



**Executive Board of the
United Nations Development
Programme, the United Nations
Population Fund and the United
Nations Office for Project Services**

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Addendum

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Annual report of the Oversight Advisory Committee

United Nations Population Fund
Oversight Advisory Committee
2022 annual report to the Executive Director

I. Purpose

1. This report is addressed to the Executive Director of UNFPA and provides a summary of the activities and advice of the Oversight Advisory Committee (“OAC, or the Committee”) of UNFPA during 2022. It is submitted pursuant to item 13 of its terms of reference approved in 2021, and in accordance with paragraph 25 (c) of section IV, subsection I of the UNFPA oversight policy.

II. Oversight Advisory Committee activities in 2022

2. *Members of the Oversight Advisory Committee.* Committee members are appointed for three years, renewable once. Committee members possess expertise in risk management, internal control, oversight, governance, financial management and reporting, ethics, investigation, internal audit, evaluation and development and programme matters. All Committee members are external to UNFPA and independent of its management. The members of the Committee in 2022 were: Mr. Stephen Cutts (UK, and Chair of the Committee since 1 July 2022); Mr. Fayezul Choudhury (Bangladesh); Ms. Nyardzayi Gumbonzvanda (Zimbabwe); and Ms. Kumiko Matsuura-Mueller (Japan). Mr. Louis Wong (Australia) served as Chairperson of the Committee between August 2021 and the end of his term on 30 June 2022; he was replaced on the Committee by Mr. Kamlesh Vikamsey (India) who joined on 1 July 2022.

3. *Meetings.* The Committee held four meetings in 2022: a virtual ad hoc meeting on 8 and 9 February; an in-person meeting on 6 and 7 April,¹ a virtual ad hoc meeting on 30 September, and an in-person meeting from 9 to 11 November. In addition, an induction session for the new OAC member was organized on 8 November. Individuals with whom the Committee met included: the Executive Director; the Deputy Executive Director (Management) and the Deputy Executive Director (Programme); the Chief of Staff; the Director, Office of Audit and Investigation Services (OAIS); the Director of the Evaluation Office; the Ethics Adviser; the Director of the Division for Management Services; the Director of the Policy and Strategy Division; the Director of the Division for Communication and Strategic Partnerships; the Director of the Humanitarian Office (now Humanitarian Response Division); the Director of the Division for Human Resources; the Coordinator for Protection from sexual exploitation and abuse and sexual harassment; representatives of the Board of Auditors; and a range of programme and operational senior management. The Chair noted that he met with the JIU in October, as part of the JIU review of management and administration in UNFPA.

4. *Field visit.* The Committee (Mr. Louis Wong, Mr. Stephen Cutts and Ms. Kumiko Matsuura-Mueller) conducted a field visit to the Ecuador country office from 12 to 15 June, and to the Latin America and the Caribbean Regional Office in Panama from 16 to 17 June. Other Committee members attended some of the meetings virtually. The purpose of the visits was to understand better the following:

- (a) Operations of UNFPA at the regional and country office levels, including as they relate to supporting relevant national development plans;
- (b) Challenges facing UNFPA in implementing programmes/projects at the field level and how these are dealt with, including with regard to implementing partners;

¹ One of the members joined this meeting virtually.

- (c) Functioning of inter-agency work on the ground, including in response and contribution to United Nations development system reforms, and in developing and managing strategic partnerships;
 - (d) Opportunities for achieving UNFPA objectives more efficiently and effectively; and
 - (e) Internal controls and compliance concerning supply management.
5. *Executive Board.* To allow members of the Executive Board to have the opportunity to ask questions on the annual report of the Committee for 2021, the Chairperson of the Committee attended the annual session of the Executive Board in June 2022. He also attended the informal session on the report of OAIS to the Executive Board in May 2022. In addition, and in accordance with the revised OAC terms of reference, the Executive Director invited the OAC Chair and the President of the Executive Board to a trilateral meeting to discuss matters of shared interest; this took place on 7 June 2022.
6. *Reporting.* The Committee prepared minutes for each of its meetings as well as written reports to the Executive Director on the outcome of the meetings.
7. *Recommendations.* The Committee made recommendations and suggestions to UNFPA management during its meetings and followed up on the implementation thereof.
8. *Annual assessment of the effectiveness of the Committee.* The Committee undertook a self-assessment of its effectiveness for 2022 and has continually sought to find ways to enhance the effectiveness and efficiency of its work. The Committee deferred the external assessment until the network of oversight/audit advisory committees of the United Nations agree on a common approach and terms of reference.

III. Key messages and challenges

9. *Protection against sexual exploitation and abuse and sexual harassment (PSEA/SH).* The Committee welcomed the strong emphasis UNFPA continued to place on PSEA; it also acknowledged efforts to create community-based complaint mechanisms, using local groups, already trusted on the ground as a resource for victims. The Committee commended progress on the roster of trained PSEA/SH coordinators, the training of GBV case workers, and on implementing partner PSEA/SH assessments. The Committee noted that it is likely that PSEA cases are still being underreported and that reputational risk in this area is particularly high for UNFPA, given its mandate. In order to foster an environment in which victims feel comfortable coming forward and to raise the likelihood that they will use the PSEA and SH reporting tools at their disposal, the Committee stressed the importance of building trust at the country level and improving its procedures and reporting channels to address the underlying power dynamics in question. The Committee also noted the importance of considering same-sex PSEA and investing in intergovernmental and regional initiatives. As UNFPA develops tools to engage with governments on PSEA-related issues, it should also consider how to promote government accountability to ensure that national government officials (as well as other parties in contractual relationship with UNFPA) are held accountable for their actions.
10. *United Nations development system reform and change management process.* The Committee was provided with a detailed overview of the active UNFPA implementation of United Nations development system reform and was also informed that UNFPA was the first United Nations organization to undertake a formative evaluation of its engagement in United Nations development system reform. The OAC was informed that a survey had been conducted, which found that UNFPA leaders are champions for its core mandate issues but that more thought is needed in moving from design to implementation and results, to ensure the United Nations development system has even greater impact. The Committee welcomed the strong UNFPA commitment to United Nations development system reform. It commended UNFPA for outsourcing business processes and services, as this allows UNFPA to focus on substantive policy issues and programme delivery; this approach is also in line with the Secretary-General's push for comprehensive system-wide reforms. The Committee expressed concern about further expansion of the resident coordinator offices, given the increased overall costs of the new system. The Committee was also apprised of the status of implementation of

the primary UNFPA change management initiatives, including the culture change initiative and how these linked to efforts to ensure that United Nations development system reform is more fully integrated into the UNFPA organizational culture. The Committee also offered advice to management on the timing of communications regarding change management processes and highlighted operational and staffing considerations that management might also wish to take into account in taking forward change management initiatives.

11. *Funding.* The Committee was provided a detailed update on resource targets and was informed that the regular resources (core) contributions target for 2022 was being surpassed. The main areas of growth had been in humanitarian action, international financial institutions and the private sector. However, the regular resources/other resources (core/non-core) balance fell below the 30 per cent threshold for the first time since 2018 (which limits flexibility in spending). The Committee was also informed about UNFPA concerns for the 2023 resource situation due, in part, to the impact of the economic stressors on official development assistance (ODA) budgets, including policy changes in certain governments, ongoing exchange rate fluctuations and inflation. The Committee was also provided an overview of UNFPA work with strategic partners, including through the 'Individual Giving' programme, which had exceeded the targets for 2019-2021 and benefited from a sharp increase in its investment return. The Committee welcomed the work underway to mobilize and diversify the UNFPA resource base. It encouraged efforts to scale up private-sector funding and suggested that private-sector contributions from developing countries should also be considered. Noting that care is always needed in partnering with the private sector, it stressed the importance of the due diligence process in this regard. The Committee appreciated that UNFPA is part of an inter-agency steering committee on due diligence to draw on lessons learn from other agencies.

12. *Humanitarian.* The Committee was informed that humanitarian co-financing revenue reached record levels in 2021. Globally, humanitarian needs are growing and there is a strong reputational risk if UNFPA is not able to respond quickly and effectively, even as the increasing number of emergencies may stretch humanitarian capacities and financing. The Committee was provided an update of the 2022 humanitarian priorities of UNFPA along with a detailed overview of the work of the Humanitarian Office (now Humanitarian Response Division), including efforts to pre-position supplies and be able to expand, with greater predictability, the types of services and commodities that are deployed in emergency settings and to reduce lead times. The Committee suggested that UNFPA keep under continuous review whether the fast-track procedures adequately balance the need for speed with the associated risks in emergency situations.

13. *Enterprise resource planning system.* The Committee paid special attention to the new enterprise resource planning (ERP) system throughout the year. It was provided with detailed updates on both the evolving progress and the challenges of the new ERP system at each of its four meetings; these included updates on the budget reviews and the coordination with UNDP to resolve outstanding concerns before the system went live. At the February ad hoc meeting especially dedicated to this topic, the Committee, following lengthy discussions, strongly supported the reasons behind the UNFPA decision to join the Quantum consortium; the Committee concurred with management that, under the circumstances (e.g. the impending closure of Atlas and project complexities), the only feasible option was for UNFPA to join Quantum, as opposed to going it alone as it had previously planned. At each of its four meetings, the Committee also highlighted and discussed with management in detail the various risks that remained. The user tests on payroll and payments modules were not yet fully cleared, which was a focus of special scrutiny at the September and November meetings. Other issues of concerns, such as data migration, reporting and the internal control framework, were also reviewed by the Committee in detail. The Committee urged UNFPA to develop contingency plans for what could go wrong (including if the 'go-live' date was further postponed from January 2023). The Committee appreciated that one of the benefits of Quantum going live in January 2023 was that the financial year 2023 accounts could be processed under a single system.

14. The Committee stressed the importance of comprehensive staff training, designating ERP focal points throughout UNFPA globally and ensuring their managers provided them the space and time to dedicate to the ERP launch. The Committee also stressed the need for a well-functioning helpdesk to troubleshoot after the 'go-live' date. Throughout the year, UNFPA was encouraged to redouble efforts to ensure clear communication and close coordination with UNDP to ensure the needs of all agencies would be reflected in any decisions made. When the January 'go-live' date was nearing, the Committee stressed the importance of donor reporting and of alerting donors to the impending ERP implementation and the possibility of disruption to the normal reporting cycle, notwithstanding that testing in this area had been positive. The Committee also discussed issues that would be taken up in phase 2 of the ERP roll-out, notably the GPS system, and will continue to discuss these and related issues in 2023.

15. Looking to 2023, after the initial challenges of the Quantum implementation have been met, the Committee encouraged UNFPA to use digital technologies and applications to streamline inventory management and shipment tracking. In addition, an assessment should be undertaken of the costs and benefits (qualitative and quantitative) and of the challenges met and remaining, against the original business case presented to management. This would be an important exercise both for accountability purposes and to capture lessons learned that may be applicable to other large enterprise-wide projects in the future.

16. *Cybersecurity.* Management presented to the OAC the cyberrisks faced by UNFPA, and the measures taken so far in response. The OAC was pleased to learn that a cybersecurity resilience assessment will be undertaken and used as benchmark for assessing UNFPA progress in this area, and it requested information on how UNFPA compared with other United Nations organizations. The Committee expressed concern regarding the governance arrangements over the UNFPA cyber security function, noting that the internal ICT Board had not met in some time. The Committee also suggested that UNFPA management consider strengthening the ICT Board by adding external experts to provide the requisite technical expertise. The Committee requested that management periodically report on cybersecurity matters, including on the monitoring of key information security metrics. Finally, it emphasized the importance of UNFPA staff undergoing mandatory cybersecurity training in a timely manner following recruitment.

17. *Enterprise risk management.* The Committee was updated on the new enterprise risk management (ERM) policy, prior to its issuance in March 2022, and provided comments on the draft policy. It noted that the strategic risk register should clearly define the risks that UNFPA faces. At its November meeting the Committee was provided an update on the roll-out of the ERM approach and the risk appetite statement. Management advised that the UNFPA risk assessment exercise will change from being conducted annually for selected offices to once during a programme cycle, with continuous monitoring of certain indicators, which could prompt an additional assessment during a programme cycle. The Committee welcomed the progress made on risk management and encouraged UNFPA to continue embedding risk awareness in the organization and its integration in project management.

18. *Supply-chain management, including 'last mile' assurance.* Management briefed the Committee on staffing and structural efforts underway to create the Supply Chain Management Unit and to transition it from a back-office procurement function to one that plays a more strategic role within UNFPA. The OAC once again raised concerns regarding the appointments procedure for the Contracts Review Committee, citing a possible conflict of interest; the Committee noted with appreciation that the Supply Chain Management Unit will be reviewing the procurement policy and welcomes the fact that UNFPA has now accepted the OAC recommendation to change the appointment process for the Contracts Review Committee members. With regard to the staffing of the Supply Chain Management Unit, the OAC Committee advised that the chief and deputy roles should have broader oversight of the entire unit and not just their respective areas and suggested that the resourcing capacity of the Unit be kept under review. The Committee also suggested that the Supply Chain Management Unit follow the recommendations of the Board of Auditors on the weaknesses in supply-chain management in its planning.

19. *Human resources.* The Committee was updated on the development of the new People Strategy, flexible working policy and delegations of authority, and was informed that UNFPA now has a position for diversity, equity and inclusion within the organization. The Committee welcomed these initiatives and advised that UNFPA should ensure that all policies are applied fairly and consistently. It noted that the new flexible working policy offered an opportunity to change the way managers manage, inducing them to follow good practices and manage staff by outputs and outcomes rather than their presence in the office. The Committee was also updated on the different change management initiatives taking place within the organization and advised on importance of high-quality communication and support to staff.

20. *Financial statements and meetings with United Nations Board of Auditors.* Management presented the Committee with the approach taken for the preparation of the financial statements for 2022 and the cut-over to the new ERP. The Committee was informed that the existing ERP system would be used for financial closure activities in 2022 which would mitigate risks to the financial closure process from the new ERP launch. The Committee considered this a good decision (made more practicable by the delayed implementation of the ERP until January 2023) as it would help to mitigate risks surrounding the financial closure process. Management advised that risks remained around the synchronisation of activities between the financial closure and ERP launch as the same staff were involved in both processes.

21. The Committee met twice with representatives of the Board of Auditors in closed sessions, in which it discussed, inter alia, the emphasis of matter and issues around the Board of Auditors' workplan.

22. *Implementing partner assurance.* Management informed the Committee that it had launched a series of changes in its assurance approach, schedule and scope to improve the completion rate of assurance plans, and also to address concerns of the Board of Auditors. Management also provided a detailed overview of UNFPA work related to the harmonized approach to cash transfers (HACT) and a discussion on its costs and benefits. The Committee noted the importance of addressing Board of Auditors observations related to implementing partner assurance and stressed that spot checks should be grounded in a risk-based approach. The Committee cautioned against setting unnecessarily high compliance targets, as that only put pressure on the organization to reach targets it might not be able to meet. Instead, and in accordance with the recommendation of the Board of Auditors, the Committee recommended that UNFPA should develop a risk-based methodology that is based on and compliant with HACT and may wish to draw on external expertise to assist in this effort. The Committee advised UNFPA to perform some of the spot checks during the calendar year. It also stressed that UNFPA needed to continue to communicate with the Board of Auditors on the assurance plans and their implementation, so that the emphasis of matter could be removed for 2021 (which it was).

23. *Evaluation function.* The Committee was provided with an in-depth explanation of the status of evaluation implementation and funding, and the implementation of evaluation recommendation actions. It was informed how the quality of evaluations is assessed and how decentralized evaluations are quality assured and was updated on a peer review that will inform the revision of the UNFPA Evaluation Policy, in coordination and consultation with the Development Assistance Committee (DAC) Network on Development Evaluation and the United Nations Evaluation Group. The Committee welcomed the Evaluation Office's high rate of implementation for centralized evaluations and key performance indicators. It noted that requesting additional funding against such a high achievement rate seemed counterintuitive. In light of the Board's approval of the 1.4 per cent expenditure target, the Committee advised that a better approach, going forward, would be for the Evaluation Office to cost out its proposed scope of work and coverage in carrying out the evaluation function. The Committee, therefore, suggested that the revised evaluation policy, which the Board is set to review and approve in 2024, should focus on coverage and performance rather than expenditure, with any request for additional resources to be assessed within the context of competing demands and overall institutional budget constraints. The Committee also encouraged the Evaluation Office to share its evaluation findings across and beyond the United Nations system for broader lesson-learning.

24. *Office of Audit and Investigation Services (OAIS) – Office of the Director.* The Committee was provided an overview of the restructuring process in OAIS, and it provided detailed written comments on the OAIS workplan, which were discussed with the OAIS Director ad interim. When developing its workplans, OAIS was encouraged to consult with OAC, together with other stakeholders, early in the process. The Director ad interim provided the Committee with a detailed update on the request from the Executive Board for OAIS (and its counterparts at the other New York based agencies) to prepare an assessment of its independence for the Board’s second regular session in September 2022, as well as the main findings of this assessment. Following the second regular session of the Executive Board, where this assessment was considered, the Director ad interim sought and received guidance from the Committee in advancing the recommendations it had presented. The Committee expressed concern once again about the present organizational structure of the OAIS Office of the Director, noting that the absence of a deputy director weakens the assurance of business continuity in case of absence or abrupt departure of the Director.

25. *Office of Audit and Investigation Services (OAIS) – investigation.* The Committee was provided with an update on the status of investigations as well as additional information addressing the backlog of cases. The Committee advised OAIS to be proactive in addressing especially older cases but recognized the administrative burden entailed in closing cases even where OAIS knows these will need no further action. The Committee continued to express concern about the high caseload and stressed the need to ensure that older cases do not languish, while noting the recruitment and retention issues being experienced and expressing appreciation for the efforts to clear the backlog. The Committee again suggested that OAIS work with other parts of the UNFPA ‘integrity family’ to create a user-friendly guide for staff to understand where to report different types of wrongdoing incidents.

26. *OAIS – internal audit.* OAIS presented its internal audit work based on the approved new structure of the office, and explained how it is enhancing its audit risk assessment and planning methodology and expanding the number of country audits. An external quality assessment was conducted in December 2021, in which UNFPA received the top rating – ‘generally conforms with the standards and IIA code of ethics.’ The Committee commended OAIS initiatives in recent months – to streamline processes and increase efficiency and effectiveness, as well as its intention to provide advisory services to senior management and other business units. The Committee welcomed OAIS compliance with the external quality assessment. The Committee also discussed the status of outstanding audit recommendations, reported further in para 27 below.

27. *Ethics office.* The Committee met with the Ethics Advisor and was given an overview of the requests for advice from the office. The Committee also discussed efforts to improve the Financial Disclosure Programme.

28. *Follow up to JIU and internal and external audit recommendations.* The Committee welcomed the number of recommendations that had been closed and appreciated the strong organizational push by management to track and monitor these recommendations. In particular, it noted that the UNFPA approach of using the Audit Monitoring Committee to monitor and track progress was a best practice. It stressed the need to address long outstanding audit recommendations and suggested that those recommendations unresolved for too long should be discussed at Executive Committee meetings. The Committee welcomed the organization’s use of root cause analysis as part of its review in addressing JIU recommendations. UNFPA was encouraged to undertake analyses of audit findings to identify cross-cutting challenges and risks.

29. *Innovation.* The Committee was provided with an update on UNFPA work on innovation. The Committee welcomed and encouraged the work being done on innovation and noted that UNFPA is undertaking transformational projects and that it should continue to consider the role that young people play and the energy they can bring to this area. The Committee looks forward to receiving regular updates on progress in this important area, especially on its continued funding and mainstreaming.

30. *Executive Board-related matters.* The Committee was informed by management on the outcomes of all Board sessions in 2022 and discussed in particular the findings of the two KPMG reports on UNOPS; it recommended that the Office of the Executive Director review the checks and balances in place within the organization to minimize the risks of similar issues arising in UNFPA.

IV. Conclusion

31. In 2023, the Committee will continue to review relevant activities, records, risks and controls, particularly those relating to the achievement of results set out in the UNFPA Strategic Plan, 2022-2025, and the 2030 Agenda for Sustainable Development. It will also review opportunities for improvements in organizational effectiveness and efficiency.

32. The Committee will continue to follow up, among other matters within its mandate, on the following:

- (a) Policies significantly impacting financial management and reporting; the internal audit, investigation, evaluation and ethics functions; and the effectiveness of the UNFPA systems of internal control and accountability. The Committee will also continue the dialogue with the external auditors on issues of mutual interest;
- (b) Any significant risk and exposure to UNFPA and the steps management has taken to minimize or manage such risks, including the risks related to information and communication technology, and the implementation of the new ERP system;
- (c) UNFPA fraud prevention and detection policies and activities, including the arrangements in place to raise concerns in confidence about fraud, ethics, conflict of interest, violations of rules and regulations, and other oversight matters, and how these are expedited;
- (d) Management response to issues identified by the internal audit and investigation function and assess the status of implementation of recommendations made, including those of the vendor review and sanctions mechanism;
- (e) The work of the Evaluation Office, including in relation to the revised evaluation policy, to ensure it can carry out its work without restrictions or limitations;
- (f) The implementation of the internal and external audit and evaluation recommendations as well as those from the Joint Inspection Unit and Board of Auditor reports;
- (g) The Ethics Office scope, plans, activities, resources, staffing and organizational structure, including the whistle-blower protection and financial disclosure programmes, and the adequacy of management response to issues identified by the Ethics Office;
- (h) The continued development of the structure and funding of the Supply Chain Management Unit and its work, particularly in relation to procurement and 'last mile' assurance;
- (i) Developments in addressing sexual exploitation and abuse as well as sexual harassment, including the investigation of these types of allegations.

33. The Committee wishes to thank the Executive Director, the Deputy Executive Directors past and present, senior staff, the staff of OAIS and the ethics and evaluation offices, the Board of Auditors and other UNFPA management and staff who participated actively in the Committee's activities and cooperated with OAC as it performed its role in supporting the Executive Director discharge her fiduciary responsibilities to the Executive Board as per the Oversight Policy approved by the Executive Board.