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UNICEF management response to the annual report of the Office of Internal Audit for 2008

1. This report is submitted in response to Executive Board decisions 2006/18, 2007/17 and 2008/23 and presents the management response of UNICEF to the annual report to the Executive Board on internal audit activities in 2008 (E/ICEF/2009/AB/L.6). The report is organized as follows:

- I. Management plans and actions to address key and recurrent audit issues;
- II. Management response to the recommendations of the UNICEF Audit Advisory Committee.

2. A status update on the implementation of audit observations that have remained unresolved for 18 months or more is provided in annex 1. Annex 2 contains a progress report on the implementation of the harmonized approach to cash transfers.

I. Management plans and actions to address key and recurrent audit observations

3. The major observations highlighted in the 2008 report of the Office of Internal Audit relate to programme management, financial controls, and accountabilities and oversight. UNICEF acknowledges these findings and is committed to improving performance in these areas. The following describes some of the actions taken specific to country offices audited. Illustrative measures adopted by some regional offices to monitor and/or support country offices are also presented, as are activities led by headquarters' divisions aiming at strengthening country offices' capacity. Similarly, this report discusses progress in improving internal controls in two other important areas: supply assistance and cash transfer. The Office of Internal Audit also identified recurrent findings that require a strategic response. While it is expected that there will continue to be oversight issues that need to be addressed as

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different country offices are audited every year, overall improvements in the area of key recurrent findings in identified areas of weakness are expected in the medium to long term, thanks to the organizational improvement initiatives launched by UNICEF.

A. Programme management

4. As noted by OIA in its annual report, performance in programme management in several country offices audited in 2008 was found less than optimal because of weaknesses in governance, annual planning standards, and programme implementation and performance monitoring. Examples of remedial measures adopted by some audited country offices included defining and clarifying the responsibilities of country governance mechanisms, such as the Country Management Team, and ensuring adequate monitoring of key result areas. At the same time, the results in annual work plans were reviewed and made more specific, realistic and measurable, and were aligned closely with key long-term programme goals. Training in programme planning and in results-based management contributed to strengthening the capacity of programme staff. Monitoring tools such as field visit plans and trip reports were further refined to ensure adequate follow-up of programme implementation.

5. At the regional level, measures taken by some regional offices include strengthening the oversight of country programme implementation through the development and use of key performance indicators and through regular exchanges between the Regional Director/regional advisors and country office management. In addition, regional offices have strengthened mechanisms to review and analyse country offices' annual work plans and reports, and tables of authority.

6. To strengthen staff capacity in programme management and implementation, the UNICEF Division of Human Resources has developed training packages geared for both mid-level management and senior leaders. These courses include Programme Planning Process, Marginal Budgeting for Bottlenecks, Evidence-Based Policy Analysis to Deliver Results for Children, Budget Policies and Investments for Children, Social Protection and Strategic Choices in Education Reform, and Emergency Preparedness. Other initiatives that contribute to strengthening management in the organization include the Leadership Development Initiative, which targets mid-level managers, and the Management Assessment and Development Centre for senior leaders.

B. Financial controls

7. Most of the high-risk audit observations in the area of financial controls related to transaction processing and supervision of financial controls. These risks were attributed primarily to inadequate monitoring, human errors and insufficient guidance.

8. In response to these findings, audited country offices have clarified the allocations of financial responsibilities and accountabilities; updated the tables of authorities; and ensured adequate communication of the assigned responsibilities to concerned individuals. Moreover, administrative instructions and guidelines,

including workflow processes in identified areas of weaknesses, were disseminated to strengthen staff capacity and minimize human error.

9. Additionally, in 2008, the Division of Financial and Administrative Management (DFAM) developed and disseminated a handbook, pocket guide and associated training materials on financial risk management in emergency operations. These consolidated and user-friendly guidance materials are designed to assist in accelerating the response of UNICEF in emergency situations while ensuring sound financial management practices. During 2009, DFAM has dedicated resources to updating, consolidating and streamlining a broad range of financial and administrative management policies and procedures to ensure that they are (a) current and relevant; (b) well targeted to the various audiences within UNICEF; (c) delivered in an efficient and timely manner; and (d) user-friendly in their accessibility, navigability, and clarity. Business process improvement is critical as UNICEF harmonizes policies and procedures with those of other United Nations agencies, adopts International Public Sector Accounting Standards (IPSAS) and rolls out the VISION-One ERP (Enterprise Resource Planning).

10. To enhance staff understanding of financial and administrative management topics, DFAM provided numerous training sessions online (WebEx) and launched a Field Liaison Initiative. In 2008, DFAM held 135 training sessions on WebEx, reaching 773 staff members. Under the Field Liaison Initiative, DFAM staff visited a selected group of regional and country offices to advise and train regional and country office staff in financial and administrative management topics. DFAM has also been working closely with the Division of Human Resources to develop a strategic plan for an end-to-end talent management for the operations function in UNICEF, with the objective of building the capacity of existing talent and attracting new talent with the requisite financial and administrative management qualifications and experience.

C. Supply assistance

11. UNICEF undertook several measures in 2008 to improve the supply function, emphasizing particularly planning and logistics requirements; selecting and contracting suppliers; pre-delivery quality control and in-country logistics; and assessment of the effective use of supplies.

12. Audited country offices have emphasized improving supply plans and standards to achieve appropriate lead time for procurement. Other measures to manage the risks identified by audit included revisions of pre-delivery inspection policies, in-country logistic assessments, supplier inspection protocols, and supplier performance assessment reports.

13. At headquarters level, Supply Division has developed, and is implementing, a strategy for professional development of Supply staff. Training activities to improve skills have been carried out at a time when procurement value and logistics needs in several country offices have increased as part of scaling up programmes to achieve the Millennium Development Goals.

14. A supply integration and innovation site has been launched on the internal communication website of UNICEF. The site contains technical information, and features in-country assessment of essential commodities; good procurement

planning practices and timely requisitioning; and successful integration experiences from the country offices.

D. Cash transfers to implementing partners

15. To strengthen management of cash transfers to implementing partners, country offices took specific remedial actions to audit observations they received, including reviews of work flow processes; the development of assessment checklists and the conducting of macro- and micro-assessments; and the issuance of guidelines for reviewing project agreements.

16. Several online tools exist to support staff, including “ASK”, which provides field offices with real-time advice on inter-agency coherence matters, including those relating to the Harmonized Approach to Cash Transfers (HACT). A network of focal points in HACT is also available to support staff at the headquarters, regional and country office levels.

E. Accountabilities and oversight

17. At its annual session in 2009, the Executive Board approved the Report on the UNICEF Accountability System (decision 2009/8). This has paved the way for UNICEF to roll out and build on the conceptual frameworks contained in the report, and to carry out an internal review to further clarify the chains of responsibility, authority and accountability within UNICEF at country office, regional office and headquarters levels. These efforts are expected to further clarify the division of labour and accountability within UNICEF, contribute to both horizontal and vertical alignment, and help to address outstanding accountability and oversight issues.

18. Improvement efforts will also contribute to updating and streamlining programme, operations, and management policies and guidance. This includes policy and guidance on (a) partnerships and collaborative relationships; (b) the revision of the Programme Policy and Procedure Manual, and training to reflect the simplification of the programme structure and the introduction of multi-year rolling work plans; (c) the simplification of HACT procedures; (d) revised budget guidelines and financial circulars; and (e) simplified travel procedures. Improvements in knowledge and content management and internal communications are strengthening organizational capacity for dissemination of, and discussion on, updated policies, guidance and procedures.

F. Management and assessment of performance

19. The organizational improvement process is also accelerating work on the implementation of an organizational performance framework. A cascading performance management reporting structure is being developed in conjunction with the SAP-based Enterprise Resource Planning (ERP). The structure includes performance-monitoring dashboards, which allow for monitoring and reporting on indicators at country, regional and corporate levels. The structure also includes office management reports, or scorecards, to monitor efficiency indicators in each office. A prototype of the office management report will be launched in September

2009. It will be generated with existing data and migrated to the SAP system once the ERP application is implemented.

20. The organizational performance framework is being further strengthened through the rationalization of performance indicators. At the corporate level, the results framework of the UNICEF medium-term strategic plan has been revised utilizing 40 key performance indicators covering seven broad areas of the plan. Management results and indicators for the 16 functions detailed in the UNICEF biennial support budget have been improved, and guidance for the development of office management plans is being revised accordingly.

21. The evolution of the organizational performance framework, coupled with the development of the UNICEF accountability system, will provide the policy, guidance and tools to further strengthen performance monitoring and oversight across all levels of the organization.

II. Management response to recommendations of the Audit Advisory Committee

22. **Enterprise Risk Management.** In May 2009, a policy was issued for establishing the foundation for roll-out of the Enterprise Risk Management initiative. The priorities identified for 2009 include employing risk management approaches to simplify and streamline key business processes; developing Enterprise Risk Management training materials; coordinating with inter-agency partners to harmonize risk management approaches; and establishing corporate risk governance. The comments of the Audit Advisory Committee, which reviewed the draft policy, were incorporated into the final policy document. UNICEF will also examine the pros and cons of adopting an internal controls framework in tandem with the implementation of the initiative, as suggested by the Audit Advisory Committee.

23. **Timely submission of financial statements.** UNICEF fully concurs with this recommendation and commits to submitting financial statements on schedule.

24. **Close monitoring of IPSAS adoption and ERP development for a smooth and timely implementation.** UNICEF management has been closely monitoring the progress of both IPSAS adoption and the development of the VISION-One ERP project, in conjunction with the full programme of organizational improvement initiatives. The VISION-One ERP project and the IPSAS project share a common Project Board. In April 2009, following careful consideration of the associated risks, costs and benefits, UNICEF management decided to postpone the full adoption of IPSAS from January 2010 to January 2012 to enable UNICEF to take a more phased approach to IPSAS implementation and to synchronize full IPSAS adoption with the global roll-out of the VISION-One ERP system. Such coordination will reduce the use of manual workarounds, which would have been required for IPSAS adoption in 2010. The VISION-One ERP system is expected to be rolled out in 2011 and will provide business process owners with organization-wide tools to collect and report IPSAS-compliant information.

25. **UNICEF to disseminate the results of the work of the investigation and the ethics functions for enhancing organization-wide awareness.** UNICEF agrees with this recommendation. Action already taken is the annual circulation of an

information note by the Executive Director to inform staff on the number and types of disciplinary measures taken to raise awareness on misconduct and/or wrongdoing behaviours and their consequences. The UNICEF intranet features several pages on ethics, including a description of the work of the Ethics Office, as well as details on how to reach the Office with confidential queries. In the first half of 2009, the Ethics Office received some 50 requests for advice, with the requests increasing in number as the Office became better known. The web pages also provide clear links to UNICEF policies on whistle-blowing, financial disclosure, and fraud. Answers to Frequently Asked Questions are available on the site and are updated to reflect current concerns.

26. Finally, the Audit Committee encouraged UNICEF to **implement the recommendations made on the quality assessment pertaining to alignment of the reporting lines of the Director of the Office of Internal Audit according to best practices; and on the integration of the Evaluation Office with the Office of Internal Audit.** UNICEF has taken note of this recommendation, which is currently under review by senior management.

Annex 1. Status of implementation of audit observations unresolved for more than 18 months

1. Three audit reports accounted for the seven observations that remained open for over 18 months. The number of observations that remain unresolved for more than 18 months decreased from 18 in 2006, to 9 in 2007, to 7 in 2008.

(i) Administration of Staff Benefits and Entitlements (open since 2007)

Recommendations

Recommendations are that the Division of Human Resources (DHR) should provide beneficiaries of education grants and rental subsidy with a cost calculation sheet to explain the details of payments; that DHR should finalize and communicate key performance indicators and targets and service standards, and regularly monitor performance against these; and that the Global Service Center and DHR should regularly monitor and report to management on staff benefits and entitlements.

Progress update

Resolution of the observation to provide cost calculation details to beneficiaries of determined benefits and entitlements is expected in 2009. A business case for an inexpensive, simplified version of a customer relations management tool (CRM) is being considered to strengthen monitoring of performance; implementation is expected during the course of the next biennium.

(ii) Administration of Cooperation Agreements with National Committees for UNICEF (open since 2006)

Recommendations

Recommendations are that the Private Fundraising and Partnerships (PFP) Division should periodically review the implementation of jointly agreed strategic plan objectives and financial targets; and that PFP should track the implementation of action points and address issues related to implementation directly with each respective National Committee.

Progress update

A set of mechanisms, and criteria that will detail how the annual review is planned and executed, will be formulated by PFP, with completion expected in 2009. Furthermore, a checklist will be developed in 2009 to allow PFP to track, and ensure the implementation of, the recommendations and action points following joint strategic plans and annual reviews.

(iii) Management of Temporary Assistance (open since 2007)

Recommendations

Recommendations are that the Division of Human Resources (DHR) and Supply Division develop processes to monitor the quality of service they provided to other divisions and offices regarding contracting temporary assistance. DHR should also develop guidance on negotiating intellectual property ownership with consultants and contractors.

Progress update

DHR is monitoring and controlling the quality of, and standards applied to, each case of recruitment for temporary assistance through the application of checklists. DHR is also providing sourcing support to strengthen pools of potential candidates in the areas required. Supply Division has published web-based guidance, including Frequently Asked Questions, on procurement for services, updated as required. DHR has initiated in-house consultation on the issue of guidance to negotiate intellectual property ownership clauses in contractual documents.

Annex 2. Harmonized Approach to Cash Transfers (HACT): Progress made and lessons learned

1. The Executive Board has requested that UNICEF management report on progress made and lessons learned in implementing the harmonized approach to cash transfers to implementing partners, including in connection with the development of procedures and reporting mechanisms.
2. HACT was adopted by the United Nations Development Group Executive Committee agencies on 28 April 2005. HACT was to be introduced in January 2006 in 27 UNICEF country offices whose harmonized programme cycles were to begin that month, with other countries to follow in 2007. Since then, progress towards full HACT compliance has been slow, with many country teams having requested postponements or deferrals of the original deadlines, citing the lengthy time required to establish the necessary systems, train staff and overcome country-specific hurdles.
3. Based on data collected in September 2008 by the United Nations Development and Operations Coordination Office (the Secretariat to the United Nations Development Group, which monitors HACT implementation status), HACT implementation had commenced in over 120 countries out of a total of 135, with approximately 10 per cent of countries having fully implemented its key provisions. While full compliance is taking longer than anticipated, feedback from country teams suggests that acceptance is increasing among Government partners and United Nations system agencies, such that the future pace of implementation is expected to improve.
4. The majority of current Country Programme Action Plans now contain mandatory HACT clauses, which specifically reference the need to conduct audit and assurance activities. Notwithstanding this development, some Governments have been reluctant to allow audits of their project accounts. On the other hand, approximately 60 per cent of countries have completed macro-assessments of their Supreme Audit Institutions, a fundamental step towards HACT compliance.
5. The majority of country office implementing partners are using the Funding Authorization and Certification of Expenditure form, which has reduced paperwork and simplified reporting requirements. Transaction costs have also been reduced for partners in cases where United Nations agencies share the same partner, but this sharing is less common than assumed.
6. UNICEF country offices have assessed approximately half of their implementing partners with respect to their capacity to manage and account for cash transfers. Where assessments have shown high risk, follow-up actions to develop the capacity of partners usually require use of project budget resources. In cases where implementing partners remain in the high-risk category, country office staff must devote significant time and resources to conducting spot checks, audits and other assurance activities.
7. After having completed the macro-assessment of the Supreme Audit Institutions and the micro-assessments of implementing partners, 21 countries have prepared assurance and audit plans.