and certified final revenue and expenditure reports.

45. UNICEF is in regular communication with the National Committees on a variety of topics, including the timely submission of audited financial statements and certified financial revenue and expenditure reports. The National Committees are independent organizations set up at the country level to raise funds to finance the activities of UNICEF, and the submission of their audited financial statements is contingent on the approval of their respective boards. Depending on the national laws of the country in which the National Committee operates, the timing of the meetings of the Board of the National Committees may not directly align with the closure dates of UNICEF financial statements. UNICEF management is satisfied that an adequate number of reports are received in time to meet the organizational goal of timely closure of accounts and that certifications by the National Committees provide reasonable assurance on the revenue and expenditure reports that is adequate for use in the financial reporting by UNICEF. UNICEF considers the recommendation as already fully implemented. UNICEF is looking forward to presenting information for assessment and discussion with the Board of Auditors and to subsequently request that the recommendation is closed.

46. In paragraph 92, the Board recommended that UNICEF engage with the National Committees for appropriate management of their investments and review their investment policies.

47. UNICEF is reviewing the investment policies of the National Committees. UNICEF is looking forward to presenting information for assessment by the Board of Auditors toward the closure of this recommendation.



## **F. Fundraising activities**

48. The recommendations classified under fundraising activities relate to the UNICEF resource mobilization strategy, 2014–2017 related to corporate donor channels and fundraising for emergencies. There were four recommendations issued under this category, all under other recommendations. UNICEF has a difference of opinion on one of the recommendations related to corporate donors as the approach proposed is not aligned with the new 2018–2021 impact plan for mobilizing funds from the private sector to fund the UNICEF Strategic Plan, 2018–2021.

### **Other recommendations (medium priority)**

49. In paragraph 104, the Board recommended that UNICEF analyse the reasons for low contributions and then formulate an appropriate strategy to enhance the level of contribution from potentially important income channels such as corporate donors. Management has agreed with this recommendation, however, there is a difference on the best course of action to address this recommendation.

50. UNICEF provided detailed comments in paragraph 105 of the Board of Auditors long-form report ([A/73/5/Add.3](#), chapter. II). UNICEF management has already extensively analysed the target results, which has led to a new 2018–2021 impact plan which is the resulting evidence-based strategy. One of the proven key strengths of the 2018–2021 impact plan is that it relies on diversification of income channels to meet the overall income goals. As a result of this diversity, an estimation of future income with full precision is not possible. Overperformance in certain channels is balanced by underperformance in others. Overall, gross revenue targets for 2017 and for the four-year strategic plan period were met and significantly exceeded.

51. In paragraph 110, the Board recommended that UNICEF further strengthen its efforts in fundraising activities to obtain the desired response from donors to handle emergency situations.

52. UNICEF continues to make efforts to mobilize resources for emergency purposes, which include maintaining strong relations with donors, attending international meetings and humanitarian summits to strengthen networking and advocacy, and issuing press releases and initiating communication to sensitize public and private audiences on emergencies. Appeals are based on the stated needs within country and regional contexts and are aligned with the interagency assessment and planning processes.

53. In paragraph 116, the Board recommended that UNICEF strengthen the mechanism for monitoring donor reports and ensure their timely submission.

54. UNICEF is continuing to strengthen its monitoring of donor reports to improve their timeliness and quality.

55. In paragraph 117, the Board further recommended that UNICEF keep VISION updated with the latest information on submission of donor reports.

56. UNICEF is rolling out a new donor reporting portal, which will increase the visibility of the reports to donors, simplify their review and clearance process, and contribute to their timely submission to donors.

## **G. Management of cash transfers**

57. The recommendations classified under management of cash transfers relate to the implementation of the harmonized approach to cash transfers (HACT) modalities and compliance with the policies and guidance related to the risk management, programme monitoring and direct cash advances. UNICEF has committed to the

implementation of the HACT framework with other funds and programmes to have a consistent way of working with implementing partners across the United Nations system. UNICEF acknowledges that there is always room to improve some practices, policies, guidance and systems, as well as their effectiveness. UNICEF implements the recommendations of the Board of Auditors with due consideration to ensuring that the actions remain true to the spirit of the HACT framework to ensure that harmonization across the funds and programmes in this area is respected. The Board of Auditors issued one main recommendation under this category. UNICEF considers this recommendation as implemented and has presented mitigation actions for review by the Board of Auditors following which closure has been requested.

**Main recommendation (high priority)**

58. In paragraph 131, the Board recommended that UNICEF review and strengthen the internal control and monitoring system for cash transfers to implementing partners and fully adhere to the established policy for these cash transfers.

59. In August 2018, UNICEF issued a revised procedure on HACT to implementing partners specifying the roles and responsibilities. Enhancements were made to the systems, management reports and dashboards related to implementing partners to enforce compliance with the procedural requirements and to allow the management in headquarters, regional and country offices and to provide effective monitoring and oversight. UNICEF considers this recommendation to be implemented and requests its closure by the Board.

60. UNICEF will continue reviewing on an ongoing basis the efficiency of the HACT approach and its effectiveness as a programme implementation modality. Results of these reviews are reflected in policy, guidance and systems enhancements to ensure that the modality is used to achieve results for children. Observations from the Board of Auditors, the Office of Internal Audit and Investigations (OIAI) and various assurance and programme monitoring activities provide valuable input into the process of continuous improvement in this area.

## **H. Procurement and inventory management**

61. The recommendations under procurement and inventory management are related to UNICEF management actions to address issues related to the management of vendors, quality assurance checks and value added tax (VAT) claims. There were three recommendations issued under this category, which are classified under other recommendations. UNICEF is committed to implementing the recommendations by the end of the first quarter of 2019.

**Other recommendations (medium priority)**

62. In paragraph 144, the Board recommended that UNICEF update the vendor database with the results of evaluations/re-evaluations and the recommendations of the Vendor Review Committee on real-time basis.

63. UNICEF updates the vendor database on a real-time basis, and its policies on vendor evaluation and review include a provision for the Director of the Supply Division to approve waivers to allow procurement from blocked vendors in exceptional circumstances due to exigencies and other strategic organizational needs. UNICEF considers this recommendation as implemented and has presented mitigation actions for review by the Board of Auditors following which closure has been requested.

64. In paragraph 150, the Board recommended that UNICEF country offices claim and actively pursue the VAT refunds due.

65. UNICEF continues to utilize the tax and duty exemptions available to it as often as possible to avoid payment of taxes such as VAT. However, as exemptions are not always possible, any VAT payments made are subsequently claimed from the relevant government authorities. Noting that this recommendation was made in relation to observations in the country offices of Sri Lanka and Ghana, UNICEF is pleased to report that the Sri Lanka Country Office had recovered \$12,883 as of March 2018, and the Ghana Country Office had recovered \$94,140 as of July 2018. UNICEF considers this recommendation as implemented and has presented mitigation actions for review by the Board of Auditors following which closure has been requested.

66. In paragraph 159, the Board recommended that UNICEF follow the timeline for release of pharmaceutical and other stock from restricted to unrestricted stock after due quality checks.

67. The Supply Division reviewed the process for quality assurance and release of pharmaceutical and other stock materials into warehouse inventory and identified areas for further review and enhancement. As a result, UNICEF has initiated a significant enhancement through the development of a dashboard that will facilitate effective monitoring of the arrival, quality assurance and release of stock materials into the warehouse.

## **I. Contract management**

68. The recommendations classified under contract management relate to improvements in the monitoring of key performance indicators (KPIs) for the management of contracts and follow-up actions required when the KPIs are not met. The recommendations issued under this category were four, with one main recommendation and three other recommendations. UNICEF had implemented the recommendations by the end of the third quarter of 2018 and the evidence of implementation will be provided for review to the Board of Auditors during their audit of the 2018 financial statements.

### **Main recommendation (high priority)**

69. In paragraph 172, the Board recommended that UNICEF prescribe a definite timeline for closure of contracts and frame specific KPIs for monitoring their closure.

70. The prescription of a definite timeframe for closure of contracts may not be feasible as the timing of the closure varies based on circumstances and contingencies that may sometimes be external to UNICEF. However, UNICEF is continuing to monitor and improve the timeliness of the closure of contracts and will send reminders to all contract owners on a quarterly basis requesting that they close completed contracts that remain open in the system. UNICEF is also establishing a KPI for monitoring the closure of contracts and will revisit the policy on contracts requiring the performance evaluation of contractors.

### **Other recommendations (medium priority)**

71. In paragraph 173, the Board further recommended that UNICEF analyse the reasons for negative balances in contracts for which the validity period has expired and take suitable action to address the issues.

72. UNICEF has analysed the reasons for contracts with negative balances in the supply dashboard and initiated the process of revising and correcting the dashboard to reflect accurate contract balances.

73. In paragraph 179, the Board recommended that UNICEF country offices levy liquidated damages against suppliers who fail to meet the supply timeline.

74. The Afghanistan Country Office has implemented a process whereby all overdue procurement activities are reviewed and a note for the record is initiated for explicit approval by management in exceptional circumstances where liquidated damages are not deemed to be an acceptable course of action. The Sri Lanka Country Office has implemented regular monitoring of open purchase orders and contracts, including monitoring of late deliveries of goods and services on a weekly basis. In cases of delay, the office works with suppliers to understand the reasons for late deliveries and documents the appropriate action. The cases of delays and recommended actions are approved by management and, in cases where liquidated damages are imposed, a letter of unsatisfactory performance is issued to the supplier and the supplier's profile is updated accordingly. UNICEF considers this recommendation as implemented and has presented mitigation actions for review by the Board of Auditors following which closure has been requested.

75. In paragraph 183, the Board recommended that UNICEF country offices ensure that the procurement procedure related to emergency supplies be completed and supplies delivered within the stipulated timelines.

76. The emergency supplies referred to by the Board had an unusually long procurement period due to extensive discussions between UNICEF and government counterparts, which were required to identify the right needs and specifications in the evaluation of the quoted products. Nevertheless, improvements have been made, including the establishment of: (a) an emergency supply plan within the emergency preparedness platform; (b) long-term agreements for the most critical supplies and services; and (c) a qualified vendor list for procurement of potential emergency supplies locally. UNICEF considers this recommendation as implemented and has presented mitigation actions for review by the Board of Auditors following which closure has been requested.

## **J. Supply chain management**

77. The recommendations under supply chain management are related to the monitoring of timeliness of deliveries, the delays in getting containers cleared once they reach port of entry and timely receipt of vaccine arrival reports. There were three recommendations issued under this category, all classified under other recommendations. UNICEF is committed to implementing the recommendations by the end of the first quarter of 2019.

### **Other recommendations (medium priority)**

78. In paragraph 190, the Board reiterated its recommendation ([A/72/5/Add.3](#), para. 159) that UNICEF review cases of delay and take appropriate action in accordance with the terms and conditions of the contract to ensure timely delivery.

79. UNICEF has taken significant actions to implement this recommendation. The Supply Division conducts regular reviews of the reasons for delayed deliveries. A weekly follow-up is conducted for critical deliveries, while monthly and quarterly follow-ups are carried out for all other orders by the procurement centres and management respectively.

80. In addition, the Supply Division launched monitoring tools in the inSight system. Those tools include a system alert that identifies orders with upcoming delivery dates as well as delayed deliveries, thereby allowing proactive identification of bottlenecks and follow-up with suppliers and freight forwarders accordingly. UNICEF noted improvements in the timeliness of deliveries over the past four years and, therefore, it

considers this recommendation to be implemented and requests its closure by the Board.

81. In paragraph 197, the Board recommended that UNICEF, the regional offices and the Supply Division identify countries where vaccine arrival reports are regularly delayed and formulate country-specific strategies for monitoring timely receipt of vaccine arrival reports.

82. UNICEF would like to highlight the improvements achieved in recent years with respect to the timely receipt of vaccine arrival reports. These improvements have resulted from the clear identification of the roles and responsibilities; the strengthened policy guidance for the timely inspection of vaccines; the completion and submission of the vaccine arrival reports in the Supply Manual; and the development of a mobile application to facilitate the completion and submission of vaccine arrival reports. UNICEF is developing country-specific strategies as recommended by the Board.

83. In paragraph 206, the Board reiterated its recommendation ([A/72/5/Add.3](#), para. 184) that UNICEF identify reasons for detention of containers for long periods and provide guidance to country and regional offices to reduce the container detention time, and further recommended that the Supply Division expeditiously analyse the root causes of the detention of containers, which affect the efficacy of supply chain management functions.

84. UNICEF completed an analysis of the root causes for the detention of containers and is developing guidance for country and regional offices to help reduce the detention time. In addition, UNICEF has developed a reporting mechanism to facilitate continuous management review of container movements on a global basis.

## **K. Programme (water, sanitation and hygiene)**

85. The recommendations classified under programme relate to the audit of the UNICEF strategy for the Water, Sanitation and Hygiene for All programme. The audit was based on the UNICEF Strategic Plan, 2014–2017 and its related Integrated Resources and Results Framework for the same period. There were two recommendations issued under this category, of which one is a main recommendation and one classified as other recommendation. UNICEF has requested closure of both recommendations.

### **Main recommendation (high priority)**

86. In paragraph 213, the Board recommended that UNICEF clearly link the Strategic Plan and the annual workplan during the operationalization of the Strategic Plan, 2018–2021.

87. UNICEF Programme Division developed a new office management plan, which is aligned with the UNICEF Strategic Plan, 2018–2021. UNICEF considers this recommendation to be implemented and requests its closure by the Board. UNICEF has presented details of the actions implemented on the alignment of the Programme Division office management plan with the Strategic Plan to the Board of Auditors following which closure of the recommendation has been requested.

### **Other recommendation (medium priority)**

88. In paragraph 220, the Board recommended that the Afghanistan Country Office involve third-party monitoring for assurance on the quality of programmatic work performed.

89. The Afghanistan Country Office has augmented its programme monitoring mechanisms by establishing an additional mechanism through which third-party monitors may be recruited to gather programmatic data and evidence in the field. UNICEF considers this recommendation as implemented and has presented mitigation actions for review by the Board of Auditors following which closure has been requested.

## **L. Quality assurance and monitoring**

90. The recommendations classified under quality assurance and monitoring activities relate to closure of complaints received by UNICEF and monitoring of key performance indicators for field results. There were four recommendations issued under this category, all under other recommendations.

### **Other recommendations (medium priority)**

91. In paragraph 229, the Board recommended that the Supply Division prescribe a specific timeline for closure of complaints.

92. UNICEF is completing a study of average timelines between the date when complaints are identified and when corrective actions are implemented. Based on this study, the divisional procedure on management of complaints will be updated to include standard timelines for closure of complaints.

93. In paragraph 230, the Board further recommended that the Supply Division review all open complaints, ensure timely implementation of corrective actions, prioritize handling of cases indicating financial loss and ensure timely closure of all complaints in the system.

94. UNICEF is systematically reviewing all open complaints to ensure prioritization of those involving potential financial loss. This review will facilitate the timely closure of complaints in the system. UNICEF is also developing a new case management tool for recording and managing complaints to further strengthen their systematic review.

95. In paragraph 243, the Board recommended that the UNICEF Ghana and Burkina Faso Country Offices and the West and Central Africa Regional Office periodically review and expedite implementation of planned activities to ensure that the targets mentioned against the outcomes are achieved on time.

96. The West and Central Africa Regional Office is periodically reviewing the implementation of planned activities to encourage the timely achievement of the targets mentioned against outcomes.

97. In paragraph 245, the Board further recommended that the UNICEF Ghana and Burkina Faso Country Offices and the West and Central Africa Regional Office review the ratings of various outcomes/outputs and indicators so as to avoid discrepancies in ratings and to ensure that the users receive accurate performance reports.

98. The UNICEF Field Results Group has recently issued guidance on KPI definitions and grading criteria that will further clarify and alleviate any discrepancies in the ratings used by offices for various outcomes, outputs and indicators. The West and Central Africa Regional Office has also established a system to review the results assessment module twice a year.

### III. Anti-fraud strategy and fraud risk mitigation

99. The UNICEF anti-fraud strategy, which was released in 2018, serves to address fraud and misconduct at all levels of the organization. Roles and responsibilities for the implementation of the strategy are articulated in the UNICEF Financial Regulations and Rules, in the policy prohibiting and combatting fraud and other issued regulatory content, that encompasses anti-fraud controls. The objective of the anti-fraud strategy is to bring together the organization's policy, procedure, guidance, approaches and tools in one comprehensive framework to strengthen the systematic prevention, detection and response to fraud and misconduct in all its forms. The strategy complements ongoing efforts to promote a culture of ethics and integrity and zero tolerance toward fraud and misconduct. It should be read in conjunction with the associated documents, policies and procedures. The anti-fraud strategy considers the recommendations of the Joint Inspection Unit report on fraud prevention, detection and response in United Nations system organizations (JIU/REP/2016/4), ongoing efforts within the United Nations funds and programmes and other best practice approaches to prevent and address incidents of fraud and misconduct.

100. As of October 2018, the Comptroller has led three training of trainer sessions on anti-fraud awareness, attended by 140 staff members from UNICEF offices. Over 90 of those trained are country office staff who are at the front line of anti-fraud strategy implementation. The implementation of the components of the anti-fraud strategy, which has already commenced is planned for completion by the end of 2019. In addition to the mandatory eLearning course on ethics and integrity, an anti-fraud awareness eLearning module is being developed for implementation starting on 1 January 2019, with staff required to complete the course by end of March 2019. The implementation of the anti-fraud strategy will contribute further to the mitigation of risk, increasing awareness and hence reporting of cases of fraud and early detection of fraudulent activities.

101. Further fraud awareness activities and training in offices both at headquarter and country level have been held consistent with the roadmap for the implementation of the anti-fraud strategy. The face-to-face trainings gained momentum in October 2018 which was designated as Ethics Leadership Month by UNICEF.

102. As part of the anti-fraud strategy UNICEF is revamping its eLearning on anti-fraud awareness to include a compulsory course with a planned launch date of the first quarter of 2019. This will complement the existing ethics and integrity eLearning course. Staff members will have until 31 March 2019 to complete this compulsory eLearning course. UNICEF is also collaborating with New York-based funds and programmes on the development of a harmonized eLearning course for staff members of implementing partners.

103. Progress has been made in the development of a prototype transaction level monitoring tool. Training on programming and scripting development of exceptional reports for high-risk transactions is being carried out by the service provider to develop internal capacity within UNICEF.

104. Enhancements of the reporting channels, including improvements to the hotline for reporting fraud and misconduct are at an advanced stage. In addition, new whistleblower protection policies were rolled out to enhance reporting of fraud and misconduct.

105. UNICEF has made progress in recovering funds lost due to fraud perpetrated by staff members. However, less progress has been made on cases of fraud by implementing partners as the cases have been referred to national prosecution authorities. UNICEF has acted on these cases by blocking these partners from

implementing any further programmes. The implementing partners are based in L2 and L3 emergency countries hence the challenges in recouping funds and the timeliness of local prosecution. Of the \$4.16 million cumulative amount lost due to fraud for 2015, 2016 and 2017, 73 per cent (\$3.02 million) related to implementing partners. Recovery rates in the year when an investigation case was closed were approximately 10 per cent or less of the amounts lost due to implementing partner related fraud. In 2017, of the \$1.43 million lost due to fraud by implementing partners, \$1.13 million (80 per cent of the amount to be recovered) was for cases referred to local prosecuting authorities. In those cases, recovery efforts must await the outcome of the judiciary proceedings. An amount of \$138,000 had been recovered. This contrasts with recovery rates for fraud involving staff members where UNICEF has much more control in taking disciplinary action and ensuring funds are recovered from the entitlements of the staff members in proven cases of fraud.

106. Recovery of the funds from implementing partners becomes more challenging the longer the judiciary proceedings take to conclude. UNICEF will provide a comprehensive update at the annual session of the Executive Board as part of the management response to the OIAI annual report, including further progress made in recovery of funds lost due to cases of fraud and presumptive fraud.

#### **IV. Status of audit recommendations for the year ended 31 December 2017**

107. For the year ended 31 December 2017, the Board of Auditors issued 36 audit recommendations in its audit report of UNICEF ([A/73/5/Add.3](#)) (2016: 36 recommendations). Of the 36 recommendations, 7 were classified as high priority while the remaining 29 were assigned a medium priority rating. Management agreed with 94 per cent of the recommendations issued and had a difference of opinion with the Board of Auditors on the approach to implementing actions for two recommendations. The difference of opinion is on the most efficient and effective mitigation plan for these two recommendations. While there is a difference of opinion, UNICEF will engage with the Board of Auditors and present information and evidence that the actions by management are adequate, efficient and effective in mitigating the observations. Following assessment of the alternative mitigation actions, the closure of these two recommendations will be requested.

108. Consistent with practices adopted in previous years, UNICEF has adopted a phased approach, agreed with the business units and senior management, to the implementation of the audit recommendations, with clear accountabilities and target completion dates for each recommendation.

109. As of end-October 2018, about three months since the formal release of the report of the Board of Auditors, UNICEF is pleased to note that management actions have already commenced on all the 36 audit recommendations to ensure full implementation by the target completion dates. These recommendations have target completion dates in 2018 and the first quarter of 2019.



Table 1  
Implementation status for the financial year 2017 by target completion dates

<i>Target completion date</i>	<i>Number of recommendations</i>	<i>Implemented (closure requested)</i>	<i>Under implementation</i>	<i>Not accepted</i>
2018, 2nd quarter	1	1		
2018, 3rd quarter	5		5	
2018, 4th quarter	6	1	5	
2019, 1st quarter	13	2	11	
No target date, actions implemented at the time of the report	9	9		
Not accepted	2			2
<b>Grand total</b>	<b>36</b>	<b>13</b>	<b>21</b>	<b>2</b>
<b>Percentage</b>	<b>100%</b>	<b>36%</b>	<b>58%</b>	<b>6%</b>

Table 2  
Implementation status for the financial year 2017 by priority

<i>Priority</i>	<i>Number of recommendations</i>	<i>Implemented (closure requested)</i>	<i>Under implementation</i>	<i>Not accepted</i>
High	7	2	5	
Medium	29	11	16	2
<b>Total</b>	<b>36</b>	<b>13</b>	<b>21</b>	<b>2</b>
<b>Percentage of total</b>	<b>100%</b>	<b>36%</b>	<b>58%</b>	<b>6%</b>

## V. Status of audit recommendations for the year ended 31 December 2016 and prior years

### A. Status of recommendations for the year ended 31 December 2016 report

110. The Board of Auditors issued 36 recommendations for the 2016 financial year. These recommendations have target completion dates of the last quarter of 2017, the last three quarters of 2018 and the first quarter of 2019. Of the 36 recommendations, 26 (72 per cent) had been assessed by management as implemented and are awaiting assessment and closure by the Board of Auditors, 9 (25 per cent) recommendations are still under implementation and 1 (3 per cent) was not accepted. The one recommendation not accepted by UNICEF is on travel management ([A/72/5/Add.3](#), para 193). The Board of Auditors recommended UNICEF to produce and distribute individual reports on trip closure information to approximately 150 offices. The individual reports are already available to all UNICEF offices on the Insight dashboards for access by both managers and staff. Global broadcast messages that are sent to staff serve as reminders of their responsibilities to close trips on completion.

Table 3  
Implementation status for the financial year 2016 by target completion dates

<i>Target completion date</i>	<i>Number of recommendations</i>	<i>Implemented or closure requested</i>	<i>Under implementation</i>	<i>Not accepted</i>
2017, 4th quarter	2	2		
2018, 3rd quarter	4	2	2	
2018, 4th quarter	4		4	
2019, 1st quarter	3		3	
Actions already implemented	22	22		
Not accepted, no implementation date set	1			1
<b>Grand total</b>	<b>36</b>	<b>26</b>	<b>9</b>	<b>1</b>
<b>Percentage</b>	<b>100%</b>	<b>72%</b>	<b>25%</b>	<b>3%</b>

## B. Status of long-standing recommendations for the year 2015, 2014 and 2013 reports

111. The Board of Auditors issued 49 recommendations for the years 2013, 2014 and 2015. Of the 49 recommendations issued, 5 recommendations are under implementation and are considered long-standing. A summary table of these recommendations is provided in annex II. The implementation of the five recommendations, particularly those for budget management, required investments in information technology systems and time to implement. However, these investments go a long way toward addressing systemic issues observed by the Board of Auditors.

Table 4  
Implementation status of long-standing recommendations for the financial years 2013, 2014 and 2015

<i>Target completion date</i>	<i>Number of recommendations</i>	<i>Implemented or closure requested</i>	<i>Under implementation</i>	<i>Not accepted</i>
2018, 4th quarter	5	0	5	
Actions already implemented	44	44		
<b>Grand total</b>	<b>49</b>	<b>44</b>	<b>5</b>	<b>0</b>
<b>Percentage</b>	<b>100%</b>	<b>90%</b>	<b>5%</b>	<b>0%</b>

112. UNICEF will be engaging with the Board of Auditors to define a more consistent process for the review of management actions on audit recommendations, similar to the one currently used by OIAI. If agreed, review of implementation of actions will occur on a more regular basis, with ongoing assessments of evidence of actions implemented. This approach resembles how the Board of Auditors assesses

implementation of recommendations for other New York-based funds and programmes.

## **VI. Conclusion**

113. UNICEF is pleased to receive an unqualified audit opinion from the Board of Auditors. This achievement is a great testament to the hard work of all staff across UNICEF offices globally. The new Strategic Plan, 2018–2021 also provides a foundation on which UNICEF will continue to improve its performance and effectiveness.

## Annex I

### Summary of the recommendations issued in 2017 by priority and risk area

<i>Area</i>	<i>Main (High)</i>	<i>Other (Medium)</i>	<i>Total</i>
Financial management	1	4	5
Travel management	3	1	4
Internal control	-	2	2
Management of consultants	-	2	2
National committees	-	2	2
Fundraising activities	-	4	4
Management of cash transfers (HACT)	1	-	1
Procurement and inventory management	-	3	3
Contract management	1	3	4
Supply chain management	-	3	3
Programme (water, sanitation and hygiene)	1	1	2
Quality assurance and monitoring	-	4	4
<b>Total</b>	<b>7</b>	<b>29</b>	<b>36</b>

## Annex II

### Summary of long-standing recommendations

<i>Recommendation by the Board</i>	<i>Actions under implementation</i>
<b>Budget formulation tool</b>	
<a href="#">A/69/5/Add.3</a> para. 69, issued in 2013 on deficiencies in the formulation of the programme budget.	The budget management tool will be rolled out to all offices during the fourth quarter of 2018.
<a href="#">A/71/5/Add.3</a> para. 14, issued in 2015 on the need for annual programme budgets.	
<a href="#">A/71/5/Add.3</a> para. 105, issued in 2015 on achievement of country programme outcome: education.	
<b>Integrated monitoring and evaluation: PRIME platform enhancement</b>	
<a href="#">A/70/5/Add.3</a> para. 69, issued in 2014 on delay in preparation and implementation of annual management plans.	The PRIME platform is being enhanced and completion is planned for the end of the fourth quarter of 2018.
<a href="#">A/71/5/Add.3</a> para. 90, issued in 2015 on delay in preparation and implementation of annual management plan.	