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UNFPA – Internal audit and investigation

United Nations Population Fund

**Report of the Office of Audit and Investigation Services on UNFPA
internal audit and investigation activities in 2018**

Addendum

**Opinion on the adequacy and effectiveness of the UNFPA framework of
governance, risk management and control**

Summary

In the opinion of the Director of the Office of Audit and Investigation Services, based on the scope of work undertaken, the adequacy and effectiveness of the UNFPA governance, risk management and internal control processes was rated as *'some improvement needed'* – which means that these processes were adequately designed and operating effectively but needed some improvement to provide reasonable assurance that the objectives of the audited entity/area should be achieved. None of the issues identified were, however, assessed as having the potential to seriously compromise that achievement.

I. Opinion

1. The opinion on the adequacy and effectiveness of the UNFPA framework of governance, risk management and control is provided in accordance with Executive Board decision 2015/13 of June 2015.

2. In the opinion of the Director of the Office of Audit and Investigation Services (OAS), based on the scope of work undertaken, the adequacy and effectiveness of the UNFPA governance, risk management and internal control processes was '*some improvement needed*' – which means that these processes were adequately designed and operating effectively but needed some improvement to provide reasonable assurance that the objectives of the audited entity/area should be achieved. None of the issues identified were, however, assessed as having the potential to seriously compromise that achievement.

II. UNFPA management responsibilities

3. UNFPA management is responsible for designing and maintaining the governance, risk management and internal control processes and ensuring that these operate effectively. The responsibility of OAS is limited to independently assess the adequacy and effectiveness of these processes.

III. Criteria used for assessing the adequacy and effectiveness of the governance, risk management and internal control processes

4. OAS utilized the 2013 internal control framework and the 2014 enterprise risk management integrated framework of the Committee of Sponsoring Organizations of the Treadway Commission – adopted by UNFPA as the basis for its internal control framework and enterprise risk management process, respectively – as the main criteria for assessing the adequacy and effectiveness of the governance, risk management and internal control processes to provide reasonable assurance on the achievement of the UNFPA objectives in the following categories:

- (a) *Strategy*: fulfilment of the UNFPA mandate and achievement of its strategic plan goals;
- (b) *Operations*: effectiveness and efficiency of UNFPA operations, including (i) operational and financial performance goals; (ii) conformity of expenses with the purpose for which funds were allocated; and (iii) safeguarding of assets against loss;
- (c) *Reporting*: reliability of UNFPA internal and external (i) financial reporting, and (ii) non-financial reporting; and
- (d) *Compliance*: adherence to the UNFPA regulatory framework as established in its legislative mandate, rules, regulations, policies and procedures.

IV. Scope of audit work and additional sources of evidence considered for formulating the opinion

5. The opinion is based on (a) OAS audits of field offices; and to the extent relevant, (b) joint audits of joint United Nations activities, concluded between 1 January and 31 December 2018, as detailed in the Report of the Office of Audit and Investigation Services on UNFPA internal audit and investigation activities in 2018 (DP/FPA/2019/6, sections IV and VI, and Annex 2).

6. All OAS audits were conducted in accordance with the applicable policies by which the office has to abide – the oversight policy, the financial regulations and rules, the staff regulations and rules, and the International Standards for the Professional Practice of Internal Auditing.¹

7. To formulate its opinion, OAS considered, as appropriate, other sources of evidence, including: (a) cumulative audit knowledge stemming from OAS audits completed in previous years, as considered relevant; (b) outcome of the 2018 audit risk assessment, undertaken to support the development of the 2019 audit plan; (c) status of implementation of internal audit recommendations, as at 31 December 2018; (d) systemic issues noted by investigations completed in 2018; (e) interim audit findings reported by the United Nations Board of Auditors in its interim audit observation memorandums for the 2018 audit of the UNFPA financial statements, issued in February 2019; (f) results of national execution audits commissioned by management and completed in 2018; (g) results of control self-assessments completed by numerous country and regional offices as well as certain headquarters business units in February 2019; (h) third-party assurance reports obtained by management regarding investments custodians, outsourced vendor management, and the hosting and management of the messaging and collaboration systems; and (i) results of the strategic and fraud risk assessments completed as part of the enterprise risk management process implemented by management, to the extent available when preparing this opinion.

8. The audits and some additional sources of evidence considered for purposes of formulating the opinion refer to activities undertaken by UNFPA in 2017 or in previous years, and the first quarter of 2018. Additional matters could have been identified that may have impacted the opinion had additional audit work been performed in 2018 and/or in previous years.

9. In 2018, as in previous years, UNFPA outsourced significant functions to other United Nations system organizations, including: (a) selected human resources management activities; (b) payroll preparation and payment for staff and service contract holders; (c) payment processing; (d) treasury management; and (e) hosting and management of the enterprise resource planning system. UNFPA management relied on the management and fiduciary oversight activities undertaken by the organizations to which these functions were outsourced, as regards the adequacy and effectiveness of the related governance, risk management and internal control processes. These outsourced functions are not covered by the OAS opinion.

10. In addition, UNFPA outsources numerous information and communications technology functions, including the hosting of significant systems (email, storage), to third-party service providers. UNFPA did not obtain third-party assurance reports on the adequacy and effectiveness of the governance, risk management and internal control processes related to firewall and vulnerability management, technology infrastructure maintenance and website hosting services. These, too, are not covered by the OAS opinion.

V. Process followed for aggregating audit results and assessing issues

11. Results of the audits undertaken by OAS and the additional evidence considered to formulate the opinion were aggregated by audit area and process, using the framework previously developed for the audit risk assessment and for reporting key findings of internal audit and investigation activities.

¹ Promulgated by the Institute of Internal Auditors (IIA).

12. The potential impact of the issues identified on the achievement of the relevant UNFPA objectives in the categories detailed in paragraph 4 above was assessed, taking in consideration: (a) the ratings assigned to the entities, processes, programmes and areas covered by the audits, weighted based on the value of audited expenses; (b) the nature and materiality of the issues identified, individually and in the aggregate; (c) the root causes and pervasiveness of the issues identified; (d) the risk profile, as determined, based on the outcome of the OAIS audit risk assessment, and the materiality of the processes affected; (e) the degree to which internal audit recommendations related to these processes had been implemented; and (f) the adequacy and effectiveness of compensating controls operating at headquarters or at the regional office level that could contribute to mitigating the impact of the issues found.

VI. Basis for the opinion formulated

13. OAIS assessed the adequacy and effectiveness of the UNFPA governance, risk management and internal control processes as ‘some improvement needed’ – which means that these processes were adequately designed and operating effectively but needed some improvement to provide reasonable assurance on the achievement of objectives in the categories detailed in paragraph 4 above.

14. The key improvement areas leading to this opinion are described below:

A. Governance and risk management

Integrated control framework

15. Progress was made in the framework development in 2018. It needs to be completed, covering all relevant governance, programme and operations management processes – including information and communications technology – and clearly outlining the key controls required to minimize risks identified for each process, the related implementation steps and the responsibility for operating them.

16. The completion of the comprehensive and integrated control framework provides a useful tool to allow management to have improved awareness about, and provide training on, internal control requirements (supplementing the efforts already under way, such as a periodic control self-assessment survey); better enforce accountability for internal controls; and contribute effectively to the update of the policies and procedures manual.

Enterprise risk management

17. Management continued to introduce changes to the enterprise risk management process in 2018, particularly in improving the functionality of the strategic information system module ‘myRisks’, developed to document strategic and fraud risk assessments undertaken by field offices and headquarters units. The changes included: (a) aligning the enterprise risk management cycle with the calendar year, for comparability with other organizational reporting; (b) automating the calculation of risk ratings based on probability; (c) automating risk assessment workflows; (d) improving the documentation of assigned risk ratings; and (e) the use of a differentiated risk management approach for specific contexts or programmes.

18. The progress made so far is acknowledged. The process needs to continue maturing further. This requires bridging the skill-set gaps that limit the relevance and effectiveness of assessments completed by business units and putting in place a more stringent centralized quality assurance process. The activities planned in terms of a comprehensive enterprise risk management policy, capacity building, training and awareness raising should be fully implemented.

Organizational structure and staffing*(i) Business unit capacity*

19. In 2018, the timeliness of approval of business unit organizational structure and personnel alignment reviews improved. Audits continued, nevertheless, to reveal delays in the implementation of approved realignments, significantly affecting business unit capacity and skill sets. The streamlining of the approval process should continue, and effective support should be provided to those business units undergoing realignment exercises in terms of change management, to ensure that capabilities remain aligned to programme delivery and operational needs.

(ii) Vacancies in key positions

20. Management continued to take action to lower the vacancy rates for key management positions. Audits continued, nevertheless, to reveal individual instances of offices delivering large and/or complex programmes, where key vacancies were not filled promptly – depriving these offices from key expertise or sustained leadership and/or oversight.

Headquarters and regional office support and oversight

21. Managerial oversight controls (i.e., “second line of defense”) at headquarters and regional offices improved with the implementation of additional review processes and the development of new managerial and exception reports. The ‘second line of defense’ should continue to be strengthened – with clear terms of reference and guidelines regarding the nature, scope and frequency of management oversight, automation and integration of review processes with the enterprise resources planning system, and providing sufficient human and financial resources.

22. To minimize the risk arising from gaps in management leadership and oversight, headquarters and regional office support to, and oversight over, business units affected by vacancies in key positions, humanitarian interventions, and change management should continue to be increased.

B. Internal control***Programme management****(i) Programme planning and implementation**a. Results-based management*

23. Measures put in place by management before 2018 in results-based management begun to show some improvements in ensuring more effective programme planning and implementation as well as in tracking programme results. Quality assurance at the regional office level in the development of country programmes, the establishment of country-to-country peer review processes, and tools to support country offices on programmatic matters are examples of improvement.

24. Comprehensive programme results and resource frameworks, supplementing country, regional and corporate programme documents should continue to be strengthened, in terms of: (a) programme outputs; (b) indicators and related baselines and targets; (c) milestones (i.e., intermediate results); and (d) resource estimates, with disaggregated information for all periods within the programme cycle.

25. These frameworks allow a more effective planning and implementation of UNFPA programme activities and better monitoring of progress towards achieving expected programme results. This would also complement the United Nations Development Assistance Framework results and resources matrices that are at a high level of aggregation.

b. Workplan management

26. Workplan management continued to improve in 2018 with the introduction of the workplan management policy in August 2018 and, during the year, the roll-out, in all regions, of the electronic submission of funding authorization and certificate of expenditure (FACE forms in the enhanced version of the global programming system.

27. The full impact of the policy introduction on the overall effectiveness of the workplan management process will be reviewed in upcoming audits, in particularly regarding: (a) timeliness of workplan finalization and their level of details; (b) regular updating of workplans, to reflect significant changes to planned activities, budgets or resources occurring on an ongoing basis; (c) better rationalization and documentation of workplan budgets; and (d) further development of personnel skills in the use of the global programming system.

c. Programme financial management controls

28. Programme financial management procedures and controls have improved in some areas, e.g. the appropriate costing of funding proposals, project documents and workplans reflecting all direct and indirect costs necessary to implement related activities.

29. Yet they continue to require further strengthening, with a rigour similar to that currently applied over the institutional budget with well supported workplan budgets and periodic reviews of expenses incurred; as well as regular budget-to-actual reconciliations. Better controls to address the cross-subsidization of core resources and programme activities funded from non-core resources should be put in place.

30. The ICT transformation should integrate the points mentioned in (a) to (c) above in the new enterprise resources planning system.

d. Humanitarian response

31. Previous programme and operational bottlenecks eased some areas of humanitarian response activities. For instance, the operationalization of the funding mechanisms mandated by the Executive Board helped bridge previous funding shortfalls. Further, in many country offices did UNFPA play an active role, either leading or participating, in inter-agency coordination clusters and working groups within humanitarian country teams.

32. The need for further enhancements in this area remains, however, pertinent. Access to flexible funding to sustain response efforts and enhance surge capability and alignment of human resource capacity is needed to ensure timely and effective delivery in humanitarian contexts. Procurement processes in this context should be revisited to support the needed speed of action.

(ii) National execution

a. Implementing partner capacity

33. Assessments reviewed in 2018 showed an improvement in the documentation of implementing partner programmatic and financial management capacity, including their fraud prevention controls. Yet, assessments should be completed in a timelier manner to

guide the choice of the most appropriate cash transfer modalities and the extent of needed assurance activities.

34. Assessments should also be expanded to cover new requirements, for instance, on the prevention of sexual exploitation and abuse of beneficiaries, and be strengthened in the area of supply-chain management. Pro-active capacity-building measures, and the regular follow-up thereof, continue to be an area requiring strengthening.

b. Financial monitoring of implementing partners

35. Financial monitoring of implementing partners, to ensure that funds provided are used for the intended purposes, in line with the approved workplans and budgets, is an area needing continuous attention. In particular, the process, methodology, depth, and scope of spot-checks, including the documentation thereof, require strengthening.

36. Overall, the capacity and skillsets of the personnel involved in implementing partner management need to be scaled up.

(iii) Supply-chain management

37. Enhanced support to programme countries, together with other relevant programme stakeholders, to address gaps in supply-chain management systems that may reduce availability of reproductive health commodities and originate stock-outs continue to be required. Receiving and inspection controls of incoming goods should be more consistently performed and documented. It also remains necessary to ensure regular monitoring of inventory of reproductive health commodities held by implementing partners, as well as tracking its timely distribution and availability at service delivery points.

38. The issuance of the new programme supplies management policy and enhanced monitoring tools, including UNFPA-driven inventory reviews, will help improve transparency in commodity distribution and tracking. Yet implementation of more effective and integrated supply-chain management organizational arrangements, processes and systems – from procurement to the ‘last mile’ – is a work-in-progress that needs to be completed in order to reap all the benefits from these improvements. The full impact of the policy introduction and new measures will be reviewed in upcoming audits.

Operations management

(i) Human resources management

39. The management of personnel engaged under service contracts continued to improve, being more transparent and rigorous. Other activities, such as contract issuance, continue to be managed manually, and deviations from the requirements of the 2014 policy on service contracts was noted on few occasions.

40. Progress was also noted in the management of individual consultancy contracts with the centralized registration tool rolled out globally in 2017, albeit with limited integration with the enterprise resource planning system and minimal usage. Contract award and consultancy fee calculation and payment continue to be managed manually, and some level of deviation from the requirements of the 2015 policy on individual consultants continue to be observed.

41. Further, limited integration of the corporate and regional consultant rosters, for both individual consultants, still require management attention.

42. Leave management is also an area in need of improvement in terms of completeness and accuracy of records maintained.

(ii) Procurement

43. Procurement procedures are adequately designed and continue to operate effectively for centralized non-humanitarian procurement activities undertaken by the procurement services branch, which account for approximately half of total procurement at UNFPA. Several instances of non-compliance with procurement procedures continued to be found in country offices, particularly as regards needs assessment, procurement planning, bidding, assessment, contract award, and receiving and inspection of ordered goods. Improvements in the use of long-term agreements, to increase efficiency and obtain value-for-money, were noted – albeit with a growing need to obtain the necessary permissions to use those from other United Nations system organizations.

44. ‘Second line of defense’ controls continued to improve in 2018; these require further strengthening to address the risks originating from non-compliance with procurement procedures, as outlined paragraph 43 above, including the introduction of e-procurement at country level, expected as part of the ICT transformation.

45. As previously mentioned (see paragraph 32), procurement in the context of humanitarian activities is an area needing improvement.

(iii) Financial management

46. Many instances of miscoded expenses continued to be identified at country office level, with the risk of incorrect financial reporting. ‘Second line of defence’ compensatory controls, implemented at headquarters level, continue to significantly mitigate the impact for financial reporting purposes.

47. To minimize the risks of transactions executed without appropriate management approval and potentially incurring expenses in excess of available financial resources, the need to reflect, and approve, financial commitments in Atlas in a timelier manner through issuance of requisitions or purchase orders prior to decisions to procure goods and services or reimburse expenses are communicated to vendors or implementing partners, continues to be of importance.

48. Processes and controls over disbursements made through payment service providers such as banks, money transfer operators and mobile telephone companies, improved and remain an area in need of further strengthening.

(iv) Information and communication technology

49. Progress continued to be noted on the ongoing ICT transformation project, in particular regarding the governance of information and communications technology, and resource management. The module on strengthening the governance and execution of technology projects was fully implemented in 2018, providing additional assurance over the design and functioning of controls in this area. The full impact of the ICT transformation will be covered in future audits.
