



DP/FPA/2023/CRP.6

3 May 2023

# **UNFPA management response**

to

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

(DP/FPA/2023/6)

and

## **Annual report of the Oversight Advisory Committee**

(DP/FPA/2023/6/Add.1)

UNFPA – Internal audit and investigation

Executive Board of UNDP, UNFPA and UNOPS  
Annual session  
2023

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 2022 (DP/FPA/2023/6)

## I. Introduction, assurance, overall opinion on governance, risk management and control, OAIS staffing and budget

1. UNFPA acknowledges and appreciates the annual report of the Office of Audit and Investigation Services (OAIS) on UNFPA internal audit and investigation activities in 2022 (DP/FPA/2023/6), along with confirmation of its organizational independence. Management views the work of OAIS as an essential part of enhancing oversight and transparency, to which it remains firmly committed.

2. Management also acknowledges the overall opinion of OAIS on the adequacy and effectiveness of the governance, risk management, and control processes. This opinion was based on various factors, including the results of OAIS audits conducted in 2022 and previous years, the implementation of internal audit recommendations, second-line controls, and consideration of material deficiencies in the governance and risk management framework. Additionally, other factors – such as harmonized cash transfer audits, control self-assessments, findings and recommendations from the United Nations Board of Auditors, investigation cases involving allegations impacting UNFPA, and strategic and fraud-risk assessments, completed as part of the enterprise risk management process – were also considered.

3. Based on these factors, the overall opinion of OAIS is that the UNFPA governance, risk management, and control processes were partially satisfactory, with some improvement needed – the same rating as in previous years. While the audited business units and processes were adequately designed and operating effectively, improvement would provide reasonable assurance that the objectives could be achieved. However, the OAIS did not identify any issues that could seriously compromise the achievement of the objectives.

4. Management also appreciates the updates provided on the progress made concerning the pathways and recommendations that OAIS set out to implement in 2022. OAIS is an independent and objective internal oversight function that assists UNFPA in achieving its goals by providing assurance and advisory services to management. It has been actively conducting audits, investigations and advisory services across UNFPA to promote efficiency, effectiveness and compliance with policies, procedures and regulations. OAIS also provides recommendations to management for improving internal controls, risk management and governance processes.

5. UNFPA management notes that to ensure effectiveness of its activities, OAIS has started a revision of its Charter since late 2022. The revision process aims to incorporate various changes, such as Executive Board decisions, the OAIS Director's role and additional provisions to address issues that are not currently covered by the Charter. The revision process also aims to incorporate recommendations from the external quality assessment and the United Nations Board of Auditors.

6. Management appreciates the dedication and hard work of the OAIS team in providing valuable insights and recommendations to strengthen UNFPA operations and achieve its organizational goals. UNFPA remains committed to supporting the work of OAIS and ensuring that all UNFPA activities align with the highest standards of integrity and accountability. Management acknowledges and appreciates the high level of professionalism demonstrated by OAIS in fulfilling its mandate; this includes effectively managing a wide range of oversight functions, such as independent internal audit and investigation services. UNFPA management also appreciates OAIS advisory services on governance, accountability, internal control processes and emerging potential risks to the organization.

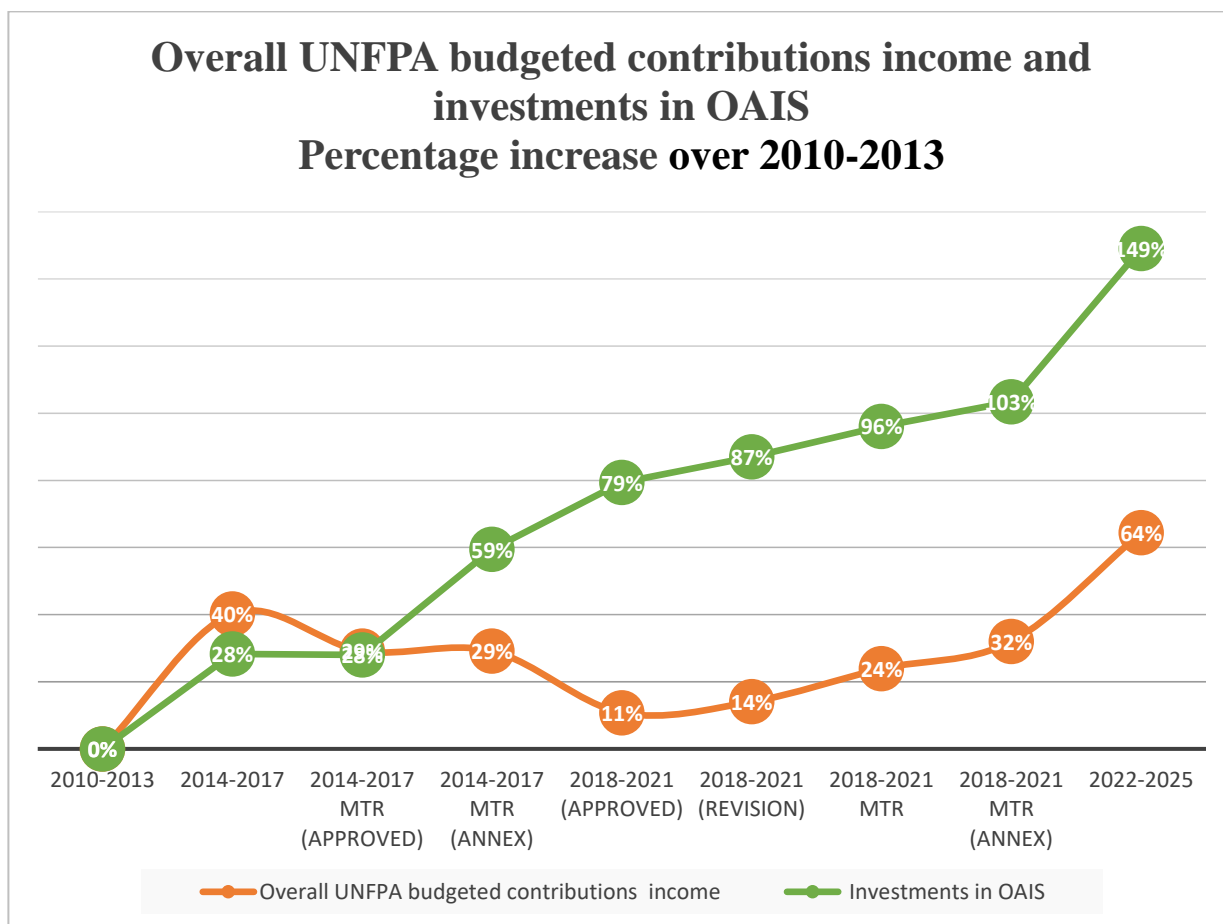
7. As part of its commitment to strengthening the oversight function in UNFPA, the organization has increased the budget allocated to OAIS for 2022 by \$1.0 million, compared to the previous year. This increase in resources is intended to support OAIS in its investigation and audit functions; it reflects UNFPA management's ongoing commitment to heightened transparency and accountability; it is also in response to recent Executive Board decisions to this end. The increase in budget is included in the current UNFPA Integrated Budget, 2022-2025.

8. UNFPA management continues its support of the work of the OAIS and strives to provide additional investments for the independent functions within the resources available, as evidenced by enabling OAIS to use its unspent 2022 resources to create 11 temporary posts in 2023 and providing additional funding from the overall unspent institutional budget appropriation for their continuation into 2024. However, given that these temporary posts are funded from unspent balances, they are not sustainably funded on an ongoing basis. At the midterm review of the UNFPA Integrated Budget, 2022-2025, the organization will assess the ability to permanently strengthen OAIS within the resources available.

9. UNFPA management has continuously invested in strengthening the OAIS throughout the budget cycles, even during periods of reduced overall UNFPA contributions income, as illustrated in the table below. The last column indicates the budget allocated for OAIS in millions of US dollars, while the middle column shows UNFPA overall budgeted contributions income during the various budget cycles. The table clearly demonstrates that despite a decrease in the budgeted contributions income for the 2014-2017 and 2018-2021 budget cycles, UNFPA has continued to invest in the OAIS budget.

<i>in millions of US dollars</i>		
<b>Budget period</b>	<b>Overall UNFPA budgeted contribution income</b>	<b>OAIS</b>
<b>2010-2013</b>	3,069.0	17.1
<b>2014-2017</b>	4,303.9	22.0
<b>2014-2017 MTR (approved)</b>	3,963.6	21.9
<b>2014-2017 MTR (Annex)</b>	3,963.6	27.3
<b>2018-2021 (approved)</b>	3,400.0	30.7
<b>2018-2021 (revision)</b>	3,500.0	32.0
<b>2018-2021 MTR</b>	3,801.8	33.6
<b>2018-2021 MTR (Annex)</b>	4,051.8	34.8
<b>2022-2025</b>	5,045.6	42.6

10. This is further evidenced when considering the relative percentage increases of investments into the OAIS, which far exceed the percentage increase of overall UNFPA budgeted contributions income over the budget cycles.



11. UNFPA management is pleased to provide an update on its progress in implementing the recommendations provided to management in the report, “Assessment of the Independence of the UNFPA Office of Audit and Investigation Services”, presented at the Executive Board’s second regular session of 2022, as requested in Board decision 2022/2.

12. Specifically, UNFPA revised the Resource Management Policy (Revision 2) in November 2022 to explicitly define the responsibility and independence of OAIS in managing and utilizing its budget. The Director of OAIS has been exercising the already provisioned-for delegated authority to hire individual consultants, specialists, and professional services firms, in accordance with relevant guidelines.

13. UNFPA management will further review the OAIS Director’s delegated authority in human resources (hiring of OAIS staff) and procurement of services. The aim is to enhance further OAIS capacity to manage and use these resources effectively.

14. As noted, in the oral response of the Deputy Executive Director (Management) to the Executive Board at the second regular session 2022, management fully supports stipulating in the OAIS charter a recourse for OAIS to implement critical audit and investigation activities, pending the Executive Director’s approval of the workplans – or when workplans are disapproved, deferred/rescheduled, or delayed.

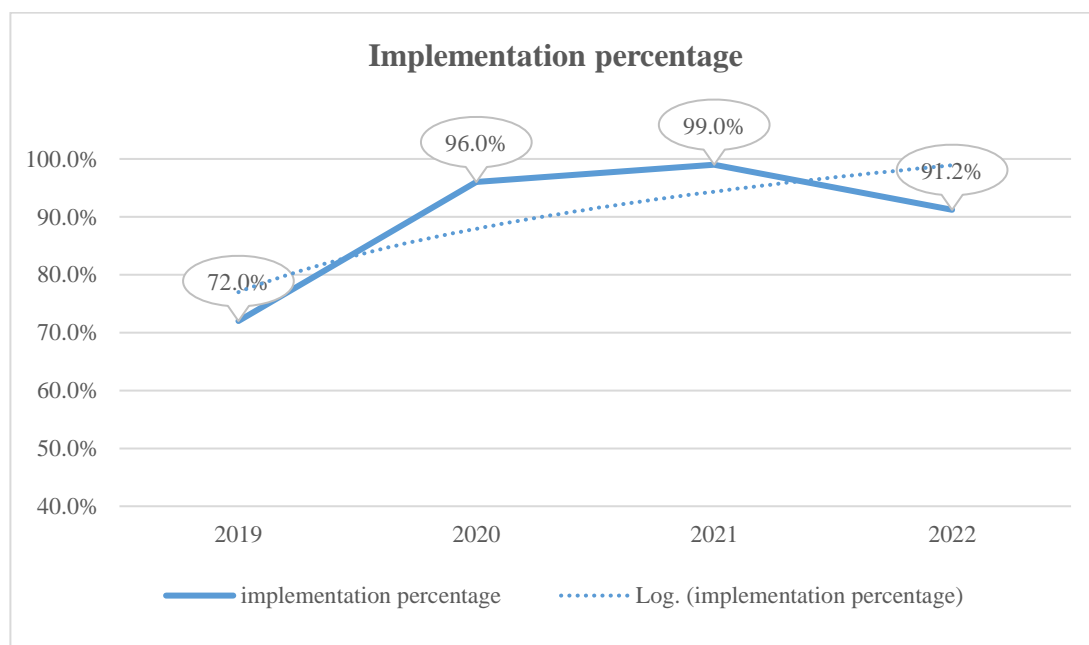
15. UNFPA accords the highest priority to strengthening a culture of accountability and improving governance, risk management and internal control processes. Therefore, the existing Audit Monitoring Committee (AMC) was transformed into a permanent management oversight body, renamed the Oversight Compliance Monitoring Committee (OCMC), thereby assigning OCMC a strategic function of reviewing pervasive and recurrent issues identified by internal and external audits, Joint Inspection Unit (JIU) reviews and other assurance and oversight activities as they relate to the identification and mitigation of compliance-related risks. OCMC also advises management on systemic solutions to address the root causes of these issues as part of its goal to mitigate the risk of systemic vulnerabilities and improve operations.

16. In 2022, UNFPA adopted an enterprise risk management policy aligned to (a) the enterprise risk management model of the Committee of Sponsoring Organizations; (b) the risk maturity model requirements developed by the High-level Committee on Management; and (c) the report of the Joint Inspection Unit, “Enterprise risk management: approaches and uses in United Nations system organizations”.

17. UNFPA implemented several initiatives to operationalize its enterprise risk management policy. These initiatives included: (a) updating its risk governance structure by relocating the chief risk officer position to the Office of the Executive Director; (b) issuing its first-ever risk appetite statement in November 2022; (c) enhancing its tool that maintains an inventory of risks and exposures; (d) issuing its enterprise risk management calendar for 2022-2023; and (e) developing an enterprise risk management guidebook and a risks and controls catalogue to support office risk management processes.

18. The OCMC, chaired by the Executive Director or the Deputy Executive Director (Management), has monitored business units efforts to improve the implementation of audit recommendations over the years. The Fund remains committed – and accords top priority – to strengthening the culture of accountability. UNFPA management, through its various actions in response to OAI reports and advice, continued to demonstrate in 2022, as in past years, its commitment to increasing the effectiveness of the governance, risk management and internal control processes.

19. Management is pleased to inform the Board that UNFPA successfully implemented 91.2 per cent of the internal audit recommendations that were due for implementation by 31 December 2022. UNFPA has maintained a high implementation percentage for the past few years, thanks mainly to monthly follow-up of all ongoing recommendations by its OCMC secretariat and timely pre-assessments of business unit responses.



## II. Management response to key issues identified by OAI in 2022 requiring Executive Board attention

20. UNFPA management takes the identified areas of concern from OAI very seriously and provides detailed updates on the action taken to address them. These areas include cash transfer processes, delays in customs clearance of programme supplies, significant delays in project implementation, missing equipment and supplies, and delayed realignment of the organizational structure. UNFPA management has taken prompt measures to address these issues, as presented below.

### Cash transfer processes

21. In recent years, the country office in question has faced a challenging context that resulted in cash shortages in both local currency and US dollars at commercial banks. As a consequence, bank account holders, including nongovernmental organization (NGO) implementing partners (IPs) of UNFPA, were unable to access cash from their local bank accounts. This forced many NGOs to open bank accounts in neighbouring countries to receive and withdraw funds intended for use by their staff, suppliers and other expenses. This was the only realistic alternative available to them due to the difficulties in accessing cash locally.

22. Given the unique operational circumstances in the country in question, the other United Nations agencies had adopted similar practices in transferring funds to implementing partners through foreign-based bank accounts.

23. As noted in the OAI report, senior management immediately addressed the reported audit issue by setting the tone at the top. The country office in question has taken steps to ensure that, effective immediately, all cash transfers to implementing partners apply one of the cash transfer modalities outlined in the harmonized approach to cash transfers (HACT) framework. The country office has also enhanced monitoring and spot-checking of cash transfers to ensure strict controls. However, due to delays in submitting a new country programme, a comprehensive mapping – selecting implementing partners and prioritizing those who can receive funds in the country – is still ongoing.

24. The situation for civil society organizations and NGOs in the country has worsened since mid-2022; UNFPA implementing partners with local bank accounts in the country have been unable to access cash transfers since early 2022, resulting in reduced implementation capacities.

25. In 2023, bureaucratic and administrative impediments faced by NGOs in the country have reached unprecedented levels. The UNFPA country office is working with implementing partners to identify the root causes of the incapacity to open local bank accounts for each NGO and has mapped several alternative solutions. The country office is discussing these solutions with the regional office and headquarters to ensure the continuation of UNFPA activities.

### Delays in customs clearance of programme supplies

26. In another country office where the issue of delays in customs clearance of programme supplies was identified, the revised Tax Exemption Act became operational towards the end of 2022; it brought about changes in the approval process for tax waivers for the entire United Nations country team and its development partners, including with respect to UNFPA-consigned commodities. As of October 2022, only the Ministry of Health approves tax waivers for UNFPA-consigned commodities, and this new process takes only two weeks, contrary to the earlier law that required the Ministry of Health and the Ministry of Finance both to sign a waiver, causing significant delays. Nevertheless, there are new challenges now with the clearance process for the tax-waived sea and air freighted items/commodities by the Customs Department, and this has introduced further delays.

27. In February 2023, the operations management team (OMT) of the United Nations country team held a meeting attended by representatives and operations managers of the affected agencies to address delays in customs clearance of programme supplies. They agreed that the United Nations Resident Coordinator and the OMT chair should engage with the Customs Department to streamline the process and shorten clearance times. However, this effort may take time due to the Ministry of Finance's current focus on the country's economic challenges. In addition to the joint efforts to address delays in customs clearance, the UNFPA country office

has engaged its clearing agents and requested the UNFPA Supply Chain Management Unit to ensure that airway bills and bills of lading are sent at least three weeks before the cargo shipment. This aims to enable early initiation of the clearing process ahead of the cargo's arrival and therefore shorten delays with customs clearance.

#### **Significant delays in project implementation**

28. In another country office where the issue of delays in project implementation was identified, the blockage of the project due to factors beyond the control of the country office had been acknowledged by the donors who decided to end the project. With the support of UNFPA headquarters, the country office is currently working on closing the project in an orderly manner. As requested by the donors, the census equipment has already been handed over to the Government, and the fund balances are being transferred to the respective donors.

#### **Missing equipment and supplies**

29. Management wishes to inform the Board that a Government partner notified the country office about the loss of equipment provided by UNFPA. As a result, the country office commissioned a management audit to verify the estimated value of the lost equipment. Afterwards, the country office management reported the incident to OAIS, the regional office and headquarters.

30. The country office shared the management audit report with donors to inform them about the loss of the equipment.

31. OAIS conducted an audit after receiving notification from management and determined that the actions taken by the country office were timely, appropriate and sufficient. This notwithstanding, the country office and management at headquarters have consulted closely with all relevant donors; UNFPA is considering possible courses of action vis-a-vis its insurance. Management is optimistic that all pending issues will be resolved.

#### **Delayed realignment of organizational structure**

32. The country office in question implemented, in January 2022, a new programming operation focused on the humanitarian-development-peace continuum and developed a new organigram, which became fully effective from March 2023. Between 1 January 2022 and 15 April 2023, the country office completed 46 recruitments, with another 19 ongoing recruitment processes expected to be completed by the fourth quarter of 2023. The country office optimized the use of fast-track procedures to adjust to the employment market's specificities and establish an internal surge to deploy staff members to areas affected by climate disasters.

33. UNFPA management has taken several measures to improve inventory management and monitoring of commodities. The country office issued a memo defining roles for logistics and warehouse focal points, hired additional staff for inventory control, and became the consignee of all internationally procured items. The office also conducted additional verifications to address the loss of IT assets and regularly tagged new assets for future stock counts. These actions were deemed timely, appropriate and sufficient by the OAIS audit report, and no recommendation was issued.

### **III. Statement of independence and conformance to internal audit standards and investigation principles**

34. UNFPA management notes that OAIS maintained its organizational independence, followed the International Standards for the Professional Practice of Internal Auditing and the Code of Ethics of the Institute of Internal Auditors, and conducted investigations in compliance with the Staff Regulations and Rules of the United Nations and the Uniform Principles and Guidelines for Investigations. Management also acknowledges that OAIS has a quality assurance and improvement programme managed by the Quality Assurance, Policy and Reporting (QAPR) Unit. Additionally, UNFPA management recognizes that the Investigation Branch maintains high-quality investigative outputs through its investigation staff and quality assurance-focused consultants.

## IV. Internal audit activities in 2022

### A. Implementation of the 2022 risk-based internal audit plan

35. Management takes note of the OAIS risk-based audit plan, the level of implementation and the overall internal audit activities in 2022, broadly divided between audits of business processes, programmes and country offices.

### B. Internal audit activities and results, reports and advisory services

#### Good practices

36. Management appreciates OAIS's identification of good practices in country offices, including effective engagement with other United Nations organizations, use of long-term agreements for procurement, proactive resource mobilization efforts, holding periodic meetings for management and programme matters, high completion rates for performance appraisal and development process, developing various tools for data collection, monitoring and management, signing workplans with implementing partners in a timely manner, and the successful use of information technology. Other good practices included innovative programming, control self-assessment surveys, well-documented indicators and milestones, and staff capacity-building initiatives. Management will try to adopt these practices in other business units, as appropriate and relevant.

#### Audits of business units and headquarters processes

37. Management takes note of the results of the six audits conducted by OAIS in 2022, which identified common issues, and the organization has been working on addressing them in the monthly OCMC meetings. Management has taken note of three process audit engagements conducted by OAIS at headquarters in 2022: the social marketing programme; travel management services—duty travel processed at headquarters; and the individual giving programme. The audits resulted in an overall rating of 'partially satisfactory, with some improvement needed' for all three programmes.

38. In response to the audit recommendations regarding travel management services—duty travel processed at headquarters, UNFPA management is committed to achieving strategic and operational excellence in travel, with a focus on adapting to changes in the travel industry landscape following the disruptions caused by the pandemic. UNFPA follows UNDP policies and processes and shares the same travel management company at headquarters, in line with United Nations reform principles. A new travel module is being developed with the 2023 launch of the new Quantum ERP; UNFPA is currently working to develop the module and introduce new features.

39. In response to first OAIS recommendation regarding the individual giving programme, management has conducted a risk assessment and documented all identified risks in the risk registry. The process of integrating the results of this assessment in the corporate ERM process, including the Strategic Information System, is currently underway and expected to be completed by the end of 2023. Management is also addressing the second recommendation by negotiating a new master service agreement with the payment processor. This agreement will include comprehensive clauses on data security breaches and their management; negotiations are expected to be finalized later in 2023.

#### Audit ratings

40. Management takes note of the improvements in the report rating over the years. In 2022, OAIS issued nine audit reports, with six of the reports rated 'partially satisfactory, with some improvement needed' and three rated 'partially satisfactory, with major improvement needed'. As with last year, UNFPA did not receive any report with an 'unsatisfactory' rating.

#### Advisory services

41. UNFPA management takes note of the important advisory services provided by the OAIS. These services include offering advice and guidance on risk management, internal controls and governance processes to UNFPA management and staff. OAIS also provides recommendations for improvement in its reports and assists in the implementation of these recommendations. Additionally, OAIS conducts capacity-building activities for



UNFPA staff on topics such as fraud awareness and prevention, risk management and internal control. UNFPA management recognizes the value of these services in ensuring the effectiveness and efficiency of UNFPA operations and the proper stewardship of resources.

## **V. Investigation activities in 2022**

### **A. Cases carried over from 2021 and previous years into 2022**

42. UNFPA management takes note that OAIS carried over 238 open cases from previous years into 2022. Management acknowledges that this is a significant number and that there is no easy solution to the need for a swift reduction of open cases from previous years.

### **B. Case intake in 2022**

43. Management takes note that OAIS registered 166 new cases in 2022; OAIS confirms, and management agrees, that this is a sharp increase from new case levels in 2021 (118), 2020 (116) and 2019 (112).

44. Management notes that the basic parameters of UNFPA operations, including expenditures and staffing levels, have changed only marginally from 2021 to 2022 and probably cannot account for such a sharp increase. UNFPA management assumes that the most likely explanation for the increase in OAIS case intake in 2022 is the organization's continuing efforts to encourage reporting. These efforts are accomplished by an integrated strategy, including a zero-tolerance tone at the top; increased visibility of the investigation function; effective action of complainant protection from retaliation by the Ethics Office and by management; publication of disciplinary and administrative actions taken; and outreach activities by UNFPA integrity group.

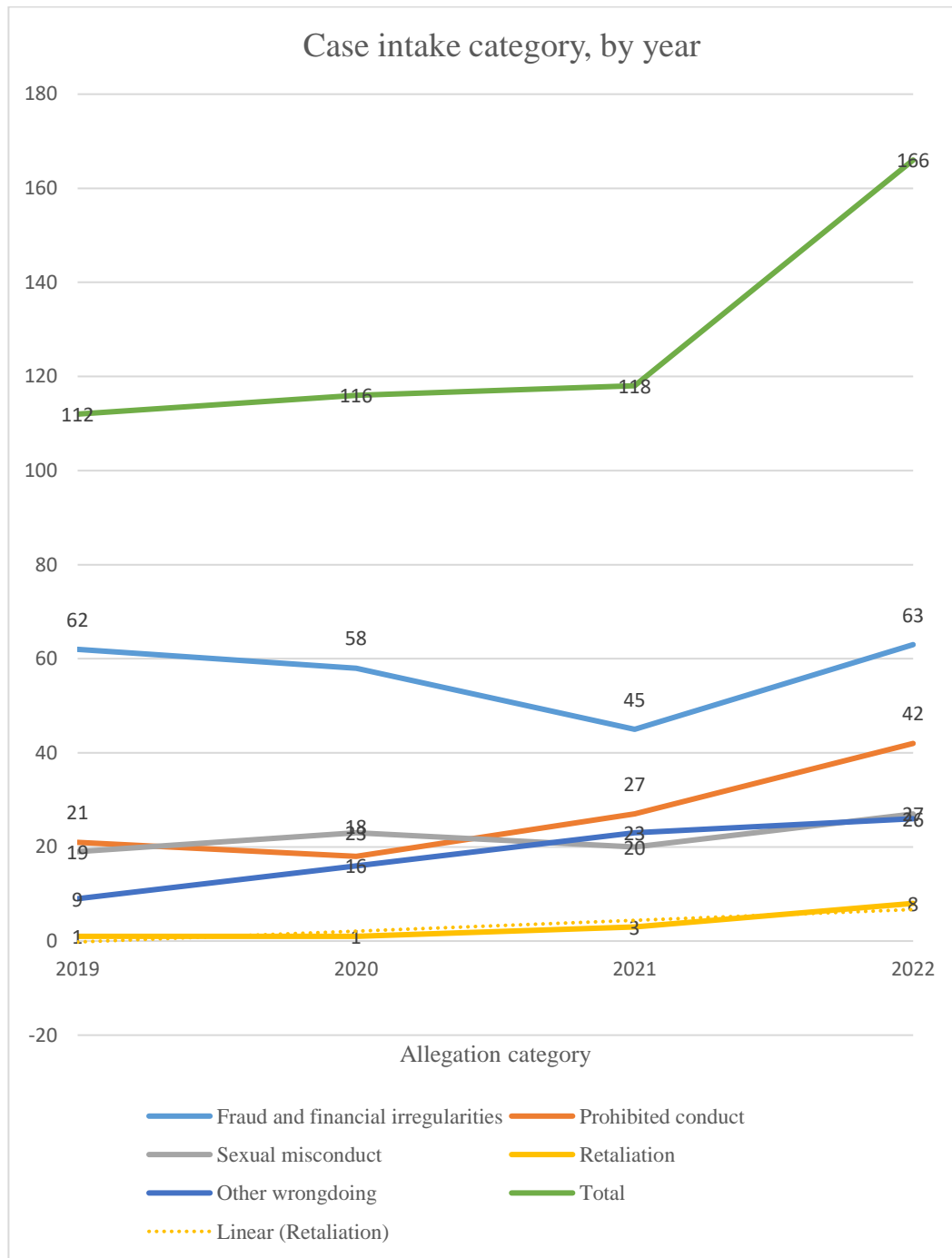
### **C. Caseload analysis**

45. As stated above, OAIS started the year with a carryover of 238 open cases. According to paragraph 65 and table 7 of the OAIS annual report, OAIS has concluded the year with a caseload of 306. Management appreciates the efforts of OAIS to close open cases and notes with some concern that the number of open cases at year-end 2022 has increased by 29 per cent.

46. UNFPA management acknowledges that the current caseload is larger than optimal, and many cases are ageing, causing associated delays. UNFPA management agrees with the OAIS assessment that during the year, the backlog of investigation cases was due to a lack of investigative resources as a result of key staff departures, including the Chief of the Investigation Branch and a senior Investigations Specialist. To address this, a second unit of the Investigation Branch was established in the fourth quarter of 2022 by OAIS; and five of the recently (in April 2023) approved 11 temporary posts have been allocated to the investigation function. Once completed, the posts being filled through the ongoing recruitment processes should help alleviate understaffing.

47. Management acknowledges that investigation work is inherently reactive, as the receipt of complaints is generally unpredictable. As a result, it requires regular reprioritization of matters and reallocation of human and other resources, as well as making rapid case-related decisions. Management appreciates the OAIS initiative of designing a prioritization matrix to identify cases that must be prioritized based on available resources and to prevent backlogs. Management also notes that in the 2023 workplan, the Investigation Branch will focus on significantly reducing the case backlog and accelerating case assessment.

48. However, UNFPA management notes that the resolution of all the legacy issues will likely take two to three years due to the continually evolving nature of OAIS work and the unpredictability of complaints received in any given year. However, the new initiatives described above and the streamlining of investigation procedures should help prevent a backlog similar to that witnessed in previous years.



**D. Disposition of cases by management**

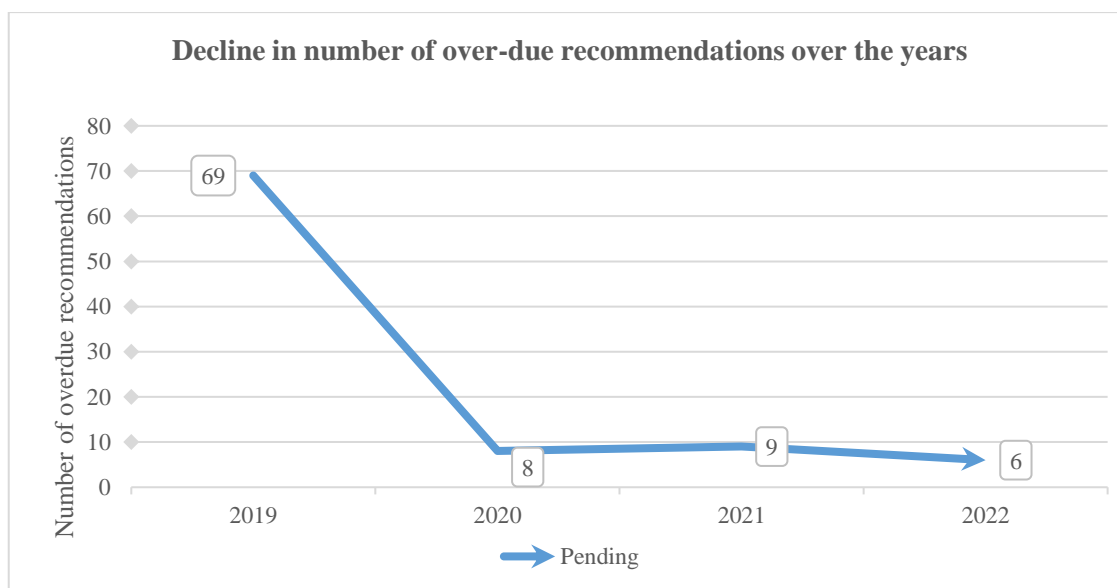
49. Of the 14 cases substantiated in the view of OAIS in whole or in part and reported in 2022, as of the date of the present management response, management has disposed of 12 cases by disciplinary or administrative action. The remaining two cases are in process at different stages of the relevant procedures. No cases are pending without action.

## VI. Follow-up on internal audit recommendation

### A. Outstanding recommendations

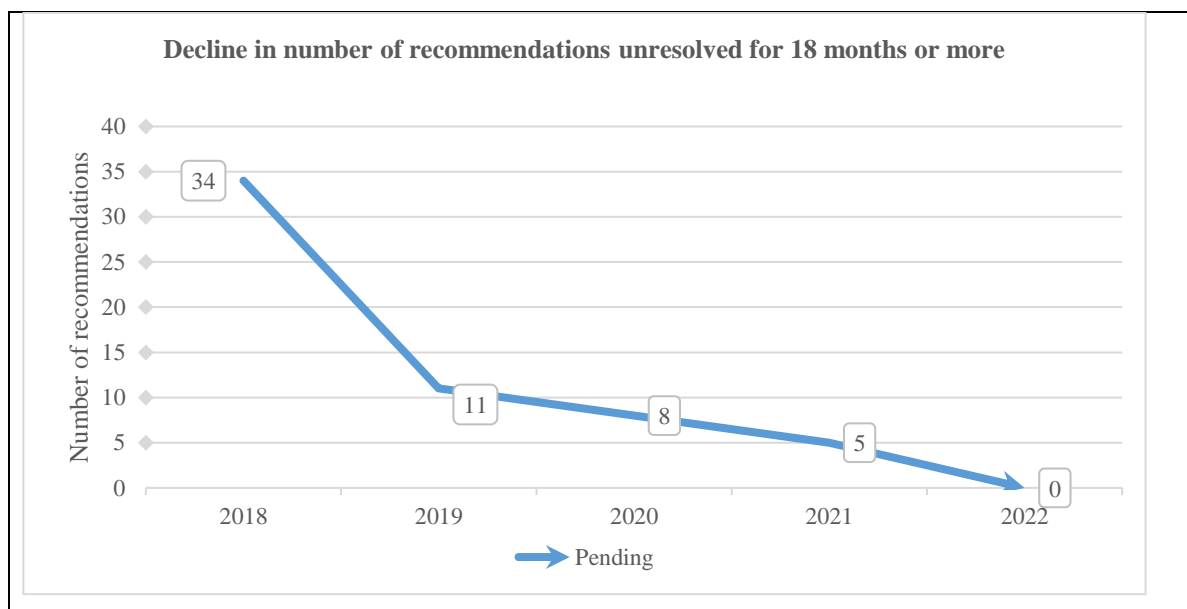
50. In 2022, 106 new recommendations were issued, and 71 recommendations from previous years were carried over. As of year-end 2022, there were 177 recommendations, 109 out of which are due for implementation in 2023 and beyond. This is due to the issuance of four country office audit reports, which included 62 audit recommendations in the last week of December 2022. Therefore, in 2022, 68 recommendations were due for implementation, including those from earlier years.

51. According the OAIS annual report, management implemented 62 out of these 68 recommendations, which translates to a *91.2 per cent implementation rate*. This has helped to further reduce, over the past year, the number of past-due recommendations from nine to six. UNFPA is committed to continuing to ensure a high implementation rate in 2023 and beyond.



### B. Recommendations unresolved for 18 months and more

52. UNFPA management has made noteworthy strides in implementing the unresolved recommendations that have been pending for 18 months or longer. According to the annual report of the OAIS, there are no outstanding recommendations that are older than 18 months, and only one recommendation is more than 12 months old. For the timely implementation of all ongoing recommendations, during the monthly OCMC meetings, all past-due recommendations are reviewed monthly, with particular attention given to aged recommendations. This process helps to monitor progress and identify any delays in implementing recommendations. The chart below explains the continuous decline in the recommendations reported by OAIS in its annual report over the years.



## VII. Progress on pathways and recommendations

53. UNFPA management is pleased to note the progress in implementing the recommendations and proposals outlined in the OAIS annual report for 2021. The deployment of four audit engagements in early 2023, the establishment of the Quality Assurance, Policy and Reporting Unit, and the resumption of investigation mission travels in 2022 are particularly noteworthy achievements. Others positive steps taken are developing SOPs and new report templates, hiring professional report editors and initiating better communication, coordination and cooperation between the Internal Audit Branch and the Investigation Branch. UNFPA management acknowledges the remaining work to be done, including conducting a full internal assessment in 2023 as well as further strengthening the staffing complement in the Quality Assurance, Policy and Reporting Unit, the Internal Audit Branch and the Investigation Branch.

## VIII. Conclusion and the way forward

54. UNFPA management acknowledges that investigation remains a key area of concern and notes OAIS appreciation of the additional human resources deployed to the Investigation Branch in the first phase of OAIS restructuring.

55. UNFPA management welcomes the initiatives proposed by OAIS to enhance its services and increase its alignment with the UNFPA Strategic Plan, 2022-2025. Management is particularly pleased to see the OAIS plan to continuously assess its capacity to align OAIS activities to the UNFPA strategic plan and to develop internal audit and investigation strategies designed to increase assurance coverage and optimize the use of financial and human resources allocated to OAIS. UNFPA management acknowledges that the current internal audit cycles could be shortened to achieve greater coverage of the audit universe; UNFPA looks forward to working with OAIS to optimize the use of financial and human resources.

56. UNFPA management is appreciative of the OAIS commitment to enhancing its investigation capabilities. It supports OAIS’s proposal to streamline its existing investigation procedures further and strengthen the triage approach, where applicable. Management also acknowledges the challenges of handling complex cases while respecting the principle of due process and fulfilling the growing reporting and transparency requirements.

57. Management welcomes the OAIS proposal to enhance working relationships with other oversight entities, audit and investigation professional groups within the United Nations system, and the wider network of professionals. Management also supports OAIS's proposal to complete the revision of the OAIS Charter, develop internal audit and investigation strategies and introduce flexible audit modalities as part of a new internal audit strategy.

58. UNFPA management deeply appreciates the recognition of its continued commitment to enhancing the effectiveness of its governance, risk management, and control processes. Management is fully committed to supporting the independence and effectiveness of OAIS in carrying out its important mandate and will continue to work closely with OAIS and other oversight entities to address any issues and implement recommendations to strengthen the internal control framework further. Management remains dedicated to ensuring the highest standards of accountability and transparency in all UNFPA operations and activities.

59. UNFPA management has full confidence in OAIS leadership and its support to management in ensuring the organization's accountability. Management acknowledges and appreciates the valuable advice of OAIS.

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## Section II

# Management response to the annual report of the Oversight Advisory Committee, 2022

### I. General

1. Under Executive Board decision 2008/37, UNFPA management provides a response to the annual report of the Oversight Advisory Committee, 2022 (DP/FPA/2023/6/Add.2).
2. UNFPA management appreciates and accepts the Committee's 2022 annual report, highlighting the organization's ongoing collaboration with the Committee during 2022. The Chairperson and Committee members have provided invaluable professional expertise, commitment and guidance to enhance UNFPA management practices, and management would like to express its gratitude for their contributions.
3. Management takes note of the three virtual committee meetings (half-days to accommodate different time zones of committee members) held in 2021 and the recommendations and advice provided to the UNFPA Executive Director in fulfilling her fiduciary responsibilities.
4. UNFPA management would like to express its profound gratitude to the members of the Committee, who have generously contributed their 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 independent of UNFPA management and external to the organization. The Committee members in 2022 included Mr Stephen Cutts (UK), who has served as Chair of the Committee since 1 July 2022, Mr Fayezul Choudhury (Bangladesh), Ms Nyardzayi Gumbonzvanda (Zimbabwe), and Ms Kumiko Matsuura-Mueller (Japan). We would also like to extend our heartfelt thanks to Mr Louis Wong (Australia), who chaired the Committee between August 2021 and the end of his term on 30 June 2022, and would like to extend a warm welcome to Mr Kamlesh Vikamsey (India), who joined the Committee on 1 July 2022, and express our gratitude for his contributions thus far. We sincerely appreciate the ongoing dedication and commitment of all Oversight Advisory Committee members to strengthening UNFPA management practices.
5. UNFPA appreciates the Committee's field visits to the Ecuador Country Office and the Latin America and the Caribbean Regional Office in Panama from 12 to 17 June 2022. The visits provided an opportunity for the Committee to familiarize themselves with UNFPA operations at the regional and country office levels and to gain a better understanding of the challenges and opportunities involved in implementing programmes/projects on the ground, working with implementing partners and collaborating with other agencies in the United Nations development system.
6. UNFPA management appreciates the Oversight Advisory Committee's efforts to strengthen its engagement with the Executive Board. The Chair of the committee participated in both the formal and informal sessions held in May and June 2022. Additionally, in accordance with the revised terms of reference of OAC, the Chair also engaged in the committee's first trilateral meeting with the Board President and the Executive Director. Management also appreciates the Committee's preparation of minutes for each of its meetings and written reports to the Executive Director on the outcome of the meetings. These reports provide a valuable record of its discussions and recommendations, and management has taken steps to implement the recommendations and suggestions made during these meetings.
7. Management commends the Committee for its commitment to continually assess its effectiveness and efficiency and appreciates its self-assessment of its effectiveness for 2022. Management looks forward to receiving the results of the external assessment once the network of oversight/audit advisory committees of the United Nations agrees on a common approach and the terms of reference.

## II. UNFPA response to key messages and challenges

### *Protection against sexual exploitation and abuse, and sexual harassment*

8. UNFPA appreciates the recognition from the Committee on the Fund's ongoing efforts to strengthen the work on protection against sexual exploitation and abuse, and sexual harassment. UNFPA works closely with its trusted local partners to raise awareness of affected populations and beneficiaries on standards of conduct in relation to sexual exploitation and abuse (SEA) and on populations and victims' rights. Guidance has been disseminated to protection against sexual exploitation and abuse (PSEA) focal points on the design of inclusive outreach campaigns that take into account the diversity of community members, including diverse gender identities and sexual orientations.

9. UNFPA PSEA focal points are actively engaged in country interagency PSEA networks where joint confidential and safe reporting mechanisms are developed based on the preference expressed by local populations.

10. UNFPA plays a leading role in the interagency working group on a PSEA implementing partners protocol and is currently adapting the assessment tools and guidance for government partners. The roll-out of the tool will establish baselines of government capacity to prevent sexual exploitation and abuse and be used to initiate a dialogue on government accountability. In addition, the working group on a PSEA implementing partners protocol is developing guidance and standard operating procedures for both United Nations personnel and partners on how to handle and investigate allegations.

### *United Nations development system reform and change management process*

11. UNFPA agrees with the assessment of the Commission on the work with the UN Development System reform, including the need for timely communication to staff on change management processes.

12. UNFPA welcomes the acknowledgement by the Committee that the Fund is committed to the implementation of the United Nations development system reform. In a follow-up to the recommendations of the formative evaluation on UNFPA support for United Nations development system reform, the Fund is developing an internal strategy for advancing United Nations development system reform.

13. The strategy will address how UNFPA will shift its engagement in the reform process toward leveraging reform in support of the achievement of its three transformative results and the achievement of the Sustainable Development Goals (SDGs). UNFPA has begun to broaden the ownership of United Nations development system reform among its staff, including by integrating reform in the Fund's Culture Initiative – an organization-wide exercise to promote culture change and strengthen alignment with United Nations values.

14. As an initial step, UNFPA is organizing a "Change Dialogue" for all staff, which will focus on organizational culture change in the context of the United Nations development system reform. The dialogue will be led by the Deputy Executive Director for Management and include the participation of the Assistant Secretaries-General from UNICEF and the United Nations Development Coordination Office (DCO).

15. A risk management plan to support the implementation of the headquarters footprint initiative has been developed, reflecting guidance from the Committee.

### *Funding*

16. Regarding funding, UNFPA surpassed the 2022 Strategic Plan revenue targets by \$442 million, reaching an all-time high of \$1.54 billion. However, the outlook for 2023 is less certain. UNFPA is addressing this through a reinvigorated core donor campaign to diversify the funding base, as well as ongoing risk analysis of realistic scenarios for funding in the Strategic Plan period. The Fund is also actively seeking to expand its cooperation with international financial institutions and other partners to leverage greater financing for the agenda on sexual and reproductive health and rights. Regarding partnerships, UNFPA encourages contributions from the private sector from programme countries; this is a key part of the organization's outreach and engagement efforts at the global, regional, and country levels. On due diligence, UNFPA is part of the Interagency Private Sector Task Team to ensure a common approach to the business sector due diligence. It has recently further strengthened its internal due diligence process.

### ***Humanitarian***

17. UNFPA agrees with the Committee that the increasing number and level of crises, vis-à-vis limited resources, mean that UNFPA must work differently to ensure an effective humanitarian response, including more preparedness and acting earlier to decrease the suffering and risks of women and girls in emergencies. The Humanitarian Response Division is currently working on a new emergency response framework underpinned by emergency procedures to proactively anticipate, prepare for and respond to emergencies with speed and agility. The emergency procedures will be informed by findings and recommendations of a number of learning and evaluation exercises, including the upcoming OAIS audit report on Fast Track Procedures. They will be anchored in an overarching emergency response framework and aligned with the new UNFPA business model (i.e., streamlining the fast-track procedures and enterprise management risk framework) and the Inter-Agency Standing Committee (IASC) humanitarian system-wide scale-up activation protocols. The Division is also working on establishing a UNFPA internal anticipatory action mechanism to translate early warnings into anticipatory actions to reduce disaster impacts and increase resilience. Additionally, a process of updating the minimum preparedness action was launched in December 2022, and the updated staff training on the new emergency preparedness tools and guidelines will take place throughout 2023.

### ***Enterprise resource planning system***

18. UNFPA management appreciates the dialogue throughout the year and the valuable input from OAC on the enterprise resource planning (ERP) project. UNFPA is pleased to note that the ERP project successfully went live in January 2023 without disrupting its operations. Following the go-live and the initial hyper-care period, the system will gradually transition to ongoing support. Together with partner agencies, UNFPA is currently reviewing the scope and timelines for further enhancements in 2023. Work on a new global planning module to succeed the current GPS is ongoing, with a target date of launching the new system in January 2024.

### ***Cybersecurity***

19. Management notes that given the overarching priority given to a timely launch of ERP Quantum, the weekly meetings of the ERP Project Board de facto replaced the ICT Board for a large part of 2022. UNFPA has now reverted to the normal governance structure with regular ICT Board meetings. The ICT Board now regularly reviews the status of the cybersecurity risks and the information security programme.

### ***Enterprise risk management***

20. UNFPA management appreciates the Committee's recognition of UNFPA efforts to develop and implement an enterprise risk management (ERM) policy and acknowledges Committee's valuable feedback on the draft policy before its release in March 2022.

21. UNFPA acknowledges the Committee's suggestion to clearly define the risks faced by UNFPA in the strategic risk register and will incorporate this as it continues with the ERM maturity.

22. UNFPA also appreciates the Committee's recognition of the UNFPA update on the roll-out of the ERM approach and the risk appetite statement at its November meeting and confirms that the UNFPA risk assessment exercise will now be conducted once during a programme cycle, with continuous monitoring of specific indicators that could prompt an additional assessment.

23. UNFPA appreciated the positive feedback on the progress made on risk management and will continue to promote and embed risk awareness throughout the organization and integrate it into project management.

### ***Supply chain management, including 'last-mile' assurance***

24. The UNFPA Supply Chain Management Unit (SCMU) was established in January 2022 with a clear commitment of Management to review the function and structure after a year. Consequently, SCMU is currently in a realignment process; it is expected to receive approval for its revised structure by July 2023. A phased approach will be used for its implementation.



### ***Human resources***

25. Management notes the OAC's emphasis on the fair and consistent application of human resources policies to ensure diversity and inclusion within UNFPA and seeks to reassure the Committee of its commitment to this practice. Furthermore, management acknowledges that active communication is key to the success of change initiatives currently underway. Management welcomes the Committee's observation on the need for managers to be trained in managing in a hybrid workplace, including the ability to focus progressively on outputs and outcomes.

### ***Financial statements***

26. The OAC was informed that the 2022 financial closure activities would be conducted using the existing enterprise resource planning (ERP) system ('Atlas'), as this would limit the risks associated with the ERP transition at the year-end. However, potential risks and impacts on the 2022 year-end closure process were two-fold: (a) synchronizing the ERP cut-over timeline with year-end closure; and (b) the involvement of the same staff in both the year-end and the ERP cut-over activities.

### ***Implementing partner assurance***

27. UNFPA management appreciates the Committee's caution against setting unnecessarily high compliance targets. UNFPA has had a risk-based methodology in place for many years and reviews it annually before setting new thresholds and targets. Management issued a revised implementing partner risk model in early 2022, incorporating operating context risk into the risk assessment. With the Executive Committee's approval, UNFPA will continue reviewing, monitoring, and developing the risk-based assurance model and adjusting the targets accordingly. UNFPA performs about half of its spot checks during the year. For 2022, 47 per cent of spot checks covered 55 per cent of related implementing partner expenditures. UNFPA has consulted the Board of Auditors on the recently revised risk model and keeps the Board of Auditors abreast of the assurance plan, the projected coverage, and its implementation.

### ***Evaluation function***

28. The Evaluation Office appreciates OAC's positive feedback regarding the Evaluation Office's high rate of implementation for centralized evaluations and key performance indicators and takes note of the suggestions made by the OAC. The peer review process will be presented to the Executive Board and shared with all United Nations Evaluation Group members upon its completion, in addition to informing the revision of the Evaluation Policy. The Evaluation Office will continue to share its evaluation findings across and beyond the United Nations system for broader lesson learning.

### ***Office of Audit and Investigation Services – Office of the Director***

29. The Office of Audit and Investigation Services (OAIS) Director a. i. appreciates the valuable feedback provided by the OAC and appreciates the Committee's continued interest in and support for OAIS and its efforts to enhance its independence and effectiveness. OAIS recognizes the importance of early engagement with OAC and other stakeholders when developing workplans and will continue to consider this going forward. For 2023, OAIS implemented the Board decision of allowing the Director to initiate critical audit engagements even before the approval of the workplan by the Executive Director. Four audit engagements were completed during the first quarter of 2023.

30. Regarding the request from the Executive Board for OAIS to prepare an assessment of its independence and to present a proposal on its staffing needs, OAIS has taken this matter seriously and completed the assessment as required. OAIS appreciates the guidance received from the Committee in advancing its recommendations. OAIS will continue working with the OAC and other stakeholders to strengthen its independence and provide effective oversight.

31. Regarding the Committee's concern about the organizational structure of the OAIS Office of the Director, OAIS shares this concern and acknowledges the importance of business continuity in case of the absence or abrupt departure of the Director. A proposed temporary post for a Deputy Director has been approved by the Executive Director, together with ten other new temporary positions that could be funded from the unspent balance of the 2022 budget that is carried forward to 2023. These additional posts proposed are two

for the Quality Assurance, Policy and Reporting Unit and an operations manager post in the Office of the Director, three audit specialist posts in the Internal Audit Branch and four investigation specialists in the Investigation Branch. Given that these temporary posts are funded from the unspent 2022 OIAS budget, they are not sustainably funded on an ongoing basis. At the midterm review of the Integrated Budget, 2022-2025, the organization will assess the ability for more permanent strengthening of OIAS within the available resources.

### ***Office of Audit and Investigation Services –internal audit***

32. OAIS appreciate the positive feedback from the OAC regarding its internal audit work and the external quality assessment conducted in December 2021. OAIS is pleased to have received the top rating, which affirms its commitment to conforming with the standards and code of ethics set by the Institute of Internal Auditors. OAIS has started to implement the recommendations and suggested improvements contained in the report and will continuously work to enhance its audit risk assessment and planning methodology to expand coverage of its audit universe. OAIS is also pleased that the Committee recognizes its efforts to streamline processes and increase efficiency and effectiveness.

33. OAIS remain committed to providing advisory services to senior management and other business units and working collaboratively with other parts of the UNFPA ‘integrity family’ to create a user-friendly guide for staff to understand where to report different wrongdoing incidents. Rosters of potential candidates are being established in the ongoing recruitments of auditors and investigators to have available staff when vacancies occur in these positions. OAIS appreciate the Committee’s continued support and guidance in this area.

### ***Office of Audit and Investigation Services – investigation***

34. OAIS appreciates the Committee’s recognition of the challenges it faces in addressing the backlog of cases while also recognizing the recruitment and retention issues it is experiencing. In 2022, OAIS hired six investigation specialists as consultants and a specialized investigation firm to help address the backlog. For 2023, recruitment of the vacant posts in the restructuring of OAIS and from the departure of two professional posts are in process and expected to be completed by the end of the second quarter. In addition, the additional four temporary posts approved are expected to help address the backlog once recruited. OAIS assures the Committee that it is proactively addressing these challenges to ensure that older cases do not languish.

35. OAIS is also committed to streamlining processes and increasing efficiency and effectiveness in addressing investigations. It notes the Committee’s suggestion to work with other parts of the UNFPA ‘integrity group’ to create a user-friendly guide for staff to understand where to report different types of wrongdoing incidents. OAIS will consider this suggestion in its efforts to improve the effectiveness of its investigations. OAIS will also ensure that it continues to prioritize and focus efforts on cases with the greatest impact on UNFPA’s operations and mandate. We will continue to update the OAC on the status of investigations and progress in addressing the backlog.

### ***Ethics Office***

36. The Ethics Office welcomes continued review and guidance of its work by the OAC.

### ***Follow up on JIU, internal and external audit recommendations***

37. Management appreciates the Committee’s positive feedback on the number of recommendations that have been closed and the strong organizational push by management to track and monitor these recommendations. UNFPA also acknowledges the Committee’s recognition of the effectiveness of the organization’s approach, including in using the Audit Monitoring Committee to monitor and track progress, as a best practice.

38. UNFPA also appreciate the Committee’s recognition of the organization’s use of root cause analysis as part of its review in addressing all recommendations on oversight matters, including the importance of undertaking analyses of audit findings to identify cross-cutting challenges and risks, and management assures the Committee that UNFPA will continue to do so.

### *Innovation*

39. UNFPA will continue to invest available resources in innovation projects that bring meaningful impact while continuing to engage especially youth and women. In 2023, the UNFPA Innovation Office has mobilized resources to support youth innovators, including young persons with disabilities. UNFPA Innovation will continue to provide regular updates on progress in innovation, including on its funding and the mainstreaming of collaboration.

## **III. Conclusion**

40. UNFPA is committed to addressing the issues raised by the Oversight Advisory Committee in its latest report. We will ensure that the recommendations made by the Committee are given the appropriate attention as well as the resources necessary for their successful implementation. Management will work closely with the Committee to develop a comprehensive workplan for the coming year that will address the identified areas of concern and promote greater transparency and accountability throughout the organization.

41. UNFPA thanks the Oversight Advisory Committee Chairperson, Mr Stephen Cutts, and all its members for their diligent efforts in providing invaluable guidance and recommendations to the organization. The insights provided by the Committee have been essential in improving UNFPA operations and ensuring that the organization remains accountable to its stakeholders.

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