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UNICEF management response to the report of the Board of Auditors

Summary

Pursuant to paragraph 7 of decision 2018/3 of the UNICEF Executive Board, the present report provides a management response to the key findings and recommendations of the report of the Board of Auditors for the year ended 31 December 2019 contained in document (A/75/5/Add.3). The present report should be read in conjunction with the note by the Secretary-General on the concise summary of the principal findings and conclusions contained in the reports of the Board of Auditors for the 2019 annual financial period for the United Nations funds and programmes (A/75/177). The present report also takes into consideration comments of the Advisory Committee on Administrative and Budgetary Questions (A/75/539) and the Fifth Committee in their respective reviews of the report of the Board of Auditors.

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I. Overview

1. For the eighth consecutive year, UNICEF has received an unqualified audit opinion from the Board of Auditors on the organization's financial statements. This achievement affirms the commitment of UNICEF to adherence to International Public Sector Accounting Standards (IPSAS) and observance of good internal controls, transparency and accountability in the management of resources.

2. Key findings in the report of the Board of Auditors for the year ended 31 December 2019 (A/75/5/Add.3) indicated opportunities for UNICEF to further strengthen areas in financial controls, programme management, cash transfers, procurement and inventory matters as well as aspects pertaining to the Enterprise Resource Planning system (VISION) and transactional processes of the UNICEF Global Shared Services Centre (GSSC). In this context, the Board of Auditors issued 55 recommendations, including 23 main recommendations, which are further elaborated upon in the present management response.

3. UNICEF is committed to the implementation of the recommendations contained in the 2019 and prior-year reports of the Board of Auditors. The organization aims to implement approximately 20 per cent of the 2019 recommendations, and 90 per cent of those of prior years, by the end of the first quarter of 2021. UNICEF looks forward to the assessment of the management actions and the closure of these recommendations by the Board of Auditors during their audit of the 2020 financial statements.

4. UNICEF governance mechanisms and the accountability framework ensure that funds are administered with transparency and appropriate fiduciary accountability. As the coronavirus disease 2019 (COVID-19) pandemic continues to challenge operations at UNICEF, in the United Nations system and in the rest of the world, the senior management and devoted staff of UNICEF continue to assume their duties across multiple fronts in order to fulfil the mandate of the organization. This is reinforced by a commitment to ongoing corporate initiatives for operational improvements and efficient and effective programme delivery through leveraging technology and innovation.

II. Introduction

5. In implementing the recommendations of its independent oversight bodies, UNICEF continues to reinforce efforts in sustained operational excellence, efficiency and effectiveness. These efforts emphasize simplifying processes and strengthening internal controls and risk management in operations through leveraging strategic initiatives and technological enhancements and through promoting an organizational culture of continuous change and improvement. The organization also continued to rank as one of the most transparent aid organizations in the world, according to the Aid Transparency Index issued by Publish What You Fund.

6. Under the leadership of the Executive Director, supported by the Deputy Executive Directors, the Comptroller and heads of offices, UNICEF staff continue to strive to deliver on the organization's mandate within the confines of the COVID-19 pandemic. This involves performing duties across multiple fronts to enhance the rights of children, in both humanitarian and developmental contexts, including in areas of protracted crises. UNICEF staff members continue to deliver results for children within a culture that promotes the organization's core values of care, respect, integrity, trust and accountability.

7. The Board of Auditors, recognizing the steps taken by UNICEF to strengthen financial and managerial control of operations, has issued a list of 55 recommendations (see annex I of the present report). Of these recommendations, 23 were classified as main (high priority) and 32 were classified as other (medium priority). Six recommendations were considered reiterations from prior years and related to the budgeting process and budget management, the Enterprise Risk Management framework and the strengthening of donor reporting, assurance activities and other operational improvements. UNICEF is committed to implementing all recommendations, prioritizing the main ones.

8. Responses contained in the present report have taken into consideration comments of the Advisory Committee on Administrative and Budgetary Questions (A/75/539) and the Fifth Committee in their respective reviews of the report of the Board of Auditors, as well as the note by the Secretary-General on the concise summary of the principal findings and conclusions contained in the reports of the Board of Auditors for the 2019 annual financial period (A/75/177).

9. Recommendations accepted by UNICEF have a timeline for implementation. Through the leadership of the Office of the Comptroller, UNICEF offices and divisions have worked to establish the most realistic target dates for completion. UNICEF has committed to implementing remediation actions on all recommendations at the latest by the end of the fourth quarter of 2021. Management is looking forward to having the implemented recommendations assessed for closure by the Board of Auditors during their audit of the 2020 financial statements of UNICEF.

III. Management response to audit recommendations by risk and priority area

10. The following is a summary of the management response to recommendations issued by the Board of Auditors. The present management response is consistent with the information provided in the 2019 report of the Secretary-General on the implementation of the recommendations of the Board of Auditors report.

A. Financial management

11. The Board of Auditors issued 14 recommendations for financial management. Of these, there are 2 considered high priority and 12 medium priority. They cover opportunities for improvement in financial accounting, management of investments, foreign exchange and bank accounts, enterprise risk management, the budgeting process and donor reporting.

12. Management has already implemented two of these recommendations related to the monitoring of cash on hand account certificates and the availability of historical data on UNICEF risks.

13. UNICEF is committed to implementing all the other recommendations by the end of the second quarter of 2021, except for two recommendations not accepted. The two recommendations and their management responses are detailed in paragraphs 14 and 15 of the present report.

14. Classification of long-term components of the after-service health insurance (ASHI) investment portfolio as a non-current asset (paragraph 16, categorized as high): Management considers that the current disclosures sufficiently clarify the objective and reasons to hold those investments. The portfolio is made up of instruments with a high turnover (44 per cent sales in 2019), traded to maximize returns for UNICEF and enhance liquidity to meet future liabilities, as disclosed under

notes 18 and 20 of the UNICEF financial statements. Classifying the instruments as long-term would give the impression to the users of financial information that the instruments are held for long periods of time/to maturity. This is not the intention, as is evident from the frequency of trades within the portfolio in 2019. Current disclosures explain the objective of these investments to inform the readers of management's intention.

15. In paragraph 60, the Board of Auditors recommended that UNICEF disclose additional information on inventory from expired grants in the financial statements and the accompanying notes (categorized as medium). Management clarified to auditors that expired grants account for less than 5 per cent of total inventory of country office warehouses and are already analysed and presented to management internally. The current information in the financial statements is also sufficiently compliant with the disclosure requirements under IPSAS.

Main recommendations (high priority)

16. The Board of Auditors issued two main recommendations for financial management. In paragraph 16, there was a recommendation related to classification of ASHI investments for which UNICEF management expressed a divergent view (see paragraph 14 of the present report). In paragraph 72, a recommendation invited UNICEF to adopt a mission-mode approach to the implementation of the budget formulation tool. In response to the recommendation, UNICEF management stresses that while the budget formulation tool performs the desired functionalities, in accordance with the global roll-out in mid-2019, a slowdown in processing speed (in terms of access to forms and running calculations) and other technical design issues have been of primary concern. Therefore, UNICEF is enhancing the tool, aiming to ensure acceptable full functionality, including simplification for country offices, by the end of 2021.

Other recommendations (medium priority)

17. In paragraphs 24, 30 and 35, the Board of Auditors recommended improvements in UNICEF management of investments, foreign exchange and bank accounts. In particular, recommendations covered the formalization in the policy regarding various types of hedging instruments, the avoidance of delays in closing bank accounts and controls to prevent risk with transactions and the timely uploading of correct cash on hand account certificates. The latter is considered implemented, as management has already published clarifying instructions and a calendar of exact dates for uploads, which have achieved compliance.

18. Regarding delays in the closure of bank accounts (paragraph 30), UNICEF worked with concerned banks to identify the root causes of delays and took action to forestall their recurrence. Management also reiterates that robust controls exist to prevent the recording of transactions against closed accounts.

19. As for the hedging policy (paragraph 24), UNICEF expects to update the policy by the fourth quarter of 2020. However, management considers that the limits already in place at the counterpart level are more effective in managing risk, as prescribing specific option instruments may limit the flexibility required in implementing the hedging strategy.

20. In paragraphs 42 and 46, the Board of Auditors recommended improvements in UNICEF financial accounting of assets – in particular, the standardized use of asset classes and the carrying out of identified adjustments on the book values of assets. UNICEF management stresses that the policy and guidance on classification have been consistently applied for effective implementation and compliance with IPSAS. Additional guidance and instructions will be issued as part of the new property, plant

and equipment policy and the roll-out of the new “mAsset” application. Management has also reviewed the identified adjustments as part of the planned change in capitalization thresholds, reassessing estimated useful lives of assets in 2020. The new capitalization thresholds are already issued and in effect.

21. In paragraph 52, the Board of Auditors recommended the identification of key data elements to validate effective participants for end-of-service/post-employment benefits and ensure their capture in the system. UNICEF agreed to review and mandate maintenance of those data fields that impact ASHI actuarial valuation for UNICEF-supplied data.

22. In paragraphs 58, 59 and 60 of the report, the Board of Auditors recommended that UNICEF consider disclosing additional information in the financial statements on travel expenses, capitalization thresholds and inventories from expired grants. The latter has been commented on in paragraph 15 above, while implementation of the first two is in progress. Management is currently reviewing the materiality and the disclosure requirements of IPSAS on the proposed disclosures on property, plant and equipment and expenses categories to appropriately consider any revised disclosure in the 2020 financial statements.

23. In paragraphs 66 and 67, the Board of Auditors recommended that UNICEF ensure the implementation of the Enterprise Resource Management (ERM) framework and the availability of historical data on UNICEF risks. UNICEF has implemented the new ERM approach in line the ERM maturity model adopted by the High-level Committee on Management. UNICEF has undertaken ERM gap analysis benchmarking the 2017 COSO ERM framework, refined the risk taxonomy, issued a revised policy that articulates levels of risk appetite and rolled out a new eGRC (enterprise Governance, Risk and Compliance) Technology Platform. The historical data of UNICEF on risk are already available in the InSight risk register; therefore, the recommendation is considered implemented.

24. In paragraph 78, the Board of Auditors recommended that UNICEF strengthen the monitoring and internal controls for timely submission of reports to donors. UNICEF agreed with the recommendation and is currently undertaking a cross-divisional effort to strengthen donor reporting. Efforts include migrating from the current Report Tracker and Records Management in VISION to the new donor reporting monitoring system, Donor Report Tracker. This was completed and rolled out in the fourth quarter of 2020. This recommendation is therefore considered implemented.

B. Programme management

25. The Board of Auditors identified six opportunities for improvements regarding the management of programmes at UNICEF. The findings refer to: (a) the performance management of Goal Area 2, on education, of the UNICEF Strategic Plan, 2018–2021; (b) the measurement of programme performance in the Ethiopia country office; and (c) the preparedness for emergency response. Two recommendations are considered medium priority and four high priority (main). One of these is already implemented. All others are expected to be completed by the second quarter of 2021.

Main recommendations (high priority)

26. In paragraphs 91 and 92, the Board of Auditors recommended that UNICEF review the application and assessment across country offices of output indicators and strengthen monitoring of planned results. Management has acknowledged these recommendations and is developing a central repository for indicators in RAM 3.0. It

is envisioned that this will streamline the selection of indicators and promote alignment across country offices in future application and assessment. Such alignment would be overseen at the regional level. The review of the programme monitoring system will be included in the next UNICEF Strategic Plan, 2022–2025, as a fundamental element of programme enhancement that will contribute to the achievement of results as planned.

27. In paragraphs 109 and 113, the Board of Auditors recommended that the UNICEF Ethiopia Country Office identify remedial measures to improve the achievement of country programme document (CPD) targets and to expand the evaluation and internal assurance of the reporting of baselines and achievements.

28. Regarding paragraph 109, UNICEF has performed an operational analysis to identify the underlying reasons for gaps in achievement of CPD targets in the Ethiopia Country Office. Management noted that for the current CPD, UNICEF was required to mirror the targets set by the host Government in the national development plan. For the new CPD cycle, an improvement is anticipated in the achievement of the objectives, as the targets will be set at the output level for which the Ethiopia Country Office is accountable. UNICEF considers this recommendation to be implemented and has requested its closure by the Board of Auditors.

29. In response to paragraph 113, in 2019, countries in the Eastern and Southern Africa Region introduced ongoing enhancements to year-end reporting in the Results Assessment Module (RAM), focused on accuracy of data entry and the accountability of chiefs of sections.

Other recommendations (medium priority)

30. In paragraph 112, the Board of Auditors recommended that the UNICEF Ethiopia Country Office improve the timeliness and quality assurance of the information in RAM. Management at the country office will conduct a review of the existing quality assurance process. By the first quarter of 2021, they expect to have in place a new, documented review mechanism. All baselines and achievements will be reviewed for validity against applicable data sources.

31. In paragraph 122, the Board of Auditors recommended that UNICEF ensure that its offices use the Emergency Preparedness Platform (EPP) for risk analysis and planning for emergency response. Management notes that efforts are required to ensure the use of the EPP across offices. The Office of Emergency Programmes relies on the data available in the EPP to build dashboards and monitor the compliance of offices with the procedures. At the same time, management recognizes that for various reasons, a number of offices complete their preparedness plans offline, and in doing so they comply with the main requirement of this recommendation. Management will pursue more efforts to ensure full utilization of the EPP by the first quarter of 2021.

C. VISION and InSight

32. In 2019, for the first time, the Board of Auditors included in the annual audit of UNICEF financial statements the audit of the UNICEF ERP system, VISION, and its ancillary applications. The audit comprised a review of the VISION original project, which in 2012 rolled out SAP as the global ERP system for UNICEF, and the implementation of the VISION modernization project, which upgraded the system to SAP HANA in 2018. The VISION and InSight audit also included the review of New York Headquarters Business Continuity and Disaster Recovery management.

33. The Board of Auditors issued 17 recommendations, assessing 8 as main and 9 as medium. The findings included opportunities for improvement of VISION in terms

of the platform modernization project (SAP HANA), data and system security, maintenance of user accounts and use of selected functionalities. Recommendations also addressed improvements to the New York Headquarters Business Continuity and Disaster Recovery plans. UNICEF has already implemented 4 of the 17 recommendations, and management is committed to implementing them all by the end of 2021.

Main recommendations (high priority)

34. In paragraph 204, the Board of Auditors recommended that UNICEF perform appropriate levels of penetration-testing on critical applications and networks to patch any security vulnerability identified. Management confirms that it is currently conducting an internal vulnerability test as part of the Information Security Programme of UNICEF and will reach a decision by the end of the year 2021 on running a penetration test on the VISION ecosystem.

35. In paragraphs 210, 215 and 222, the Board of Auditors issued recommendations to improve UNICEF maintenance of user accounts in VISION: the synchronization of human resources master data and VISION user credentials; the deactivation and locking of all older user IDs when the same user is provided with new credentials; and the enforcement of a password-change policy, following the organizational information security standards.

36. In response to paragraph 210, management emphasizes that SAP does not provide synchronization between the human resources master data and VISION user credentials; therefore, a custom-built solution is required. Management expects by the end of 2020 to have implemented the initial updates manually, with a subsequent exploration and development of a sustainable automated solution.

37. Regarding paragraphs 215 and 222, management will deactivate and lock all older user IDs to ensure uniqueness of active users by the end of 2020. Management will also review the current automation practice for password change and fix any gaps identified as a part of regular maintenance by the second quarter of 2021.

38. In paragraph 237, the Board of Auditors recommended that UNICEF review the New York Headquarters Business Continuity Plan to include top organizational priorities. These include, for example, any information and communication technology (ICT) risk identified as part of the risk assessments under the UNICEF ERM, any changes derived from the project of modernization of VISION (SAP HANA), and any requirements resulting from the United Nations Organizational Resilience Management System.

39. In response, UNICEF confirms that the New York Headquarters Business Continuity Plan has been updated to include simplified, practical procedures and lessons learned from the current global pandemic and has enhanced preparedness and resilience to disruptive events. The updated version is expected to be finalized by the end of November 2020 and will reference the Disaster Recovery Plan of the Information and Communication Technology Division (ICTD), which houses the details on the ICT risks identified under Enterprise Risk Management, along with relevant system and applications changes. It will further include applicable components of the United Nations Organizational Resilience Management System.

40. In paragraph 249, the Board of Auditors recommended that UNICEF organize regular meetings of its crisis management structures. This recommendation is considered implemented, as demonstrated in the response to the COVID-19 pandemic. Meetings have been held regularly to assess the ever-changing scenario and ensure coordination with the United Nations in providing clear guidance and

communications to UNICEF personnel, including for preparation for safe return to the office. Further, UNICEF participates, on an inter-agency level, as a member of the United Nations New York Senior Emergency Policy Team, Crisis Operations Group and Occupational Health and Safety Committee to remain aligned and coordinated with the efforts of all relevant entities in continuous risk assessment and response to any disruptive event, including the COVID-19 pandemic. Additionally, IT risks have been actively addressed by ICTD to ensure that personnel have the necessary equipment and the continued secure access to UNICEF systems, tools and platforms, thereby enabling effective teleworking in response to the crisis. UNICEF considers this recommendation to be implemented and has requested its closure by the Board of Auditors.

41. In paragraphs 253 and 264, the Board of Auditors recommended that UNICEF ensure that the primary and secondary data centres for UNICEF New York Headquarters are kept at a safe distance from each other and are subject to regular inspections, including the close monitoring of any concerned relevant vendor over performance, environmental controls and safety measures. Management will assess the proposed recommendation for safe distance of data centres and expects to complete actions by the third quarter of 2022. Similarly, on vendor performance, management reiterates that applicable contractual provisions are already actively monitored and reported on annually and will require the backup service provider to provide biannual reports on environment and safety by the end of 2020.

Other recommendations (medium priority)

42. In paragraph 199, the Board of Auditors recommended that UNICEF implement the data warehouse strategy as a critical need to build a long-term sustainable platform. UNICEF agrees with this recommendation and confirms that, subject to resource availability given the current uncertain global financial landscape, management will ensure the development and implementation of a strategy that will fit any future enhancement and potential modernization of the existing data warehouse capabilities.

43. In paragraph 207, the Board of Auditors recommended that UNICEF carry out implementation of the residual InfoSec risk mitigation measures, including a formal InfoSec risk assessment, as planned in the strategy document. Management is pleased to inform the Board of Auditors that this recommendation is implemented, given that management already performs InfoSec risk assessments for VISION and InSight annually, or as major changes are introduced to the environment. UNICEF has requested closure of this recommendation to the Board of Auditors.

44. In paragraphs 211 and 217, the Board of Auditors recommended that UNICEF strengthen existing controls over the creation and maintenance of the USER ID database in VISION and explore ways of improving the interface between LAN and VISION to sync the validity of user IDs. UNICEF considers both recommendations implemented. The validity of a user ID is based on contract validity dates. System access is driven by the contract validity of the user rather than by an assigned validity date. Based on this understanding, the risk of accessing VISION via an account for a user whose contract date has expired is very low, especially considering the holistic view of other existing controls. Management will explore the technical viability and associated costs of a possible automation to sync user ID validity with contract validity dates. Similarly, regarding paragraph 217, management confirms that the interface between LAN and VISION to sync the validity of users is in place, and the recommended action is already being performed. UNICEF considers these recommendations to be covered by existing controls already in place and requests closure by the Board of Auditors.

45. In paragraphs 225 and 230, the Board of Auditors recommended that UNICEF explore the feasibility of having a direct interface between implementing partners and the “eZ” harmonized approach to cash transfers (eZHACT), a module in VISION. This is a tool to shorten the time between payment approval by UNICEF and receipt by implementing partners. The Board of Auditors also recommended that UNICEF explore the feasibility of having a mechanism to prevent multiple payment requests for the same payment and grant. UNICEF is currently conducting the due diligence process of evaluating options for developing electronic Funding Authorization and Certificate of Expenditure (known as FACE) forms and expects to have a proposal for the first quarter of 2021. Similarly, management is undertaking an enhancement of eZHACT, aiming to have a single payment request for each implementing partner’s activity. It is expected to be completed by the middle of 2021. In conjunction with country offices, clean-up of existing, unverified payment requests is scheduled to take place by the end of 2020.

46. In paragraph 240, the Board of Auditors recommended that UNICEF review the ICTD Disaster Recovery Plan to include details on critical hardware and software and update contact lists. UNICEF confirms that it has already completed this action in response to the COVID-19 pandemic.

47. In paragraph 244, the Board of Auditors recommended that UNICEF ensure that comprehensive testing of the Business Continuity Plan and the ICTD Disaster Recovery Plan is regularly carried out. UNICEF will complete such actions by the second quarter of 2021.

48. In paragraph 254, the Board of Auditors recommended that UNICEF keep the New York Headquarters backups at geographical areas away from the primary and recovery sites. UNICEF expects to have completed segregation of the geographical locations of backup media away from the primary and disaster recovery sites by the end of 2021.

D. Global Shared Services Centre

49. This (2019) marks the second year that the Board of Auditors included the GSSC in the scope of their annual audit. The audit comprised a review of the current functioning of the centre, which included performance against service-level agreements, the analysis of return cases and ticket handling through the service management tool, the processing of invoices, and the recovery of outstanding advances to staff members. Five recommendations were issued, four assessed as main, and one as medium, as discussed in paragraphs 50 to 53 of the present report.

Main recommendations (high priority)

50. In paragraph 283, the Board of Auditors recommended that the GSSC engage with concerned offices to analyse reasons for a continuous increase of Service Gateway return cases, particularly for payroll and human resources. UNICEF management has explained to the Board of Auditors that, although the absolute number of returned cases increased in 2019, the actual rate remained constant. Management continues to work directly with offices with large rates of return and rejected cases and will continue performing regular analysis for review and action by senior management in the regional offices. Results are expected by the end of 2020.

51. Similarly, in paragraph 285, the Board of Auditors recommended as a medium priority that the GSSC enforce compliance with ticket-handling guidelines and communicate to offices the need for timely resubmission of missing information. In late 2019, UNICEF rolled out ticket-handling guidelines detailing the procedure for dealing with overdue returned cases. The procedure involves an escalation and

eventually a rejection of cases that have not been resubmitted within a defined time frame. The implementation of this procedure and the related recommendation is planned by the fourth quarter of 2020.

52. In paragraphs 290 and 292, the Board of Auditors issued two reiterative recommendations, the first for the improvement of input controls and validation checks in VISION for all important parameters for processing of invoices (see A/74/5/Add.3, para. 284), and the second for UNICEF to plan and implement a mechanism for timely submission of invoices by all its offices (see A/74/5/Add.3, para. 285). UNICEF management confirms that further controls on critical invoice processing will be introduced by the first quarter of 2021. Similarly, it is planned that, within the same time frame, visibility of offices' performance will be enhanced with a monitoring tool that is envisaged to encourage timely submission of invoices.

53. In paragraph 299, the Board of Auditors recommended that UNICEF prepare an action plan for clearance of old outstanding cases of advances to staff and the review of current policies and procedures on repayment/recovery of advances/overpayments. It was further recommended that UNICEF establish standard criteria for management of these issues, as well as ensure adherence to the repayment plan. Management confirms that the GSSC, in coordination with the Division of Human Resources, expects to put in place a standard procedure on terms of recovery of advances and overpayments by the end of 2020.

E. Procurement, inventory and supply chain management

54. The Board of Auditors presented eight recommendations, under this section of the report. The recommendations call for action to further improve procurement, inventory management, use of long-term agreements (LTAs) and supply chain management. Three recommendations were assessed as high priority and five as medium priority.

55. UNICEF management has already implemented two recommendations and is committed to completing the rest of actions by the second quarter of 2021. This commitment excepts a main recommendation under paragraph 170, related to inventory turnover and aging, issued during the New York Headquarters year-end audit. UNICEF management has respectfully disagreed with the substance of the recommendation. The Board of Auditors had issued to Supply Division detailed recommendations on relevant matters, which UNICEF had already accepted and addressed, with specific actions related to supply chain analysis (including inventory management). For this reason, management finds the recommendation too broad and general, as well as duplicative, since the concerns raised are being addressed under other recommendations already under implementation.

Main recommendations (high priority)

56. In paragraph 147, the Board of Auditors recommended that UNICEF ensure documentation of reasons and justification for cases of purchase orders placed outside relevant LTAs. UNICEF management confirms that LTAs are systematically used, where available, and where conditions are most suitable. As intended by management, LTAs are non-exclusive arrangements. This is because, in some circumstances, purchasing from vendors or suppliers outside such agreements could take advantage of better market pricing. Or LTAs simply might not be applicable to all purchases (for example, for a specific set of countries). These cases require purchase orders to be placed based on a full, competitive tender process, appropriately documented in VISION. This was illustrated to the audit team during the Supply Division visit.

Management has requested the closure of this recommendation from the Board of Auditors.

57. In paragraph 183, the Board of Auditors recommended that UNICEF consistently apply contractual remedies to cases of delays in deliveries. In response, management reiterates that at UNICEF, contractual remedies are consistently considered whenever there is a record of delay in delivery, and liquidated damages are applied on a case-by-case basis when there is a clear purpose for such application. Management analyses application of liquidated damage remedies for cases of simple delays (rather than of non-conforming goods), as they are rarely in the best interest of UNICEF and may lead to extended delays or unavailability of substitutes. UNICEF will update Supply Division procedures' provision of alternative contractual remedies under the UNICEF General Terms and Conditions of Contract.

Other recommendations (medium priority)

58. In paragraphs 154 and 156, the Board of Auditors recommended the analysis of reasons why procurement orders may be issued after effective procurement, and the clarification of provisions on local procurement authorizations for ready-to-use therapeutic food and medicines. UNICEF agreed with the recommendations, and by the end of 2020 will have analysed the specific three cases identified that involved issue dates earlier than the date of the Local Procurement Authorizations. UNICEF will take the necessary corrective action: initializing its (ongoing) revision of the Supply Manual and supply-relevant procedures to further clarify the Local Procurement Authorizations processes, including those for ready-to-use therapeutic food and medicines.

59. In paragraph 171, the Board of Auditors recommended that UNICEF review controls over the capturing of shelf-life expiry dates for inventory items. UNICEF has respectfully requested closure of this recommendation, as management reiterates and confirms that reviews of the "best before"/shelf-life expiry date are already performed for all batch-managed inventory items.

60. In paragraphs, 181 and 192, the Board of Auditors recommended that UNICEF facilitate the improved monitoring and understanding of direct-order LTAs with country offices in order to identify reasons for delays in direct-order purchase orders and to improve the timeliness of deliveries. Management expects by the second quarter of 2021 to have explored options to improve monitoring of direct-order purchase orders by offices and the timeliness of respective delivery. Supply Division will also reinforce, through trainings and/or awareness sessions, the importance of updating entries in VISION for the direct-order purchase orders, among other remedial measures.

F. Management of cash transfers

61. The Board of Auditors presented two additional recommendations, assessed as high priority. In paragraph 142, it recommended that UNICEF strengthen the implementation and monitoring of the Yemen Emergency Cash Transfer project. The recommendation to strengthen the implementation and monitoring of the project will be implemented by the fourth quarter of 2021 and will also take into consideration the emerging context and lessons learned.

62. In paragraph 132, the Board of Auditors recommended that UNICEF identify reasons for gaps in assurance activities and ensure a minimum level of spot checks on implementing partners in the Eastern and Southern Africa region. In the same recommendation, the Board of Auditors reiterated a recommendation under paragraph

79 of the 2018 report (A/74/5/Add.3 para. 79), suggesting that UNICEF review the status of assurance activities in offices for necessary attention to gaps.

63. In response to the first part of this recommendation, UNICEF management notes that some countries are prevented from fully completing assurance activities as a result of circumstances beyond the control of offices, such as natural disasters, armed conflict and restrictions on access to sites. Management recognizes that sustained efforts are required to pursue operational prioritization of at least minimum requirements for all partners. In the case of the Eastern and Southern Africa region, the overall regional targets for programmatic visits and spots checks were met.

64. In response to the reiteration referred to in paragraph 132, management recalls that the recommendation under A/74/5/Add.3 para. 79 is made up of two parts. The first resulted from the 2018 audit of the Middle East and North Africa Regional Office and the Latin America and the Caribbean Regional Office, to which management had requested closure by the end of 2019. The Middle East and North Africa Regional Office achieved 198 per cent of the target for programmatic visits, with all offices reaching the HACT key performance indicator target. The Regional Office also achieved an overall 93 per cent of the target for spot checks, with the underperformance related to offices impacted by natural disasters and escalation of conflict. Similarly, the Latin America and the Caribbean Regional Office reached 104 per cent in programmatic visits and 94 per cent in spot checks. A total of 19 country offices have now met the minimum requirements for spot checks, and only 4 country offices, currently in humanitarian contexts, are still working to meet targets. Regarding the second part, which recommended that UNICEF review the status of assurance in other country and regional offices and take the measures necessary to fill the gaps, management has respectfully requested its removal, as UNICEF was not offered the opportunity to respond to the recommendation in a meaningful way. The findings were not raised during the 2018 global audit visits, nor in the respective management letters, nor in the draft report of the Board of Auditors – they appeared only in the final report.

G. Human resources management

65. The Board of Auditors identified three opportunities for improvements, assessed as medium, regarding the management of human resources at UNICEF, elaborated in paragraphs 66 to 68.

Other recommendations (medium priority)

66. In paragraph 305, the Board of Auditors recommended that UNICEF improve gender balance in the regions of West and Central Africa, Eastern and Southern Africa, South Asia, and the Middle East and North Africa. UNICEF management, under the leadership of the Division of Human Resources and in partnership with concerned offices, is working to improve gender balance. While progress has been made to date, management will continue to monitor the status of key performance indicators to support offices in achieving the planned targets by the first quarter of 2021.

67. In paragraph 309, the Board of Auditors recommended that UNICEF improve the utilization of pre-assessed talent groups as the preferred source of recruitment. UNICEF management is committed to closely monitoring the results of planned changes in the new Staff Selection Policy, including more proactive use of talent groups by the second quarter of 2021.

68. In paragraph 316, the Board of Auditors recommended that UNICEF ensure compliance with the procedures of the selection of consultants, in terms of the approvals required in cases of former staff members being re-employed as

consultants, and the required filing of the performance evaluations at the end of service. UNICEF management noted that most of identified cases referred to had the required documentation on file, but not in VISION. Management confirms that the Division of Human Resources, in partnership with offices responsible for hiring consultants under their accountability, is committed to further strengthening related processes through training webinars to enhance staff understanding of and compliance with the requirements for hiring consultants.

IV. Anti-fraud strategy and fraud risk mitigation

69. In 2020, UNICEF sustained the momentum to ensure a consistent organizational culture of integrity and accountability. As part of the organization-wide anti-fraud strategy, the deputy representatives, operations, at the country offices, and the regional chiefs of operations continued to perform their roles as fraud and risk focal points. The staff participation rate for the mandatory fraud awareness online training, launched in 2019, had increased to 95 per cent by July 2020. UNICEF also collaborated with six other United Nations agencies in developing and implementing a fraud-awareness online training addressed specifically to implementing partners. Anti-fraud initiatives remain a priority for UNICEF, and activities to prevent, detect, and respond to cases of fraud will continue to be prioritized and improved. It is expected that better fraud-risk management across UNICEF will also strengthen efforts not only to prevent fraud but also to recover funds lost due to fraud.

70. In 2020, most UNICEF offices promptly completed their fraud-risk assessment as part of their annual risk assessment exercises. A similar exercise was undertaken in Headquarters, consolidating all the inputs from participating offices. This annual exercise will continue, with methodology improved, and will aim to ensure participation of all UNICEF offices.

71. During the fiscal year 2019, the UNICEF Office of Internal Audit and Investigations documented a $0.6 million loss due to 15 cases of fraud. Only 4 per cent of the loss (about $0.024 million) was recovered. Additionally, results from the investigation of an independent organization engaged by UNICEF, related to cash-based transfer projects, documented losses of $0.07 million, of which 93 per cent was recovered. Aggregated losses for 2019 show a slight downturn from those of fiscal year 2018, when estimated substantiated financial losses amounted to $0.5 million. This represents significant progress compared to fiscal year 2017, when financial losses reached $1.58 million.

72. UNICEF management seeks to fully recover all losses resulting from fraud. Where the fraud is the result of action by UNICEF staff, recovery is relatively straightforward because the loss can be recovered from the entitlements of the concerned staff members. In 2019, the total substantiated loss for staff fraud cases was $26,800 and was fully recovered. However, recovery of losses resulting from fraud by implementing partners is much more challenging. Nevertheless, UNICEF makes every effort to recover losses due to fraud and to prevent future losses, mainly by "flagging" the partner in the UNICEF vendor master files and the UN Partner Portal, which alerts other United Nations agencies to the risks of working with the identified implementing partners.

V. Status of audit recommendations for the year ended 31 December 2019

73. The Board of Auditors issued 55 audit recommendations in its 2019 report of the audit of UNICEF (A/75/5/Add.3), compared with 48 recommendations for 2018.

Of the 55 recommendations, 23 were classified as high priority, while the remaining 32 were classified as medium priority. Management agreed with 52 (95 per cent) of the recommendations issued and disagreed with 3. Two recommendations pertained to financial management. One recommended classifying the long-term components of the ASHI investment portfolio as non-current investments (details of the recommendation and UNICEF management response are provided in paragraph 14 of the present document). The second recommendation for financial management pertained to additional disclosures from UNICEF on inventory from expired grants (details of the recommendation and the UNICEF management response are provided in paragraph 15 of the present document).

74. The third recommendation, with which UNICEF disagreed, related to inventory management (details of the recommendation and the UNICEF management response are provided in paragraph 55 of the present document).

75. For each accepted recommendation, UNICEF business units and senior management have agreed on the accountability and target dates for completion of corrective actions. As of October 2020, three months following the formal release of the report of the Board of Auditors, UNICEF notes that management actions have already commenced on all 52 audit recommendations, with 9 recommendations (16 per cent) considered implemented by management and ready to be presented to the Board of Auditors for assessment.

Table 1
Implementation status, financial year 2019, by target completion dates

Target completion date	*Number of recommendations*	*Not Implemented*	*Overtaken by events*	*Implemented (closure requested)*	*Under implementation*
2022 Q1	1				1
2021 Q4	2				2
2021 Q3	1				1
2021 Q2	9				9
2021 Q1	13				13
2020 Q4	17				17
Ready for assessment	9			9	
Not accepted	3	3			
Total	**55**	**3**	**0**	**9**	**43**
Percentage	**100%**	**6%**	**0%**	**16%**	**78%**

Table 2
Implementation status, financial year 2019, by priority

Priority	*Number of recommendations*	*Not Implemented*	*Implemented (closure requested)*	*Under implementation*
High	23	2	3	18
Medium	32	1	6	25
Total	**55**	**3**	**9**	**43**
Percentage	**100%**	**6%**	**16%**	**78%**

VI. Status of audit recommendations for the year ended 31 December 2018 and prior years

A. Status of recommendations for the year ended 31 December 2018 report

76. The Board of Auditors issued 48 audit recommendations in the 2018 audit report (A/74/5/Add.3). Of these, 12 were classified as high priority, while 36 were classified as medium priority. Management agreed with 47 (97 per cent) of the recommendations and presented its disagreement with the recommendation under paragraph 15 related to the disclosure of information regarding estimated and actual revenue in the annual financial statements.

77. The view of UNICEF diverged from that of the Board of Auditors on disclosure of target and actual revenues in the statement of comparison of budgeted to actual amounts. Current disclosures in annual financial statements are fully in line with IPSAS and the harmonized position of the United Nations system. In accordance with the United Nations taskforce harmonization guidance, the disclosure recommended by the Board of Auditors is applicable only to organizations with assessed contributions (with expenditure authority granted by the General Assembly) and not to voluntarily funded funds and programmes, and as such would not be applicable to UNICEF. Management reiterates that relevant budgetary planning documents and financial estimates provided to the Executive Board of UNICEF already contain such comparisons, and in response to the recommendation, UNICEF has expanded disclosures under note 5 and in the financial overview regarding variances between the original and final budget, by budget categories, in relation to statement V of the annual financial statements.

78. As of October 2020, 18 (38 per cent) of the 47 accepted recommendations had been assessed as implemented by the Board of Auditors, 23 recommendations (49 per cent) were implemented and awaiting assessment and closure by the Board of Auditors, 4 recommendations (9 per cent) had been overtaken by events, and 2 recommendations (4 per cent) were under implementation, with target completion dates at the end of 2020 and first quarter of 2021. The information is presented in tables 3 and 4.

Table 3
Implementation status, financial year 2018, by target completion dates

Target completion date	*Number of recommendations*	*Not Implemented*	*Overtaken by events*	*Implemented (closure requested)*	*Under implementation*
2021 Q1	1				1
2020 Q4	1				1
Ready for assessment	23			23	
Implemented	18			18	
Overtaken by events	4		4		
Not accepted	1	1			
Total	**48**	**1**	**4**	**41**	**2**
Percentage	**100%**	**2%**	**8%**	**85%**	**4%**

Table 4
Implementation status, financial year 2018, by priority

Priority	*Number of recommendations*	*Not Implemented*	*Overtaken by events*	*Implemented (closure requested)*	*Under implementation*
High	12		1	11	
Medium	36	1	3	30	2
Total	**48**	**1**	**4**	**41**	**2**
Percentage	**100%**	**2%**	**8%**	**85%**	**4%**

B. Status of long-standing recommendations for the 2017 and 2016 reports

79. The Board of Auditors issued 36 recommendations in the 2017 audit report (A/73/5/Add.3). Seven were classified as high priority while the remaining 29 were classified as medium priority.

80. As of October 2020, of the 36 recommendations for year the 2017, 28 recommendations (77 per cent) had been assessed as implemented by the Board of Auditors, 3 recommendations (8 per cent) had been implemented and were awaiting assessment and closure by the Board of Auditors, and 4 recommendations (11 per cent) were under implementation, with target completion dates at the end of 2020, as presented in table 5.

Table 5
Implementation status, financial year 2017, by target completion dates

Target completion date	*Number of recommendations*	*Not Implemented*	*Overtaken by events*	*Implemented (closure requested)*	*Under implementation*
2020 Q4	4				4
Ready for assessment	3			3	
Implemented	27			27	
Overtaken by events	1		1		
Not accepted	1			1	
Total	**36**	**0**	**1**	**31**	**4**
Percentage	**100%**	**0%**	**3%**	**86%**	**11%**

81. The Board of Auditors issued 36 recommendations in the 2016 audit report (A/72/5/Add.3). Eight recommendations were classified as high priority and 28 recommendations were classified as medium priority.

82. As of October 2020, 31 recommendations (86 per cent) had been assessed as implemented by the Board of Auditors, 1 recommendation (3 per cent) had been implemented and was awaiting assessment and closure, and 4 recommendations (11 per cent) remained under implementation, with target completion dates set for the end of 2020 and the second and fourth quarters of 2021, as presented in table 6.

Table 6
Implementation status, financial year 2016, by target completion dates

Target completion date	*Number of recommendations*	*Not implemented*	*Overtaken by events*	*Implemented/ closure requested*	*Under implementation*
2021 Q4	1				1
2021 Q2	2				2
2020 Q4	1				1
Ready for assessment	1			1	
Implemented	30			30	
Not accepted	1			1	
Total	**36**	**0**	**0**	**32**	**4**
Percentage	**100%**	**0%**	**0%**	**89%**	**11%**

C. Status of long-standing recommendations for 2015 and 2013 reports

83. The Board of Auditors issued 39 recommendations for the years 2015 and 2013. Of the 39 recommendations, 3 recommendations, related to budget management and reporting, are considered long-standing and continue to be presented for assessment of implemented actions to the Board of Auditors. Regarding the issue of budget assumptions (paragraph 69), guidance on the preparation of multi-year/rolling workplans for country offices has been strengthened to include the development of assumptions for budget preparation. A results-based management training module has

been developed and successfully rolled out. Regarding the issue of budget consolidation at corporate level (paragraph 14), UNICEF has prepared a clear framework, in line with IPSAS 24 requirements, that outlines the annualization of amounts from the various budget sources. This framework is the basis on which statement V of the UNICEF financial statements has been prepared and audited. On the recommendation to establish a fund tracking system (paragraph 105), in VISION (ERP) full functionality has been activated in the fund tracking system to establish links between planned and actual expenditure against the appropriate planning level. In addition, updated Programme Strategy Note guidance, including methodology for resource estimation, was issued in December 2017 for application effective in 2018.

84. The Board of Auditors has acknowledged these actions and wishes to verify implementation during the 2020 audit. A summary table of these recommendations and their implementation is provided in annex II.

VII. Conclusion

85. Management is pleased with the unqualified audit opinion from the Board of Auditors for the 2019 financial statements. This achievement is due to several factors: the hard work and leadership of UNICEF staff globally in promoting a culture of integrity and accountability across the organization and the introduction of innovative solutions to accelerate efficiency, effectiveness and transparency in delivering results for children.

Annex I

Summary of the recommendations issued in 2019, by priority and risk area

Area	*Main (high)*	*Other (medium)*	*Total*
Financial management	2	12	14
VISION and InSight	8	9	17
Programme management	4	2	6
Global shared services	4	1	5
Procurement, inventory and supply chain management	3	5	8
Management of cash transfers	2		2
Human resources management		3	3
Total	**23**	**32**	**55**

Annex II

Summary of long-standing recommendations

Recommendation by the Board of Auditors	Implemented/closure requested
A/69/5/Add.3 (2014, fiscal year 2013) para. 69. The Board of Auditors recommended that UNICEF require its country offices to apply fully justified budget assumptions in preparation for the resource estimation for activities in the multi-year/rolling workplans.	Guidance on the preparation of multi-year/rolling workplans for country offices has been strengthened to include the development of assumptions for budget preparation. A results-based management training module has been developed and successfully rolled out. In addition, updated Programme Strategy Note guidance including methodology for resource estimation was issued in December 2017 for application effective 2018.
A/71/5/Add.3 (2015, fiscal year 2014) para. 14. The Board of Auditors recommended that UNICEF consider (a) consolidating at the corporate level an annual integrated budget containing figures from all the budgets approved by the UNICEF Executive Board, and (b) including budgeted amounts for various activities under each outcome at the appropriate business unit level.	UNICEF has prepared a clear framework, in line with the International Public Sector Accounting Standards 24 requirements, that outlines the annualization of amounts from the various budget sources. This framework is the basis on which statement V of the UNICEF financial statements has been prepared and audited. Expenditures are recorded at activity level in VISION (ERP) and cumulated by outcome and business unit and aggregated at corporate level and reflected against the corresponding budget in statement V.
A/71/5/Add.3 (2015, fiscal year 2014) para. 105. The Board of Auditors recommended that UNICEF consider (a) putting in place a fund tracking system to establish links between planned and actual expenditure against the appropriate planning level (outcome, output, activity); (b) reviewing the existing guidance and other resource material for their improvement and better utilization; and (c) aligning output indicators with focus areas and activities towards achievement of outputs under the outcome 'Education'.	VISION (ERP) full functionality has been activated in the fund tracking system to establish links between planned and actual expenditure against the appropriate planning level. Item (b) of the recommendation continues to be reinforced through Results-Based Management and Results-Based Budgeting training and issuance of related guidance, and item (c) has been addressed through an improved Results Assessment Module (RAM).