



DP/FPA/2019/CRP.6

26 April 2019

UNFPA MANAGEMENT RESPONSE

to

**Report of the Office of Audit and Investigation Services
on UNFPA internal audit and investigation activities in 2018,
including Opinion on the adequacy and effectiveness of the UNFPA
framework of governance, risk management and control, and
the annual report of the Oversight Advisory Committee**

(DP/FPA/2019/6; Add.1 and Add.2)

Pursuant to decision 2006/13, UNFPA is pleased to present its management response to the report of the Director of the Office of Audit and Investigation Services (OAIS) on UNFPA internal audit and investigation activities in 2018 (DP/FPA/2019/6 and Add.1).

This management response should be read in conjunction with the 2018 annual report of the Oversight Advisory Committee (OAC), issued as an addendum to the OAIS report (DP/FPA/2019/6/Add.2).

This report is organized into two sections. Section I provides the management response to the issues and improvement areas identified in the OAIS report. Section II provides the management response to the strategic advice contained in the OAC report.

Agenda item 13: Internal audit and investigation

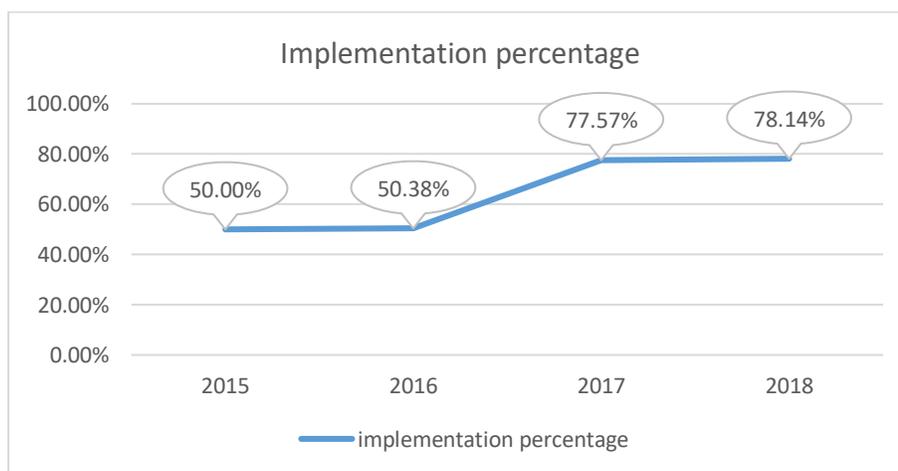
Executive Board of UNDP, UNFPA, and UNOPS
Annual Session 2019
New York

Section I

Management response to the annual report of the Office of Audit and Investigation Services on UNFPA internal audit and investigation activities in 2018 (DP/FPA/2019/6 and Add.1)

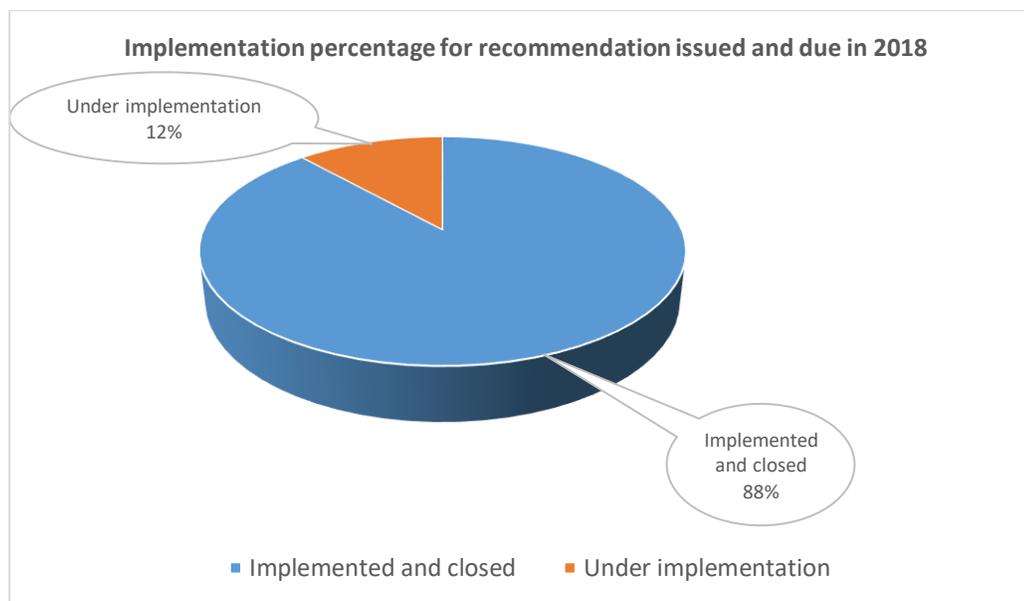
I. Introduction and assurance at UNFPA

1. UNFPA acknowledges the annual report of the Office of Audit and Investigation Services (OAIS) on UNFPA internal audit and investigation activities in 2018 (DP/FPA/2019/6). Management also acknowledges OAIS opinion, based on the scope of work undertaken, the adequacy and effectiveness of the UNFPA governance, risk management and internal control processes as ‘*some improvement needed*’ – which means that these processes in UNFPA were adequately designed and operating effectively but needed some improvement to provide reasonable assurance that the objectives of UNFPA would be achieved. However, none of the issues identified were assessed as having the potential to seriously compromise that achievement. UNFPA management welcomes the overall conclusion of OAIS that through its various actions in response to OAIS reports and advice, UNFPA management continued to demonstrate in 2018, as in past years, its commitment to increasing the effectiveness of the governance, risk management, and control processes at UNFPA.
2. The UNFPA Audit Monitoring Committee (AMC), chaired by the Executive Director or Deputy Executive Director (Management), monitored business units’ efforts in improving the implementation of the audit recommendations. Management, with support from the AMC secretariat, successfully implemented 168 recommendations (78.14 percent) out of the 215 outstanding recommendations that were due for implementation by 31 December 2018.¹ UNFPA maintained a high implementation percentage for the last two successive years. The fund remains committed – and accords the highest priority – to strengthening the culture of accountability.



¹ The number of recommendations actually due for implementation in 2018.

3. Similarly, in 2018, UNFPA management achieved 88 per cent implementation of the recommendations that were issued and due in the same year.



4. UNFPA management appreciates the high professional standards with which OAIS fulfills its mandate and performs/manages the whole range of oversight functions. Senior management also appreciates the OAIS Director's advice on governance, accountability and control aspects as well as emerging potential risks to UNFPA.
5. In line with the commitment to continue strengthening the oversight function in UNFPA, management is pleased to note that in 2018, vacancy-adjusted budget of OAIS saw an overall increase of 26 per cent over 2016, and a 6 per cent increase over 2017.
6. UNFPA has an effective and wide-ranging system of governance, risk management and internal control processes that compare favorably with other United Nations organizations. UNFPA continues to develop, expand, strengthen and advance the organization's enterprise risk management (ERM) and its linkages with the integrated control framework (ICF), as well as strengthening its second layer of defence in terms of controls and remediation activities.
7. To strengthen controls and encourage compliance and to bring about a culture of integrity and zero tolerance for wrongdoing, management has made significant progress with anti-fraud activities during 2018. Following the issuance of a revised anti-fraud policy, UNFPA issued an online course, developed jointly with other United Nations agencies, that was mandatory for all personnel. The oversight advisory committee also noted substantial progress on key policies and the risk control matrix, which highlight key risks in the areas covered and the related preventive and detective controls. The risk control matrix is now a standard for all policies. The organization's first anti-fraud strategy document, after finalization, is ready for issuance in May 2019.

II. Internal audit activities in 2018

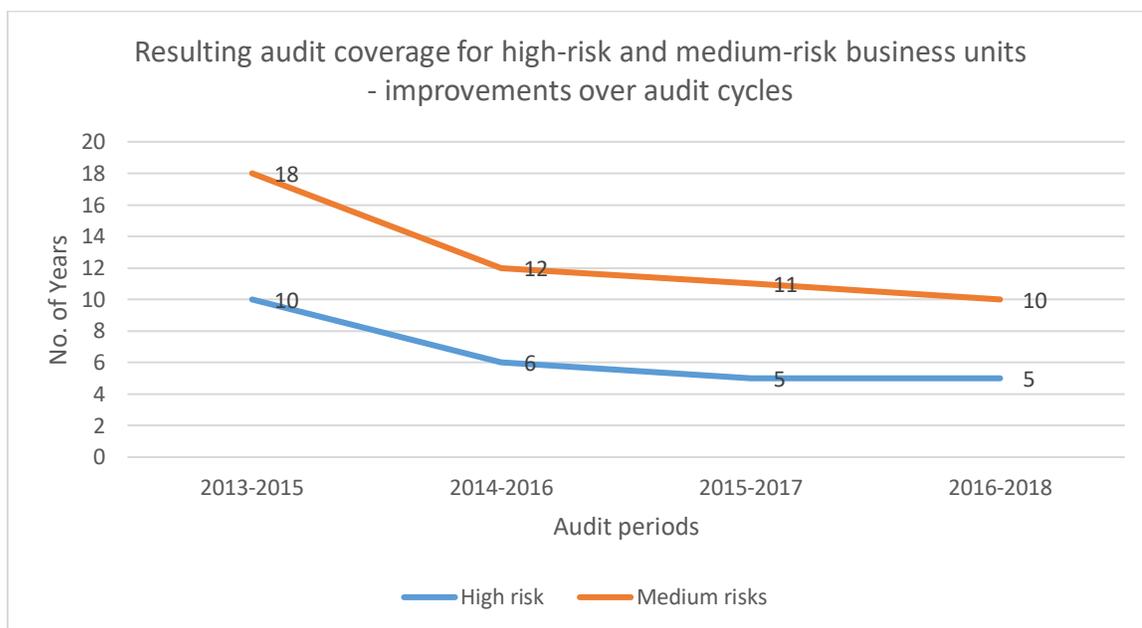
8. Management takes note of the following internal audit activities in 2018, including a comparison of 2018 planned versus achieved audit engagements.

A. 2018 Audit risk assessment and methodology

9. UNFPA management takes note of the audit risk assessment methodology for the audit universe of 140 business units involved in programme delivery activities, 13 core business processes and 10 information and communication technology (ICT) areas. Management also takes note of separate indicators for business units, core processes and ICT areas and the consideration of the outcomes of ERM and control self-assessment. The audit risk assessment that reflects the UNFPA risk exposure remained fundamentally unchanged, compared to 2017. Management is pleased to note the positive change in two business units' risk ratings, from 'medium-risk' to 'low-risk'.
10. Management takes note of the OAIS assessment of risk exposure and related risk factors that are consistent with the corporate ERM management process. Management is also aware of the large-scale change management exercise as a new risk area.
11. Management is committed to responding swiftly, competently and transparently to sexual exploitation and abuse, sexual harassment, and all other forms of workplace abuses, while respecting due process for all involved.

B. Audit plan for 2018

12. Management appreciates the OAIS risk-based audit plan and its level of implementation. Management takes note of an increase in the number of audit reports with a 'not effective' rating and the decrease in the number of audit reports with an 'effective' rating, compared to the previous year, especially in the areas of office governance and programme management. The decrease in number of audits with 'not effective' rating in operations management is also noted.
13. Management appreciates the improvements in the average audit cycle for high-risk and medium-risk business units for the previous four audit periods, as depicted in the figure below. Management will support OAIS in achieving an audit coverage of three years for the high-risk business units, and ten years for medium-risk business units.



III. Investigation activities in 2018

A. Caseload analysis

14. UNFPA management notes that OAIS received 115 new cases in 2018. The number of cases reflects a moderate increase of 8 per cent, compared to 106 cases of 2017. Counted together with cases carried over from 2017, OAIS dealt with 180 active cases in 2018. Management notes and appreciates that this represents an annual caseload of 26 cases per investigator, an increase of three cases per investigator over 2017 and 2016.
15. Finally, UNFPA management takes note, with appreciation, that OAIS dealt with 51 cases of staff members seeking advice or for information, compared to 11 in 2017.

B. Types of complaints

16. Management takes note that, in 2018, OAIS received 37 cases of alleged fraud and financial irregularities, representing 32 per cent of total cases received. This is a decline of cases of alleged fraud, as compared to 2017, which accounted for 53 (50 per cent) of cases relating to allegations of fraudulent practices. Management reaffirms its commitment to a zero tolerance for wrongdoing, including fraudulent and other proscribed practices, as well as all types of harassment, abuse of authority and retaliation.
17. Management further notes that the number of cases of alleged sexual harassment received by OAIS in 2018 amounted to seven, compared to two in 2017. The number of cases of alleged sexual exploitation and abuse received by OAIS in 2018 was six (5 per cent), whereas the total number in 2017 was three (3 per cent). Management believes that these increases may be the result of an increase in awareness among staff.

C. Disposition of cases

18. Management takes note with appreciation that OAIS was able to conclude 76 out of 180 cases, with 19 requiring the conduct of a full investigation, whereas 57 cases were disposed of after a preliminary assessment.
19. Management, however, also notes that at year-end 2018, 104 open cases were carried over to 2019; this constitutes a significant increase over previous years (65 were carried over to 2018; 41 to 2017 and 52 to 2016).
20. Management takes note that this 60 per cent increase over 2017 was due to the simultaneous combination of (a) multiple complex cases – some being time-bound; (b) a surge in new cases in the second half of 2018; (c) a new team; (d) staff vacancies; and (e) a high dependency on investigation consultants at a time of scarce availability.

D. Sanctions and other actions taken after investigation

21. At the time of preparation of this management response, Management had taken action, whether by the imposition of a sanction or by other appropriate action, including case closure where warranted, with regard to 5 out of 9 reports issued by OAIS in 2018.
22. UNFPA is pleased to report that significant efforts were undertaken in 2018 to recover financial losses from implementing partners. As reported in Annex 6 to the annual report, UNFPA has recovered \$1,610 through follow-up to audits of implementing partner expenditures (the remaining sum of \$2,990 is delayed by banking and currency challenges in the country). UNFPA continues to work on a solution to recover the balance amount. Management's action on another implementing partner investigation resulted in successful recovery of \$14,200.

IV. Progress on key issues and improvement areas identified in 2018 audit reports and the GRC opinion

A. Governance and risk management

Integrated control framework

23. New policies and procedures were released in 2018 for key processes, including workplan management, management of cash transfers to implementing partners, policies and procedures on management of programme supplies and implementation of the UNFPA Institutional Budget. In addition, new policies and procedures on procurement and management of cash disbursements were approved and released in April 2019.
24. All new policies include detailed risk-control matrices, which outline the key controls required to minimize the risks identified for the process, the related implementation steps, the responsibility for operating them and highlight key fraud risks and the related preventive and detective controls. Efforts continued in 2018 to implement stronger second line of defense controls. Detailed mapping was developed of these controls, and their implementation initiated through the preparation of periodic financial performance management reports, to monitor the operating effectiveness of key

processes, such as management of cash transfers to implementing partners, inventory management and management of non-core funding, through key performance indicators and exception reports. Preparation of these reports will continue throughout 2019, and their scope expanded to cover additional processes.

25. The annual self-control assessment exercise continued for the fourth year. The questionnaire was updated to reflect key policy updates, including programme supplies, and two questions were added about the protection from sexual exploitation and abuse as well as for harassment, sexual harassment, abuse of authority and discrimination. A quantitative and qualitative comparative analysis was completed identifying changes between 2017 and 2018 results and areas for management attention.

Enterprise risk management

26. UNFPA management is pleased with the OAIIS acknowledgment of continued positive progress made in the area of ERM in 2018, including improvement in the functionality of the myRisk module in the Strategic Information System (SIS). Management is also pleased that the Oversight Advisory Committee acknowledged the notable progress in putting in place an effective ERM in UNFPA.
27. Management has taken note of the findings and areas of further improvements. In 2019, UNFPA will focus on a robust centralized quality assurance process by using a differentiated quality assurance approach for a number of field offices that were identified as operating in high risk and specific contexts and programmes. Management is committed to undertake the following planned activities in 2019: (a) developing a comprehensive ERM policy; (b) finalizing risk appetite statements; and (c) conducting other targeted learning and capacity-building activities.

Organizational structure and staffing

Business unit capacity

28. Management is currently reviewing opportunities for improving the approval flow of organizational structures and personnel alignment reviews. To support a more streamlined approach to realignments with the new organizational structuring policy, a termination indemnity workflow was introduced in 2018. In addition, the regional human resources strategic partners are continuously working with country offices, in cases where realignments have been approved, to identify consultants and staff members to help with the implementation process. Similarly, the Department of Human Resources has deployed headquarters staff to country offices to assist in the realignment process.

Vacancies in key management positions

29. The past year witnessed a strong focus on change management, and the alignment of the organization to its new strategic plan; this partly explains the higher rate of unfilled key posts, compared to 2017. The comprehensive resource review at headquarters resulted in a review of the humanitarian response architecture, a repositioning of the intergovernmental and multilateral affairs function within UNFPA, a restructuring of the Programme Division (renamed as Policy and Strategy Division), and a transformation of the information and communication technology services function.

30. At the field level, UNFPA launched the regional operations shared services centre in the East and Southern Africa region, and revamped the field-focus technical services. At the country office level, 14 realignments were approved to ensure that UNFPA countries are fit for purpose and aligned with the strategic plan. This also included an adaptation of the funding reality for the organization, with a focus on increasing the usage of non-core rather than core funding to finance positions. Similarly, the creation of new posts and a decrease in the usage of service contracts resulted in unfilled positions during the realignment process. UNFPA has steadily seen a decrease in the service contract modality during the last few years. There were 756 service contracts in December 2018 compared to 930 in December 2015; this is partly attributed to the creation of fixed-term positions funded by other resources absorbing the work previously done by service contract holders.
31. It is also important to note that the overall vacancy rate was as low as 14 per cent for staff positions in 2018, which was lower than the 15 per cent baseline of 2017. For Country Representative Positions, the vacancy rate was 6 per cent in 2018. In addition, the time needed to fill positions was reduced from 3.2 months in 2017 to 2.3 months in 2018. This decrease is partly attributed to the leadership pool process, which continues to lower the vacancy rate of critical posts and facilitates the process of finding suitable candidates for country office leadership positions. UNFPA also finalized the rollout of the e-recruit system, a process that commenced in 2017, with the last region completing the e-recruit training in December 2018. The move to an electronic platform for recruitment, coupled with regionalization of the compliance review board also assisted with the reduction in the time to fill vacancies.

Headquarters and regional offices support and oversight

32. UNFPA management is pleased to note OAIS acknowledgment of strengthening of regional offices monitoring over the country offices' programmatic and operational performance. In 2018, the Executive Director established a change initiative towards aligning headquarters, regional offices, and country offices, with the overall objective to ensure that major functions and responsibilities across the organizational levels are aligned to support the achievement of the three transformative results of the strategic plan, 2018-2021. The initiative is based on the understanding of the need for a comprehensive review of the functional relationships and management oversight between headquarters, regional offices, and country offices, evaluation and audit recommendations, potential changes in light of the United Nations reform and changing development landscape. The recommendations of this change initiative and executive decisions will support institutional efforts in addressing the observations and concerns in this regard.

B. Management report on the performance of anti-fraud activities

33. Management has made significant progress in the area of anti-fraud activities during 2018. These are designed to strengthen controls and compliance as well as a culture of integrity and zero tolerance for wrongdoing.

34. Following the issuance of a revised anti-fraud policy, UNFPA issued a mandatory online course to all UNFPA personnel that has been developed jointly with other United Nations agencies. Several new policies were issued (see comments under “Internal control framework” above) with risk control matrices that highlight key fraud risks in the areas covered and the related preventive and detective controls. The anti-fraud strategy document is complete, and will be issued in May 2019.
35. The systematic implementation of a high number of assurance activities under harmonised approach to cash transfers (HACT) has further enhanced UNFPA capacity to identify red flags and raise fraud suspicions. The independent audits of expenditures reported by implementing partners have been instrumental and many fraud cases involving implementing partners have been referred directly by the auditors to OAIS. During 2018, management has undertaken systematic efforts to recover financial losses caused by implementing partners and identified in investigation reports issued by OAIS and transparently reports on these recovery efforts to the Executive Board (see comments under “Disciplinary measures or sanctions taken after investigations”). Details for each case are in Annex 6.
36. Monitoring of the management and distribution of commodities by the implementing partners started in January 2019, with an initial batch of 16 “last mile inventory audits”. The scope of these audits includes stock counts, analysis of inventory differences and adjustments, and the tracking of samples of deliveries from the central warehouses down the supply-chain to service delivery points, which will help identify product diversion red flags. In addition, a comprehensive last-mile assurance process will be implemented upon completion of this initial batch of audits, starting with a global rollout-training workshop, with the participation of personnel from all offices managing larger volumes of commodities.
37. UNFPA is developing comprehensive “fraud scenarios guidance packages” for high-risk processes, i.e. procurement, contract management, supply chain management, cash disbursements, and cash transfers to implementing partners. These guidance packages will provide UNFPA personnel with a focused guidance on how to spot “red flags”, what possible fraudulent activities may have taken place, and what key controls should be in place to mitigate the potential fraud risks. These packages will contain real-life and applicable case studies as well as the “second line of defense” controls to be performed by field offices, headquarters units, and regional offices. The fraud scenarios guidance packages will serve as practical tools for prevention and compliance. The fraud risk assessment framework will be realigned around the fraud scenarios defined, and training on the fraud scenarios will be provided to all personnel involved in the management of the processes covered.
38. In 2019, UNFPA, in collaboration with the Office of the United Nations High Commissioner for Refugees (UNHCR), UNICEF, UN-Women and UNDP, will finalize the development of an inter-agency anti-fraud training, targeting specifically the partners of United Nations agencies that are entrusted with responsibility for United Nations funds and activities.

C. Internal Control

Programme Management

Programme planning, implementation, and monitoring

i. Result based management (RBM)

39. In 2018, UNFPA undertook several actions to improve RBM further. Key actions that respond specifically to the observation – need for improving results framework – included a number of measures.
40. The Programme Review Committee (PRC) strengthened the results-based management and evidence-based programming dimensions of the quality assurance assessment of new country programmes. It increased the overall satisfactory threshold from 75 per cent to 80 per cent, for the period of the current strategic plan. The Committee revised the quality assurance assessment criteria to add quality assurance of the “Compacts of Commitment”, through which programmes commit to the achievement of the three transformative results. Furthermore, the Committee introduced a regional management overview checklist – a set of quality assurance criteria to improve regional-level RBM quality assurance processes.
41. The Output Operationalization Tool, which enables breaking down programme results and corresponding budgets by annual targets, was launched in 2018. It also supports staff to define the interventions, and their corresponding costs, that drive achievement of programme results annually. An intervention stems from a programme theory of change, and comes with a knowledge package that includes guidance on how to plan, cost and monitor its implementation. The Output Operationalization Tool will be integrated into the new ERP solution.
42. To enhance RBM capacity, a training of trainers from selected country offices and regional monitoring and evaluation and programme advisers from all UNFPA regions and RBM training for all offices in the Arab States and East and Southern Africa regions were conducted.

ii. Workplan management and programme financial management control

43. UNFPA management agrees to continue enhancing workplan management and will take into account the recommendations during the design and implementation of the new ERP solution. In line with these recommendations, particularly for better costing documentation, an updated workplan policy was issued in August 2018, which introduced more rigorous requirements regarding workplan costing.

44. The Global Programming System (GPS) and workplan reviews for 2018 were conducted during June and July. The review assessed the quality and policy compliance elements of all UNFPA workplans (1,514 in total) with their corresponding workplan progress reports and the Funding Authorization and Certificate of Expenditures (FACE) forms. It identified improvements in several areas compared to previous years and helped identify areas for future improvements. Detailed findings of the review were communicated directly to each office together with recommendations for improvement. The 2019 GPS and workplan review is expected to provide a robust picture of the progress achieved during the last 12 months as well as any new areas for improvement.

iii. Humanitarian response

45. Within the context of the Comprehensive Resources Review, a dedicated Humanitarian Office was established in 2018 (to be headed by a Geneva-based Director) to enable UNFPA to better respond to the increasing humanitarian crises globally, as well as increasing the organization's agility and focus on results. The main objective of this restructuring process is to bolster current organizational efforts in humanitarian response through an accelerated approach to mainstreaming across the entire work of the organization. The Humanitarian Office team will be strengthened with more technical and operational capacities between Geneva and New York.

46. In 2018, UNFPA updated the Policy and Procedures for Humanitarian Response Funding, establishing two distinct mechanisms for UNFPA field offices to access resources specifically for humanitarian-related interventions. The two mechanisms, managed by the Humanitarian Office, are the Emergency Fund and the Humanitarian Response Reserve. Both may be utilized for humanitarian programmes where UNFPA is responding to an emergency or to protracted crisis situations. The policy includes a risk control matrix, outlines the UNFPA humanitarian response funding process, and identifies control actions to mitigate potential risks related to the process.

47. The Policy and Procedures on Management of Programme Supplies, issued in 2018, outlines the process for the management of programme supplies, including in humanitarian settings, and identifies control activities designed to mitigate the most significant risks inherent to this business process. The policy mandates UNFPA programme supplies be provided only to partners who have valid implementing partner agreements, signed workplan or other appropriate programme documents.

National execution

iv. Financial monitoring of implementing partners

48. Management will continue to leverage GPS phase-II to enhance further financial monitoring of implementing partners, based on the guidelines reflected in the policy on the management of cash transfers to implementing partners released in 2018. Since the second half of 2018, the operating effectiveness of controls over the cash transfers to and the expenses reported by implementing partners is monitored through period performance management reports on the cash transfer process.

49. Management continuously monitors country office compliance with micro-assessment completion. During 2018, 89 per cent of the 1,312 active partners that required one, had a micro-assessment. Management recognizes that there are valid factors that can delay assessment. In humanitarian situations under fast-track procedures, assessment can be postponed to allow a fast response. Furthermore, there can be delays for joint assessment exercises by several agencies, which promote United Nations efficiency, save transaction costs for the United Nations and partners, and leverage economies of scale. To mitigate the risk of delayed assessments, all partners that have not yet been assessed but meet the criteria for assessment are automatically rated 'high risk' and subject to high-risk assurance activities. The recommendations resulting from micro-assessment reports, as well as other recommendations to strengthen internal controls of the implementing partner and build capacity are followed up in spot checks and audits. UNFPA is strengthening guidance for operational capacity development and has joined UNICEF and UNDP in issuing a basic guide to financial management for implementing partners in 2018.
50. Management continues to work on various streams to strengthen spot checks as part of the implementation of the harmonised approach to cash transfers (HACT), including additional technical guidance, learning tools, and training events in the form of webinars and in-person workshops. For 2017, UNFPA has completed 769 spot checks covering \$159 million (or 61 per cent) of total implementing partner expenditures of \$262 million. This is an additional assurance to 369 independent audits covering the \$193 million (or 73 per cent) of implementing partner expenditures. Together, this means that 94 per cent of expenditure has been covered by one or more of these assurance activities. Although the assurance exercise for 2018 expenditures is not fully completed, the current expected audit coverage is at 73 per cent for implementing partner expenditures of \$303 million for 2018.

v. *Supply-chain management*

51. Management acknowledges the importance of improving needs assessment and other quantification activities underlying procurement planning. Reproductive health commodities procurement plans for countries supported by the UNFPA Supplies programme undergo extensive quality assurance before their internal approval; as part of this verification process, they are also shared with the Coordinated Supply Planning mechanism at the global level. Management has developed a quantification and supply management tool – the Commodity Requirement Tool (CRT) – which helps countries to quantify and forecast commodity needs for the year or coming years, and takes into account the current in-country stock levels, geographical and programme coverage, uptake of the method, consumption data and planned programme expansion. The tool captures the same data from all implementing partners to ensure that the data is representative of the national supply needs for the public sector. Induction on the tool has been conducted with all 46 countries and the global leads for the implementing partners through planning meetings and webinars. In 2019, 10 countries completed the CRT, and this has provided UNFPA with greater visibility on the programme coverage, current stock levels, consumption patterns, national supply needs and most importantly the commodity gaps for the countries that have completed the tool. The work on

- expanding the use of the tool to more countries will continue especially with countries that do not have strong systems or methodology for supply planning, management, quantification, and forecasting.
52. In terms of wider supply chain management actions that have taken place in the past 12 months, 35 of the 46 UNFPA Supplies countries have, in conjunction with their government counterparts, undertaken a supply chain maturity assessment. These assessments identify the weakest points of any supply chain, and the output dashboard allows the wider country teams to discuss what investments should be their priorities at any one time. It is a process that is meant to encourage continuous improvement, and it is expected that the remaining 9 countries will complete the model in 2019. This has given the Commodity Security Branch a clearer picture of the main challenges in the country, and has informed the 2019 workplans of all countries concerned.
 53. During the latter half of 2018, a supply chain skills survey was carried out across the organization, looking at competences at all phases of the supply chain, from supply planning through to distribution in the country. These competencies were linked to roles identified in the policy and procedures on management of programme supplies, and the survey results identified the areas where further learning and development is needed. Workshops are already being planned for 2019, with a focus on the last mile assurance process. A significant addition to the supply chain learning and development package available to UNFPA staff is planned for development in 2019- an online platform that will include implementation guidance, tools, policy, and best practice.
 54. The progressive pace in implementing the requirements of the policy and procedures on the management of programme supplies released in July 2018 is contributing to a significant improvement in controls over inventory management. Training on the policy was provided to 129 staff members during the first half of 2018, supplemented with 10 policy requirements webinars presented in the fourth quarter of the year. Significant additional financial resources have been allocated in 2019 to support the policy implementation.. The policy clarifies the roles and responsibilities of all business units and roles involved in inventory management activities. Significant emphasis has been placed on improving receiving and inspection controls. Formal assessments of the conditions at UNFPA managed warehouses will be undertaken as from 2019 as a prerequisite to authorize their use. Similarly, formal assessments of the supply-chain management capacities of implementing partners, including their warehouses, inventory control systems, and safeguarding practices, and distribution, will be initiated as from the third quarter of 2019.
 55. All critical requirements for the policy and procedures on management of programme supplies by implementing partners were reflected in revised implementing partner agreement and general terms and conditions released in 2018. Rigorous monitoring of the management and distribution of commodities by the implementing partners started in January 2019, with an initial batch of 16 “last mile inventory audits” as described earlier in the report.. The performance of the process is monitored, since the second half of 2018, through periodic reporting and follow-up on selected key performance indicators of downstream supply-chain and inventory management activities.

Operations management

Human resource management

i. Individual consultants and service contracts

56. UNFPA has taken steps to further strengthen the centralized compliance monitoring function and data analysis of individual consultants, through the usage of the Consultant Monitoring Tool. Further enhancements to the tool are being made to allow for the distinction of fees based on output delivery to be captured.
57. Furthermore, UNFPA is looking into options of integrating consultant platforms under one enterprise resource planning system. Also, to ensure higher compliance of the usage of the tool and the policy on individual consultants, several webinars were offered throughout the organization in 2018. Service Contract continues to be managed through the ATLAS.
58. UNFPA continuously takes steps to facilitate proper leave management, including sharing a global monthly message regarding the payroll freeze date for internationally recruited staff and HQ support staff. This initiative facilitates timely submission and approval of the leave by both staff and supervisors, ideally within 30 days from the date of the leave request submission by staff, as stipulated in the UNFPA Absence Management Policy. Also, an annual year-end exercise is conducted to ensure that absences are properly managed and that accurate balances are maintained.

ii. Financial management

59. Transaction accounting coding errors highlighted in the OAIS report are to a great degree the result of the complexity and limitations of the chart of accounts in use as well as current ERP system limitations. These gaps have been partially addressed for implementing partner expenses with the launch of GPS II that automates the creating and posting of accounting entries based on categories of expenses and by restricting funding source selection. The remaining gaps will be addressed through the introduction of a streamlined chart of accounts and functionality for the automatic selection of accounts based on the nature of the goods and services procured, as part of the ICT transformation process. In the meantime, management will continue its efforts to reduce the number of residual errors through training of finance personnel and voucher approvers, enhancements to the accounts dictionary. UNFPA will continue to undertake periodic reviews of the coding of expenses and correct errors identified.
60. Processes and controls over cash disbursements, including those made through payment services providers, will be enhanced as a result of the implementation of a new policy on the management of cash disbursements released in April 2019. As part of the ICT transformation, improvements will be achieved through the implementation of a single vendor payment process and system functionality.
61. The ability to enforce the timely creation of budgetary commitments is limited by current system functionality gaps in this area. Improvements will be introduced through the implementation of a stronger fund reservation process, as part of the ICT transformation process. In the meantime, management will continue to undertake

periodic training activities to create awareness on the need to create and approve Atlas requisitions and purchase orders promptly.

iii. Procurement

62. Management is pleased with OAIS acknowledgment of improvements in the second line of defense controls, improvements in the use of long-term agreements and procurement planning. Management has taken note of a few cases of non-compliance of procurement procedures at the local level as well as the need for obtaining necessary permission while placing reliance on long-term agreements entered into by other United Nations organizations. Introduction of e-procurement at country level, a core procurement component of new ERP, would help strengthen this area.

iv. Information and communication technology (ICT)

63. UNFPA management has taken note of the ICT high-risk areas, including the design of the new enterprise resource planning system, associated controls, and capacity gaps as well as its impact on the business applications. As acknowledged by OAIS, the module on strengthening the governance and execution of technology projects was fully implemented in 2018 and thereby providing additional assurance over the design and functionality of controls in this area. UNFPA management will design appropriate mitigation strategies to fully address the identified risks during the ongoing implementation of the ICT transformation project.

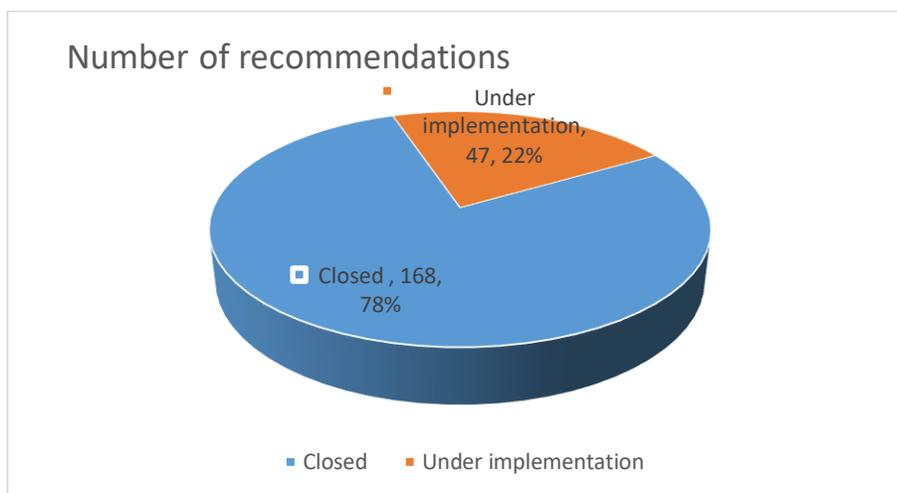
V. Follow-up of internal audit recommendations

Audit recommendations analysis

64. Management takes note of 162 new recommendations issued in 2018, with 136 about country offices audits and 26 about regional offices. The programme management areas continued to account for a larger proportion of recommendations followed by operations management, with a slight decline in 'high-priority' recommendations. In the type of recommendations, 'compliance' continued to predominate between 2017 and 2018, while 'insufficient guidance' predominated and increased in 2018, compared to 2017.

Outstanding recommendations

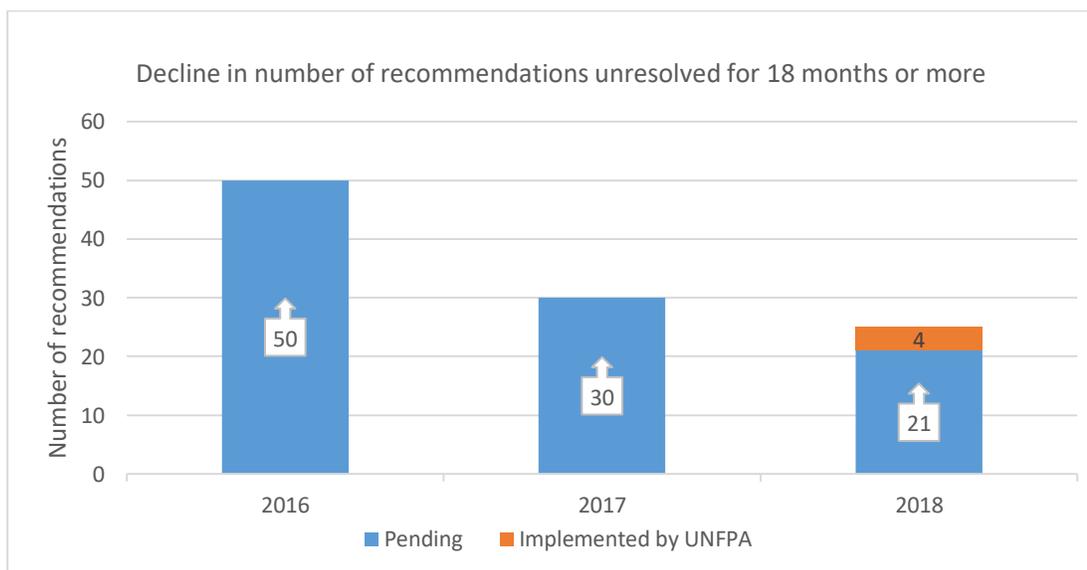
65. Management is pleased to note that, in large part due to the regular follow-up by the AMC Secretariat and timely pre-assessment of the business unit responses, the percentage of closed recommendations has increased over previous years. To this end, 168 of 215 recommendations, due for implementation in 2018, were successfully implemented and closed.



66. A total of 162 new recommendations were issued in 2018; 59 are due for implementation in 2019. Out of 215 recommendations that were due for implementation in 2018, 168 recommendations were closed. UNFPA has also made progress in implementing pending recommendations (for 2010-2014) and reduced them from four to one. Efforts are underway to address the remaining outstanding recommendations for the above period. UNFPA remains committed to implementing them fully through regular follow-up with the relevant business units through the AMC.

Recommendations unresolved for 18 months and more

67. As of April 2019, 21 recommendations remained pending for 18 months or more, compared to 30 in 2017 and 50 in 2016. Out of the 21 recommendations, 7 refer to the procurement processes; 1 pertains to ICT processes (excluding 4 GPS-related already marked implemented by UNFPA); 6 pertain to three country offices and the remaining 7 to three organization-wide processes. UNFPA management, through the AMC, is closely monitoring the implementation of these remaining 21 recommendations.



VI. Conclusion

68. UNFPA management welcomes the positive overall conclusion in the OAI report that in 2018 it continued to demonstrate its commitment to increasing the effectiveness of the governance, risk management, and control processes. UNFPA has full confidence in the OAI leadership and its support to management in ensuring the accountability of the organization. Management also acknowledges its valuable advice.

Section II

Management response to the annual report of the Audit Advisory Committee (DP/FPA/2019/6/Add.2)

1. In accordance with Executive Board decision 2008/37, UNFPA management provides a response to the annual report of the Oversight Advisory Committee (the Committee).
2. UNFPA acknowledges and welcomes the 2018 annual report of the Committee. The organization benefited from regular consultations with the Committee throughout 2018, and would like to express its gratitude to the Chairperson and the members of the Committee; their professional expertise, commitment, and guidance have been invaluable in strengthening UNFPA management practices.
3. Management also takes note of the revision in terms of reference and name change to “Oversight Advisory Committee” to reflect its wide-ranging mandate and its interactions with the Ethics Office, the Evaluation Office, and the Vendor Review Committee (VRC). These changes are duly reflected in the revised terms of reference approved by the Executive Director in Jan 2018.
4. Management takes note of the three OAC meetings held in 2018 as well the field visits to Indonesia country office and Asia and Pacific regional office in Bangkok to familiarize themselves with the on-site UNFPA operations and to better understand the issue and challenges faced by UNFPA.
5. Management appreciates the positive comments on the action taken so far. It is the organization’s collective priority to prevent any form of sexual wrongdoing, to support those affected by it and to ensure that the principle of zero tolerance, enshrined in the UNFPA oversight policy since 2008, is applied. Management is committed to nurturing a safe and respectful environment, which safeguards recipients of assistance and those working for UNFPA.
6. Management appreciates the encouragement expressed to UNFPA in the annual report of the Committee, and acknowledges the advisory role in providing valuable inputs in a number of areas: (a) the approval of the revised integrated budget following a consultative process carried out by UNFPA with the Member States; and (b) addressing the overall funding situation and the organization’s need to address risks associated with reaching out to private-sector donors. UNFPA looks forward to receiving similar advice, guidance and support from the Committee in the coming years.
7. Management takes note of the Committee’s comments on the information and communication technology (ICT) transformation project, including implementation of a new Enterprise Resources Planning (ERP) system and associated interface challenges with UNDP. Management welcomes the Committee’s decision to follow up on the progress of the project, including data migration, interface challenges and related control issues.
8. Management values the Committee’s interest in closely reviewing and following on the United Nations development system reforms and change management process.

Management appreciates the Committee's acknowledgment of the important progress made in implementing comprehensive resources review as well as other ongoing concurrent workstreams on other change initiatives.

9. Management appreciates the Committee's advice to ensure the quality control of spot checks. Management will continue its ongoing efforts to improve staff capacities to undertake quality spot checks. Management noted the Committee's concern with the costs resulting from multiple levels of controls; it will, as advised, give due attention to cost-benefits and avoidance of duplicate controls.

10. Management appreciates the acknowledgment of the notable progress in putting a place an effective ERM. In 2019, management will focus on the development of ERM policy and risk appetite statements as well as further improving the quality of assessments and taking UNFPA ERM to next maturity level.

11. Management notes the acknowledgment of substantial progress on key policies and overall strengthening of the second line of defense in terms of controls and remediation activities and the progress made in implementing JIU recommendations on fraud prevention, detection and response. The anti-fraud strategy document is complete, and will be issued in May 2019. Also in 2019, UNFPA will finalize the development of an inter-agency anti-fraud training for implementing partners and a comprehensive 'fraud scenarios guidance package' for the staff.

12. UNFPA Management takes note of the Committee's strategic advice on the implementation of a new human resource strategy, and is committed to putting in place an authorization-and risk matrix to decentralize decision-making and eliminate bottlenecks in recruitment.

Advice related to the Vendor Review Committee (VRC)

13. Management takes note of Committee's concern of expediting the backlog of cases. Management also appreciates the Committee's recommendations to increase the relevance of the about the Vendor Review Committee (VRC), and will explore the possibility of expanding the VRC with an external member and for it to prepare an annual report summarizing its work and citing improvements to the procurement process based on lessons learned.

Advice related to the Audit Monitoring Committee (AMC)

14. UNFPA management appreciates the Committee's appreciation regarding the significant role the Audit Monitoring Committee (AMC) continues to play in managing and follow-up on internal and external audit recommendations. This has yielded the desired positive outcome in reducing the number of outstanding recommendations from both the Board of Auditors and the Office of Audit and Investigation Services (OAI). As noted by the Committee, the Audit Monitoring Committee will continue to address high-risk recommendations.

Advice related to the Evaluation Office

15. UNFPA appreciates the Committee's appreciation on the adoption of the revised evaluation policy and clarity regarding the cycle of evaluations. Management takes note of Committee's recommendation of prioritizing an increase in the number of decentralized evaluations and the associated policy provision in funding. Management also takes note of the Committee's continuous follow-up on the implementation of evaluation workplan, implementation of recommendations emerging from evaluations and recommendations from the external review completed in 2018.

Advice related to the Office of Audit and Investigation Services

16. UNFPA appreciates the Committee's review and acknowledgment of strengthening of OAIS investigative capacity by addition of two temporary staff in 2019 and 2020, and acknowledges the strain on the existing investigation resources due to increasing investigation cases and departure of several senior resources in 2018. In response to this, management has made additional resources available to OAIS in the current budget cycle.

Advice related to the United Nations Board of Auditors

17. Management appreciates the Committee's final meeting with the outgoing member of the Board of Auditors and introductory meeting with the representatives of the incoming member of the Board of Auditors. Management also welcomes the Committee's appreciation of its continued efforts to implement the outstanding recommendations of the Board of Auditors.

Advice related to the Ethics Office

18. Management acknowledges and appreciates the support of the Committee for the importance of the ethics function and also acknowledge the critical role of ethics office in implementing the organization's zero tolerance for any form of sexual exploitation and abuse, and reiterates its continuing commitment to promoting an organization-wide culture of integrity and accountability.

Conclusion

19. UNFPA reaffirms its commitment to promoting greater accountability and transparency and will continue to launch and improve coordinated management initiatives.

20. UNFPA takes note of the issues the Committee will continue to follow in 2019 and is committed to extending full support.

21. Management appreciates the advice and counsel provided by the Committee in 2018. UNFPA would like to convey thanks to all Committee members – Mr. Ariel Fiszbein (Argentina), Mr. Edward Ouko (Kenya), and Mr. Louis Wong (Australia); and the Chair, Ms. Enery Quinones (United Kingdom) – for their leadership, guidance and valuable advice throughout the year 2018.
