



14 April 2023

Annex 1

Basis of the 2022 OAI opinion on the UNFPA governance, risk management, and internal control processes

Report of the Office of Audit and Investigation Services on UNFPA internal audit and investigation activities in 2022

(DP/FPA/2023/6)

Agenda item 3: UNFPA – Internal audit and investigation

Executive Board of UNDP, UNFPA and UNOPS

Annual session 2023

5 to 9 June 2023

New York

Annex 1: Basis of the 2022 OAIS opinion on UNFPA governance, risk management, and internal control processes

1. In accordance with Executive Board decision 2015/13 of June 2015, OAIS provides, in its annual reports to the Executive Board, an opinion on the adequacy and effectiveness of UNFPA's governance, risk management, and control (GRC) processes. The 2022 opinion is based on the scope and results of work undertaken by OAIS in the year, as set out in the body of the annual report (DP.FPA.2023.6). The overall (organizational level) OAIS opinion on the UNFPA GRC processes is set out in Section III of the annual report. This annex provides additional details on the basis, scope, and exclusions of the overall opinion.
2. The overall opinion of OAIS is that the UNFPA GRC processes were '*partially satisfactory, with some improvement needed*,' which means that these systems and processes were adequately designed and operating effectively but needed some improvement to provide reasonable assurance that the objectives of the audited business units or processes could be achieved. None of the issues identified, however, were assessed as having the potential to seriously compromise that achievement.
3. The opinion is based on the following:
 - (a) Results of OAIS audits concluded and reported between 1 January and 31 December 2022 in implementing the risk-based audit plan for 2022, and cumulative audit knowledge and experience stemming from OAIS audits completed in previous years, as considered relevant;
 - (b) Status of implementation of internal audit recommendations;
 - (c) Second line of defence controls based on reports obtained from management;
 - (d) Consideration of material deficiencies in the overall UNFPA framework of governance, risk management and controls that might individually or collectively diminish the achievement of the organization's objectives, as noted in the following:
 - (i) Harmonized approach to cash transfers audits;
 - (ii) Control self-assessments completed by country offices, regional offices and certain headquarters business units in 2022;
 - (iii) Findings and recommendations reported by the United Nations Board of Auditors in its observation memoranda for the audit of the UNFPA financial statements for 2022;
 - (iv) Substantiated investigation cases in 2022 involving allegations impacting UNFPA financial resources, personnel and beneficiary well-being, as well as overall reputational risks; and
 - (v) Results of strategic and fraud-risk assessments completed as part of the enterprise risk management (ERM) process implemented by management, to the extent available, when preparing this opinion.
4. In April 2023, OAIS received a letter from management indicating actions/decisions taken to address matters raised in the OAIS 2021 opinion on the organization's GRC. These are reflected in paragraphs 21 to 24.
5. In 2022, OAIS conducted its internal audit work, as well as rendered its overall opinion on UNFPA's GRC processes in conformance with the International Standards for the Professional Practice of Internal Auditing (hereafter referred to either as ISPIIA or the *Standards*) and the Code of Ethics of the Institute of Internal Auditors, which were adopted for use by the Representatives of the Internal Audit Services of the United Nations system organizations in June 2002.
6. Consistent with previous years, in 2022 UNFPA outsourced significant functions and business processes 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; (e) hosting and management of the then enterprise resource planning (ERP) system (Atlas); and (f) other information technology services. UNFPA management relied on the management and fiduciary oversight activities undertaken by the United Nations organizations to which the functions were outsourced with respect to the adequacy and effectiveness of the related governance, risk management, and internal control processes. The outsourced functions are subject to the provisions on internal audit provided for in the respective United Nations organizations' policies and procedures and are not covered by the OAIS opinion. OAIS received confirmation from UNDP's Office of Audit and Investigations that most of these outsourced functions have been covered by its audits in recent years ranging from

7. UNFPA also outsourced numerous information and communications technology functions, including the hosting of significant systems (e.g., email, cloud storage, website hosting), to third-party service providers. These are subject to the provisions on internal audit provided for in the respective third parties' policies and procedures and are also not covered by the OAIS opinion.

Results of audits concluded in implementing the 2022 risk-based audit plan

8. OAIS provides opinions on the organization's GRC processes at two different levels: (a) at the engagement level, as indicated in Table 1 below; and (b) at the organizational level, as described in paragraph 2 above. Accordingly, on the basis of the results of audit engagements concluded in 2022, and in conformance with the *Standards*,¹ OAIS provided engagement level GRC opinions (country or regional offices, business units or processes), which were reflected in the respective internal audit reports. Table 1 shows that, in 2022, 67 per cent (80 per cent in 2021) of the audit engagements concluded were assessed as '*partially satisfactory, with some improvement needed*', while 33 per cent (nil in 2021) were assessed as '*partially satisfactory, with major improvement needed*'. Although, at 33 per cent, the percentage of reports assessed as '*partially satisfactory, with major improvement needed*' increased, none of the issues identified in the specific three internal audit reports were assessed as being significant enough as to seriously compromise the achievement of UNFPA objectives.

Table 1: Ratings for audits/assessments undertaken in 2022 vs. 2021

Ratings	2022	% of total	2021	% of total
Satisfactory	0	0%	0	0%
Partially satisfactory, with some improvement needed	6	67%	8	80%
Partially satisfactory, with major improvement needed	3	33%	0	0%
Unsatisfactory	0	0%	0	0%
Different rating scale ²	0	0%	2	20%
Total number of reports	9		10	

Status of implementation of audit recommendations

9. The 9 audit reports issued in 2022 (see Table 1) resulted in 106 recommendations (see Table 2), which represents a 56 per cent increase compared to the 68 recommendations issued in the 10 reports of 2021. Of the 106 recommendations, 63 were rated as 'high priority' (38 in 2021).

10. Review of outstanding recommendations as of 31 December 2022 showed an increase from prior year levels. As of that date, there were 115 outstanding recommendations compared to 71 at the end of 2021 (see Table 2). Of the 115 outstanding recommendations in 2022, 109 had due dates for implementation in 2023 and beyond. Five of the remaining six recommendations were outstanding for less than 12 months and the remaining one is for between 12 and 18 months. No recommendation was outstanding for more than 18 months, an improvement from 2021 when there were five.

11. No recommendation was closed in 2022 based on management disagreement, management's acceptance of risks, or being overtaken by events and therefore no longer applicable.

¹ ISPPA 2410.A1 – Opinion at the engagement level

² The assessment of the ERM was rated as "Developing" and the outsourced financial audit of a project in Guatemala had an unqualified audit opinion and no audit recommendation was provided.

Table 2: Recommendations by audit area and priority rating – 2021 and 2022

	Priority Rating					
	High	Medium	Total	High	Medium	Total
Recommendations issued:	2022			2021		
Governance	27	5	32	17	2	19
Programme Management	28	17	45	11	10	21
Operations Management	8	21	29	10	18	28
Sub-total of recommendations issued during the year (%)	63	43	106	38	30	68
	59	41	100	56	44	100
Outstanding recommendations:	31-Dec-22			31-Dec-21		
Governance	29	5	34	17	3	20
Programme Management	9	18	27	12	8	20
Operations Management	30	24	54	12	19	31
Sub-total outstanding recommendations at year end (%)	68	47	115	40	31	71
	59	41	100	56	44	100

12. As indicated in paragraphs 3 (c) and (d), OAIS also took into consideration the following processes and control mechanisms that UNFPA management put in place in implementing its internal control framework and risk management. These include audits of funds transferred to implementing partners, control self-assessments completed by business units in 2022, the results of the organization's ERM process, as well as reported actions and decisions taken to address matters raised in the OAIS 2021 opinion on UNFPA's GRC processes. This practice conforms with the *Standards*³ and is outlined in the following paragraphs.

Audits of fund transfers to implementing partners

13. Management engages external professional services firms to conduct independent audits of fund transfers to implementing partners under the harmonized approach to cash transfer (HACT).⁴

14. OAIS leverages the results of HACT audits to obtain additional assurance on how the cash transfers are made and accounted for. For purposes of the 2022 OAIS annual report, results of the 2021 audits were considered.

15. Table 3 below indicates the total expenditures audited and the audit opinions in each year over a three-year period (2019-2021).⁵ Expenditures incurred by implementing partners increased from \$347 million in 2019 to \$405 million in 2021, an increase of \$58 million (17 per cent). Audit coverage of the expenditures also increased from \$215 million to \$229 million, an increase of \$14 million or 7 per cent.

16. In terms of audit opinions, unmodified⁶ audit opinions for 2021 implementing partner financial statements were 93 per cent of total audit reports issued (93 per cent in 2019). The percentage of modified opinions (qualified⁷ or adverse⁸ or disclaimer⁹) remained at 7 per cent in 2022, compared to 2019. Out of 287 audit reports issued in 2021,

³ Standard 2050

⁴ The Harmonized Approach to Cash Transfers (HACT) framework was first adopted in 2005 by UNDP, UNICEF, UNFPA and WFP, and represents a common operational (harmonized) framework for transferring cash to government and non-governmental IPs.

⁵ Data provided by the Quality Management Unit of the Division for Management Services. At the time of writing this report, information on audit opinions rendered on implementing partner financial statements for the year ending 2022 was not yet available, hence the use of 2021 data.

⁶ An unmodified opinion is expressed when the auditor concludes that the financial statements and notes of the audited entity presents fairly, in all material respects, the financial position and results of its operations for the audited period in conformity with the relevant accounting principles and standards.

⁷ A qualified opinion is expressed when the auditor concludes that an unqualified opinion cannot be expressed but that the effect of any disagreement with management, or limitation on scope is not as material and pervasive as to require an adverse opinion or a disclaimer of opinion. A qualified opinion should be expressed as being 'except for' the effects of the matter to which the qualification relates.

⁸ An adverse opinion is expressed by an auditor when the financial statements are significantly misrepresented, misstated, and do not accurately reflect the expenditure incurred and reported in the financial statements (statement of expenses, statement of cash, statement of assets and equipment).

⁹ A disclaimer opinion is expressed when the possible effect of a limitation on scope is so material and pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence and, accordingly, is unable to express an opinion on the financial statements.

16 had qualified opinions, 4 had adverse opinions, one was a disclaimer of opinion and the rest were unqualified or clean opinion..

Table 3: Results of implementing partner HACT audits 2019-2021⁵

Indicator	2021	2020	2019
Total implementing partner actual expenditures (<i>millions of \$</i>)	405	384	347
Audit coverage			
Implementing partner expenses audited (<i>millions of \$</i>)	229	251	215
Percentage of implementing partner expenses audited compared to total expenses incurred (%)	56	65	62
Audit opinions			
Number of issued audit reports	287	325	282
Number of reports with unmodified opinion	266	300	264
Number of reports with qualified opinion	16	24	17
Number of reports with adverse opinion	4	1	-
Number of reports with a disclaimer opinion	1	-	1
Percentage of unmodified opinions (%)	93	92	93
Percentage of modified opinions (qualified, adverse & disclaimer) (%)	7	8	7

The 2022 Control Self-Assessment

17. A control self-assessment exercise was conducted by management in 2022. It focused on 60 business units, with other business units having the option to also participate. Responses were received from 61 business units, the results of which are presented in Table 4. The assessment comprised 59 questions covering governance, programme management, and operations management.

18. Overall, the UNFPA control self-assessment for 2022 showed a minor deterioration compared to 2021, with controls assessed as "effective" decreasing in several areas such as office governance, human resources management, travel, accounting, value-added tax, programme coordination and assistance, facilities management, information technology, and security management. The decrease in the areas was by between one and two per cent. Conversely, there were marginal increases in controls assessed as "effective but requiring some improvement" in several areas, including programme management, human resources management, travel, accounting, value-added tax, programme coordination and assistance, and facilities management, information technology, and security management, all increasing by one per cent.

Table 4: Results of the Control Self-Assessment for 2022 and 2021¹⁰

Area	2022			2021		
	Effective	Effective - but some improvement needed	Not effective - major improvement needed	Effective	Effective - but some improvement needed	Not effective - major improvement needed
Office governance (%)	74	24	2	75	24	1
Programme management (%)	71	28	2	69	29	2
Operations management: Human resources (%)	73	26	1	74	25	1
Operations management: procurement, supplies, and assets management (%)	76	22	2	75	23	2
Operations management: travel, accounting, VAT, PCA, facilities (%)	83	16	1	84	15	1
Operations management: IT, security management (%)	78	20	2	80	19	1

The Enterprise Risk Management

19. In 2022, UNFPA made significant progress in implementing recommendations made by OAIS in its assessment of the UNFPA ERM process.¹¹ To this end, a new ERM policy was formally issued in April 2022, aligning with the Risk Maturity Model developed by the High-level Committee on Management (HLCM) and relevant benchmarks included in a JIU report on United Nations system organizations' ERM processes.¹² The policy provides a clearer definition and guidance on various aspects of ERM such as risk identification, assessment, response, escalation, and monitoring. The organization designated a Chief Risk Officer, supported by an "Enterprise Risk Management Secretariat (ERMS)" and a new risk management post established in 2022 to strengthen the ERM process.

20. In November 2022, UNFPA issued a comprehensive risk appetite statement, endorsed by the Executive Committee, to operationalize the ERM process. In addition, following endorsement by the Executive Committee, the organization, in December 2022, formed six regional risk committees and one headquarters risk committee with clearly defined terms of reference, a crucial mechanism for validating risk assessments and mitigation plans and for deciding on risk escalation. OAIS is an observer member of both the corporate and regional risk management committees. ERMS is currently enhancing the corporate Strategic Information System 'myRisks' application used for managing the ERM process, to align it to the new ERM policy and to further integrate it with the organization's internal control framework. Therefore, in 2022, management demonstrated its commitment to implement and mainstream robust ERM processes and systems to mitigate risks effectively. These ongoing initiatives for improvement are expected to ensure better risk management in the future.

Management letter on actions taken in 2022 on matters raised in the 2021 OAIS opinion

¹⁰ Chart based on data obtained from the Quality Management Unit of the Division for Management Services.

¹¹ Assessment of the UNFPA Enterprise Risk Management (ERM) Process, Report No. IA/2021-04, July 2021.

¹² Enterprise Risk Management: approaches and uses in the United Nations system organizations, October 2020 (JIU/REP/2020/5).

21. Management provided a letter to OAIS in April 2023, indicating actions taken to address matters raised in the 2021 OAIS opinion on the organization's GRC processes and internal audit reports issued in 2022. While some of the actions indicated were already considered in the audits conducted and in the follow-up of implementation of previous years' audit recommendations, the following statements from management were considered in the formulation of the 2022 overall opinion on UNFPA GRC processes.

22. Governance and risk management:

- (a) On organizational structure and staffing, the UNFPA created organizational development professional and regional human resource teams to improve support to country offices. Guidance materials, standardized templates, and a continuous feedback mechanism were developed to facilitate higher quality submissions of requests for realignment and staffing. The launch of the Resource Management Committee in 2022 has helped streamlined the review process for realignments and post requests with financial implications.

23. Programme management:

- (a) On workplan management and monitoring controls, capacity building efforts continued to improve workplan management through training, certification, webinars, and updating of relevant policies and procedures for the management of cash transfers to implementing partners and preparation, management and monitoring of workplans, all of which were recommended through OAIS remote audit and monitoring audits.
- (b) Resource-based management training was conducted for all regional offices and the development of a new policy on results planning, monitoring, and reporting was ongoing at the time of writing this report. The corporate Global Programming System (GPS) remained in use throughout 2023, allowing for controlled processing of year-end fund authorization and certificate of expense (FACE) forms and accurate expense recording in Atlas. A dedicated Shared Service Unit (SSU) was established to ensure smooth functioning of GPS-Quantum¹³ integration. The upcoming Plan-2-Report solution in Quantum, set to deploy at the end of 2023, is expected to enable further improvements in resource-based management, workplan management, and budget preparation, while maintaining seamless implementing partner cash transfer processing.
- (c) On the management of implementing partners, UNFPA continued implementing measures to broaden HACT coverage, resulting in high completion rates of implementing partner assurance activities for 2021 and 2022. A revised HACT micro assessment methodology, developed with other UN partners in 2022, was released in January 2023, enabling better implementing partner risk and capacity assessments. The implementing partner risk assessments were further enhanced through the inclusion of the "INFORM" contextual risk indicator. In December 2022, a guidance note was issued to improve implementing partner engagement and to address audit recommendations. The United Nations Partner Portal (UNPP) was fully rolled out in 2022, facilitating enhanced information sharing on implementing partners and risk management across the UN system. Additionally, the Implementing Partner Review Committee became fully operational, clearing its backlog by the end of 2022.
- (d) On the supply-chain management, inventory controls and Last Mile Assurance processes transitioned from the Division for Management Services to the Supply Chain Management Unit. Audit-identified issues regarding receiving, inspection, and handover of supplies to implementing partners were, in part, due to limited capabilities of the corporate Shipment Tracker system that will be addressed in the implementation of a new inventory management solution, which currently stands as deferred to late 2023. Meanwhile, more robust second-line controls were maintained, including continuous monitoring of Shipment Tracker transactions, proper documentation support, and a risk-based periodic inventory monitoring and certification process, to ensure accurate inventory balances reported by field offices.

24. Operations management:

¹³ Quantum is the new enterprise resource planning system that was implemented as from 2023. Prior to Quantum, Atlas was in use.

- (a) On procurement, management continued actions to address field office procurement capacity gaps and challenges by monitoring critical procurement processes at country office level through the Strategic Information System's results framework.
- (b) On financial management, management continued to perform strong second line controls, including detailed reviews of expenses as part of the year-end closure process, designed to detect and correct account miscoding and mitigate its impact.
- (c) On humanitarian response, at the time of writing this report, this area is being enhanced to allow better preparedness and more agile and faster response mechanisms, with stabilization and increased availability of centrally managed funds for humanitarian operations, reorganization of the Humanitarian Office, introduction of fast-track procedures, and integration of the nature of humanitarian operations in the ERM policy by setting them up as a stand-alone component of the Integrated Risk Framework.
- (d) On Censuses, due to the Covid-19 pandemic, census taking activities continued to be limited in 2021. This was, however, remediated by adopting new modes of capacity strengthening in e-Learning, guidelines, remote webinars, and generating extensive guidelines for safely conducting a census under pandemic conditions.

25. OAIS will continue to follow through the completion and implementation of the above actions in follow-up audits, validation of implementation of audit recommendations, participation as observer in Oversight Compliance Monitoring Committee meetings, review of new policies, procedures and guidance, and in the course of providing advisory services.