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## **Annex 2**

### **Basis of the 2024 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 2024**

**(DP/FPA/2025/6)**

#### **Agenda item 3: UNFPA – Internal audit and investigation**

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## **Annex 2: Basis of the 2024 OAS opinion on UNFPA governance, risk management, and internal control processes**

1. In accordance with Executive Board decision 2015/13 of June 2015, OAS 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 2024 opinion is based on the scope and results of work undertaken by OAS in the year, as set out in the body of the annual report (DP.FPA.2025.6). The overall (organizational level) OAS 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 OAS is that the UNFPA GRC processes were '*partially satisfactory, with some improvement needed*,' which means that the assessed 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. The issues and improvement opportunities identified did not significantly affect the achievement of the audited entity/area objectives. Management action is recommended to ensure that identified risks are adequately mitigated.

3. The opinion is based on the following:

- (a) Results of OAS audits concluded between 1 January and 31 December 2024 and cumulative audit knowledge and experience stemming from OAS audits completed in previous years, as considered relevant;
- (b) Status of implementation of internal audit recommendations;
- (c) Second line 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) Findings and recommendations reported by the United Nations Board of Auditors in its observation memoranda for the audit of the UNFPA financial statements for 2024;
  - (iii) Substantiated investigation cases in 2024 involving allegations impacting UNFPA financial resources, personnel and beneficiary well-being, as well as overall reputational risks; and
  - (iv) 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 March 2025, OAS received a letter from management indicating actions/decisions taken to address matters raised in the 2023 OAS opinion on the organization's GRC processes. These are reflected in paragraphs 21 to 24.

5. In 2024, OAS 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 ISPPA 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 2024, 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 new enterprise resource planning (ERP) system "Quantum"; 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 2017 to 2024.

7. UNFPA also outsourced numerous information and communications technology functions, including the hosting of key 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 2024

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, based on the results of audit engagements concluded in 2024, and in conformance with the *Standards*,<sup>1</sup> 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 2024, 18 per cent (17 per cent in 2023) of the audit engagements concluded were assessed as ‘satisfactory’, 54 per cent (50 per cent in 2023) ‘partially satisfactory, with some improvement needed’, while 18 per cent (29 per cent in 2023) were assessed as ‘partially satisfactory, with major improvement needed’. Ten per cent of the reports (4 per cent in 2023) were ‘unsatisfactory’.

9. None of the issues identified in the reports assessed as ‘partially satisfactory, with major improvement needed’ or ‘unsatisfactory’ were significant enough as to seriously compromise the achievement of UNFPA objectives.

**Table 1: Ratings for audits/assessments undertaken in 2024 vs. 2023**

Ratings	2024	% of total	2023	% of total
Satisfactory	5	18	4	17
Partially satisfactory, with some improvement needed	15	54	12	50
Partially satisfactory, with major improvement needed	5	18	7	29
Unsatisfactory	3	10	1	4
Different rating scale <sup>2</sup>	0	0	0	0
<b>Total number of reports</b>	<b>28</b>		<b>24</b>	

#### Status of implementation of audit recommendations

10. The 28 audit reports issued in 2024 (see Table 1) resulted in 205 recommendations (see Table 2), which represents a 15 per cent decrease compared to the 235 recommendations issued in the 24 reports of 2023. Of the 205 recommendations, 84 were rated as ‘high priority’ (123 in 2023).

11. Review of outstanding recommendations as of 31 December 2024 showed a decrease from prior year levels. As of that date, there were 203 outstanding recommendations compared to 294 at the end of 2023 (see Table 2). Of the 203 outstanding recommendations in 2024, 171 had due dates for implementation in 2025 and beyond. The remaining 32 recommendations were overdue for implementation, with 31 outstanding for less than 12 months, and one for periods between 12 and 18 months.

12. Two recommendations related to a business process audit report issued in 2022 were closed in 2024 based on management’s acceptance of risk. Management indicated that one, a high priority recommendation to link travel with work plan activities in the enterprise resource planning system, could not be implemented as the functionality was outside the travel module’s scope, with the existing travel approval controls mitigating any pertinent risks. For the other, a medium priority recommendation to enhance travel process transparency through customization of the shared travel module with other agencies using the same enterprise resource planning system, management indicated that its implementation was not feasible, and that existing manual processes adequately addressed the risk raised by the audit.

<sup>1</sup> ISPPA 2410.A1 – Opinion at the engagement level

<sup>2</sup> 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 – 2024 vs. 2023**

	Priority Rating					
	High	Medium	Total	High	Medium	Total
<b>Recommendations issued:</b>	<b>2024</b>			<b>2023</b>		
Governance	31	30	61	47	34	81
Programme Management	40	36	76	53	41	94
Operations Management	13	52	65	19	36	55
Application Controls	-	3	3	-	-	-
Support to and Oversight of Country Offices	-	-	-	4	1	5
<b>Sub-total of recommendations issued during the year (%)</b>	<b>84</b>	<b>121</b>	<b>205</b>	<b>123</b>	<b>112</b>	<b>235</b>
	<b>41</b>	<b>59</b>	<b>100</b>	<b>52</b>	<b>48</b>	<b>100</b>
<b>Outstanding recommendations:</b>	<b>31-Dec-24</b>			<b>31-Dec-23</b>		
Governance	36	28	64	65	35	100
Programme Management	41	32	73	72	49	121
Operations Management	16	46	62	26	43	69
Application Controls	-	3	3	-	-	-
Support to and Oversight of Country Offices	1	-	1	3	1	4
<b>Sub-total outstanding recommendations at year end (%)</b>	<b>94</b>	<b>109</b>	<b>203</b>	<b>166</b>	<b>128</b>	<b>294</b>
	<b>46</b>	<b>54</b>	<b>100</b>	<b>56</b>	<b>44</b>	<b>100</b>

13. As indicated in paragraphs 3 (c) and (d), OASIS 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, the results of the organization’s ERM processes, as well as reported actions and decisions taken to address matters raised in the OASIS 2023 opinion on UNFPA’s GRC processes. This practice conforms with the *Standards*<sup>3</sup> and is outlined in the following paragraphs.

### **Audits of fund transfers to implementing partners**

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

15. OASIS leverages the results of HACT audits to obtain additional assurance on how the cash transfers are made and accounted for. For purposes of the 2024 OASIS annual report, results of the 2023 audits were considered.

16. Table 3 below indicates the total expenditures audited and the audit opinions rendered in each year over a three-year period (2021-2023). Expenditures incurred by implementing partners increased from \$462 million in 2022 to \$477 million in 2023, an increase of \$15 million (3 per cent). Audit coverage of the expenditures in 2023 remained constant at \$335 million in comparison to 2022 and represents 70 per cent of expenditures incurred by implementing partners in 2023 (73 per cent in 2022).

<sup>3</sup> Standard 2050

<sup>4</sup> 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.

17. In terms of audit opinions, unmodified<sup>5</sup> audit opinions for 2023 implementing partner financial statements were 92 per cent of total audit reports issued (93 per cent in 2022). The percentage of modified opinions (qualified<sup>6</sup> adverse<sup>7</sup> or disclaimer<sup>8</sup>) was 8 per cent in 2023, compared to 7 per cent in 2022.

18.

**Table 3: Results of implementing partner HACT audits 2021-2023<sup>9</sup>**

<b>Indicator</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>
Total implementing partner actual expenditures ( <i>millions of \$</i> )	477	462	405
<b>Audit coverage</b>			
Implementing partner expenses audited ( <i>millions of \$</i> )	335	335	229
Percentage of implementing partner expenses audited compared to total expenses incurred (%)	70	73	56
<b>Audit opinions</b>			
Number of issued audit reports	410	432	287
Number of reports with unmodified opinion	377	400	266
Number of reports with qualified opinion	33	28	16
Number of reports with adverse opinion	-	4	4
Number of reports with a disclaimer opinion	-	-	1
<b>Percentage of unmodified opinions (%)</b>	<b>92</b>	<b>93</b>	<b>93</b>
<b>Percentage of modified opinions (qualified, adverse &amp; disclaimer) (%)</b>	<b>8</b>	<b>7</b>	<b>7</b>
<b>Unsupported costs arising from modified opinions (<i>millions of \$</i>)</b>	<b>3.1</b>	<b>1.2</b>	<b>2.1</b>

## Enterprise Risk Management

19. In 2024, UNFPA focused on strengthening its ERM framework to address issues raised in the 2023 OAIS opinion of UNFPA's GRC processes and audit reports issued in 2024. The key initiatives undertaken were as follows:

- (a) Capacity enhancement through training – UNFPA rolled out extensive training programmes, including a comprehensive session for ERM focal points in the Arab States region, featuring a structured programme, which included curriculum development, participant coordination, and logistics management. Targeted workshops were organized at headquarters to strengthen risk management practices at the headquarters level.
- (b) Risk response standardization – Since launching the new ERM Policy in December 2023, more than 80 per cent of country offices and all headquarter business units successfully completed their risk assessments and designed the corresponding risk responses. The efforts were validated by regional risk communities, addressing the assessment and design concerns previously raised by OAIS. UNFPA plans to launch the risk response phase for all country offices in March 2025. The initiative will help standardize the tracking and management of risk response measures, ensuring full alignment with corporate ERM requirements.

<sup>5</sup> 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.

<sup>6</sup> 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.

<sup>7</sup> 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).

<sup>8</sup> 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.

<sup>9</sup> 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 2024 was not yet available.

- (c) Headquarters oversight strengthening – The organization fully operationalized the Headquarters Risk Committee for active engagement in risk validation, reinforcing the committee’s role as a key governance mechanism, as foreseen in policy.
- (d) Reputational risk integration – UNFPA aligned ERM with the SHIELD protocol, a methodology and set of tools to help prepare for, mitigate, and respond to reputational risk, to better manage reputational risks and conducted multiple training sessions across all regions to equip country offices with tools for proactive management of the risks.
- (e) System improvements – To actively track and manage risks identified and the corresponding risk response measures using the corporate ERM tool, UNFPA is planning updates to the tool starting with an interim solution to maintain continuity in risk management. The initiative will be piloted in phases as from March 2025.

20. The above initiatives contributed to an improvement in the completion of risk assessments by the mandated country and regional offices, with a noticeable reduction in the number of OASIS audits in 2024 reporting insufficient implementation of risk management processes as a recurring common and high-risk issue compared to 2023. Country and regional offices should build on this commendable progress to timely develop, implement, and report on action plans to identify, assess, and mitigate critical or high risks through the evolving corporate risk management tool.

### **Management letter on actions taken in 2024 on matters raised in the 2023 OASIS opinion on UNFPA’s GRC processes**

21. Management provided a letter to OASIS in March 2025, indicating actions taken to address matters raised in the 2023 OASIS opinion on the organization’s GRC processes and internal audit reports issued in 2024. While some of the actions indicated were already considered in the audits conducted and in the implementation follow-up of previous years’ audit recommendations, the following information provided by management on actions taken or planned was considered in the formulation of the 2024 overall opinion on UNFPA GRC processes.

22. Governance:

- (a) On organizational structure and staffing, UNFPA supported its country offices in conducting human resource realignment exercises to optimize their structures for effective programme delivery and operations. Additionally, UNFPA introduced a fully integrated results and resource planning system in QuantumPlus,<sup>10</sup> enhancing the organization’s ability to align resources with programme needs and improve staffing arrangements.

OASIS audits in 2024 continued to indicate, as a recurring common issue, a need to conduct timely comprehensive reviews of country offices’ organizational structures and staffing arrangements, especially in the context of new programme cycles, and to expedite recruitment processes for vacant positions. The initiatives undertaken by management in 2024 to support realignment exercises and enhance resource planning through QuantumPlus, should contribute to improvements in this area soon.

- (b) On results planning and reporting, UNFPA rolled out QuantumPlus in 2024, introducing a fully integrated results and resource planning system. The system enhances the organization’s ability to plan, monitor, and report on results by connecting results with resource allocations and programme implementation in one comprehensive tool. QuantumPlus also includes workflows to enforce quality assurance processes over planning, monitoring, and reporting, addressing previously identified gaps in these areas.

OASIS audits in 2024 continued to indicate, as a recurring common issue, but to a lesser degree compared to 2023, a need to train personnel involved in results planning, monitoring, and reporting and to strengthen existing quality assurance review processes, formulation of quality results plans, and monitoring and reporting. The initiatives undertaken by management in 2024, particularly the implementation of QuantumPlus and additional enhancements planned for 2025, should further reduce recurrence of the issue.

23. Programme management:

- (a) On implementing partner management, UNFPA continued to advocate for the use of competitive selection processes through the United Nations Partner Portal (UNPP). A revised implementing partner policy, expected in 2025, will mandate the use of UNPP for partner selection. To address gaps in micro-assessments, the new implementing partner management system in QuantumPlus automatically updates

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<sup>10</sup> The UNFPA integrated results and resources management platform.

risk ratings and adjusts assurance activity thresholds. For Protection from Sexual Exploitation and Abuse assessments, UNFPA achieved 94 per cent completion rates and is working to increase the rate. Additionally, QuantumPlus introduced features to strengthen programme monitoring of implementing partners.

OAIS audits in 2024 continued to indicate, as a recurring common and high-risk issue, the need to improve the management and oversight of implementing partners, including use of competitive partner selection methods, timely conducting assurance activities, and enhancing monitoring controls. The actions taken by management in 2024, including the enhancements to QuantumPlus and the intended mandatory use of UNPP for partner selection, should help minimize future instances of these issues.

- (b) On management of programme supplies, UNFPA implemented several initiatives to strengthen forecasting, quantification, and supply chain management. These include developing a self-paced e-learning course on quantification, conducting regional workshops that trained 208 staff across 81 countries, and providing technical support to country offices. Additionally, 37 in-country assessments were conducted as part of the Last Mile Assurance (LMA) cycle, leading to supply chain strengthening action plans, and quarterly stock reviews expanded to include 139 implementing partners, improving inventory management practices.

OAIS audits in 2024 continued to indicate, as a recurring common issue, but to a much lesser degree compared to 2023, weaknesses in planning, assessment, management, distribution, and monitoring of programme supplies. The initiatives undertaken by management in 2024, particularly the capacity-building efforts and the LMA assessments, should contribute to addressing these weaknesses.

#### 24. Operations management:

- (a) On financial management, UNFPA implemented system enhancements in Quantum and Quantum Plus to strengthen financial controls. These included introducing hard controls for segregation of duties, automating payroll reversals, and rolling out a global travel module to harmonize travel processes. Additionally, UNFPA developed an e-course to strengthen staff capacity to conduct quality spot checks on implementing partners. Further, UNFPA is developing a new financial management dashboard and plans to integrate the Implementing Partner Assurance System (IPAS) replacement into QuantumPlus in 2025, further strengthening oversight of implementing partner financial management.

OAIS audits in 2024 continued to indicate, as a recurring common issue, inadequate controls over financial transactions and excessive use of cash payments. The system enhancements and capacity-building initiatives undertaken by management in 2024 are expected to improve compliance and oversight in financial management.

25. From the foregoing, UNFPA made significant progress in 2024 to bolster its second-line oversight capacity, including improvements in system controls in Quantum and QuantumPlus. 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 while providing advisory services.