



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

Distr.: General  
12 April 2013

Original: English

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**Annual session 2013**  
3 to 14 June 2013, New York  
Item 15 of the provisional agenda  
**UNFPA – Internal audit and oversight**

**UNITED NATIONS POPULATION FUND**

Addendum

Contents

	<i>Page</i>
Annual report of the Audit Advisory Committee .....	2
Management response to the annual report of the Audit Advisory Committee .....	11



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

United Nations Population Fund  
Audit Advisory Committee  
2012 Annual report to the Executive Director

### **I. Purpose**

1. Pursuant to item 14 of its terms of reference (TOR), and in accordance with paragraph 14 C of section IV, subsection F of the UNFPA oversight policy, this report to the UNFPA Executive Director provides a summary of the activities and strategic advice of the Audit Advisory Committee (AAC) of the United Nations Population Fund during 2012.
2. The AAC thanks UNFPA management for its receptivity to the Committee's advice and the Fund's actions to address the issues noted.

### **II. Audit Advisory Committee activities in 2012**

3. AAC TOR: Minor changes to the TOR approved in December 2010 were recommended by the AAC in 2012. These were approved by the Executive Director in January 2013.
4. Committee members: The AAC has an ongoing rotation and recruitment process to ensure membership is staggered to provide continuity. During 2012, the AAC was composed of five members, all external to UNFPA, possessing the required expertise in risk management and control, internal audit, governance, financial management and reporting, and development and programme matters. The Chair was held by Mr. William Fowler (United States of America) in 2012. As of 31 December 2012, two Committee members, Ms. Elisabeth McRae (Canada) and Mr. Mak Yuen Teen (Singapore), whose three-year terms had ended, rotated off the Committee. In January 2013, two new members, Mr. Verasak Liengsriwat (Thailand) and Mr. Peter Maertens (the Netherlands) were added, further to Ms. Berlina Mxakwe (South Africa) and Mr. Jose Urriza (Argentina) who had joined the Committee in 2012.
5. Independence: All the AAC members are independent of UNFPA and its administration and management. Annually, the AAC members are required to declare the existence of any relationship that might impair their independence in appearance or in fact. The declarations of independence were reported to the Executive Director. In 2012, there were no independence conflicts reported.
6. Meetings: The AAC held six meetings in 2012, four in-person meetings (in January, April, June and October) and two by teleconference (in July and December). UNFPA participants in the meetings included, among others, the Executive Director, the two Deputy Executive Directors, programme and operational senior management, as relevant, the Director of the Division for Oversight Services (DOS), and the external auditors. As required, the AAC met without management present and had separate in-camera meetings with the Executive Director, the Director of DOS and the external auditors. The Chairman

participated in the UNDP/UNFPA/UNOPS Executive Board annual session in June 2012, held in Geneva, Switzerland; and in a joint meeting of the Audit Advisory Committees of UNDP, UNICEF and UNFPA, held in New York, in December 2012, related to the findings of the joint audit report on the harmonized approach to cash transfers to implementing partners (HACT) governance. In addition to the formal AAC meetings, Committee members continued their internal consultations and deliberations, document review, and provision of advice to UNFPA management via telephone and e-mail interaction.

7. Field visits: To augment the Committee's understanding of the UNFPA mission and operations, AAC members, from time to time, participate in visits to country offices. There were no field visits in 2012. It is anticipated that a minimum of two AAC members will be participating in field visits in 2013.

8. Reporting: Minutes from the AAC meetings were prepared. In accordance with item 13 of the AAC TOR, the Committee formally reported back to the Executive Director after each meeting. The Committee or Chair briefed the Executive Director either in person or by telephone.

9. Assessment of the Committee's effectiveness: The Committee undertakes an annual self-assessment exercise to confirm the appropriateness of its TOR and assess its effectiveness. The self-assessment for 2012 was completed and reported to the Executive Director. The Committee also makes recommendations, as necessary, during each meeting and follows up periodically on the implementation of those recommendations by UNFPA management.

### **III. Audit Advisory Committee strategic advice to management in 2012**

10. Issues of concern identified by the AAC, along with the strategic advice provided to the Executive Director and UNFPA senior management in 2012, are summarized below.

11. Organizational change: During 2012, the AAC saw a significant transition occurring in UNFPA and in DOS due to the number of management positions being filled. In 2012, new staff appointed included the Deputy Executive Director (Management); the Deputy Executive Director (Programme); the Director, Division for Human Resources; and the Director, Division for Oversight Services. The Committee trusts that the transition in DOS leadership along with the succession in Deputy Executive Directors and Director of DHR will lead to increased cooperation among all the divisions without losing any of the momentum that has been achieved over the last several years.

12. Significant policy review: In accordance with the AAC TOR, the Committee is expected to review policies significantly impacting: (a) financial management and reporting; (b) the internal audit, investigation and evaluation functions; and (c) the effectiveness of UNFPA systems of internal control and accountability. In 2011 and 2012, the AAC reviewed and made recommendations on the UNFPA Financial Regulations and Rules. The Committee stressed the importance of being consulted before policies that significantly impact on UNFPA business processes and operations are finalized.

13. Reorganization: In 2008, the AAC noted that UNFPA was experiencing an internal multilayered transformation. This transformation continues. During 2009-2011, UNFPA made substantial progress in implementing a new organizational structure while ensuring that the restructuring supported the United Nations reform. However, UNFPA continues to face significant human resource, administrative and operational challenges and in 2012 began a process to develop its new strategic plan, 2014-2017, following the midterm review, in 2011, of the current strategic plan, 2008-2013. In addition to the reorganization and the development of its new strategic plan, UNFPA is undergoing modifications to its financial policies and practices to support the implementation (occurring in 2012 and 2013) of the International Public Sector Accounting Standards (IPSAS); development of an enterprise risk-management (ERM) strategy (see paragraph 22 below) and the internal control framework (ICF); programming enhancements to address new aid modalities; and changing operational relationships and funding mechanisms with implementing partners and other donor agencies.

14. Through the Fund's regular updates to the Committee during 2009-2012, the AAC has noted UNFPA progress in realizing its reorganization, intended in part to support a more field-focused and results-oriented UNFPA. In this respect, the AAC had recommended in 2011 that UNFPA establish a means to assess whether the intended results of the reorganization are being achieved. The AAC has stressed the importance of identifying the key performance indicators and explicit success criteria that can be used to measure the impact of the reorganization on UNFPA effectiveness and results. While some internal human resource and administrative challenges have been noted during the reorganization, often exacerbated by unforeseen external matters such as location choices and physical premises, the AAC supports UNFPA for its continued efforts to responsibly address all such issues.

15. The Committee believes that DOS should continue to play a prominent role with respect to UNFPA restructuring by advising on an ongoing basis whether the overall internal control framework is appropriate and recommending improvements or refinements that could be implemented.

16. International Public Sector Accounting Standards: Over the past five years, the AAC has received regular management briefings on the status of IPSAS implementation and also discussed the implementation status with the United Nations Board of Auditors. Based on these briefings, it appears that UNFPA has made substantial progress in the implementation of IPSAS, since 1 January 2012. The overall success resulting from the preparation and the implementation of IPSAS will be known in 2013. The AAC looks forward to a full report in 2013.

17. Financial statements for the biennium 2010-2011: In accordance with the AAC TOR, in April 2012, the AAC reviewed the draft of the UNFPA financial statements for the year ended 31 December 2011. The AAC recommended some revisions to the financial statements and notes thereto to improve the clarity and quality of communication of the financial information. In June 2012, the United Nations Board of Auditors finalized their report for the biennium ended 31 December 2011 and issued an unqualified report. The AAC congratulates management for their efforts in 2012 to address the issues raised earlier by the Board of Auditors in the qualified report issued for the previous biennium, 2008-2009, due to the auditors' inability to obtain adequate supporting documentation for a

significant portion of the programme expenditures incurred through the national execution (NEX) modality.

18. Internal control framework: In 2007, the AAC supported a DOS recommendation that the UNFPA internal control framework be revised to be fully compliant with the Committee of Sponsoring Organizations of the Treadway Commission (COSO) standards. The ICF principally provides guidance with respect to control and accountability of UNFPA operations particularly at the country level. The AAC continues to reiterate its position from previous years: in view of ongoing changes to UNFPA internal financial and operational policies and practices, and the evolving external environment, additional and ongoing revisions are required to ensure that internal control guidance remains relevant and practical, follows international guidance including that from the International Organisation of Supreme Audit Institutions (INTOSAI), and is fully compliant with COSO standards. In 2011, the AAC was briefed on the initiative to strengthen the ICF for programme execution in addition to basic operations. The AAC supports this important initiative and looks forward to its completion in 2013.

19. National execution modality: The AAC understands that UNFPA senior management has designated NEX as one of its highest priorities. The AAC has been briefed regularly on the efforts of UNFPA management and DOS to identify and address the underlying causes and challenges in managing and reporting on NEX which continues to be an area of high risk. In this respect, the Committee supports the efforts of UNFPA to strengthen management controls and practices at the local and headquarters levels and encourages further initiatives to address the underlying causes of NEX challenges and issues. Additionally, the AAC recommends that UNFPA review the existing NEX-related policies to clarify conditions for applying NEX, direct execution, or other operational modalities. The AAC noted the work that DOS conducted in cooperation with the United Nations Board of Auditors on the process by which unsupported expenditures from previous years were cleared. The AAC noted the improvement in documentation of the NEX expenditures. The AAC is pleased with the improvements that have been made and which led to an unqualified audit report for the biennium ended 31 December 2011.

20. The AAC recognizes the challenges that UNFPA faces to ensure appropriate accountability for financial and programme results while working under changing aid modalities, for example, sector-wide approaches and the harmonized approach to cash transfer. The AAC supports the recommendation of the joint audit of HACT governance, undertaken by UNDP and UNFPA with the support of UNICEF. The AAC considers that UNFPA should tailor its funding mechanisms to apply the most appropriate implementation modality for a particular country or funding partner and offer the flexibility required to more fully match resources to capacity and needs.

21. Operating fund accounts: Similar to 2010 and 2011, the operating fund accounts (OFA) have high balances during most of the year and then are cleared out for financial reporting at year-end. Fund advances are made but the pace at which the accounts are cleared out is slow and is not in compliance with the OFA management policies. This is an issue that requires continued attention by senior management.

22. Enterprise risk management: To assist in managing for results, the AAC recommended in 2008 that UNFPA management develop and implement a formal integrated enterprise risk-management strategy. Since then, the AAC reviewed developments relating to ERM: (a) in 2009, the study to recommend the steps for its development by reviewing risk management-related frameworks existing in UNFPA that could support the strategy; and (b) in 2010, the hiring of an ERM Senior Adviser. In 2010 and 2011, the AAC reiterated: (a) the importance of integrating the various risk management-related frameworks currently in existence in UNFPA and developing the additional systems and processes necessary to support and sustain a comprehensive ERM strategy that would focus on results and identify and address risk exposures throughout the organization and in its external relationships; and (b) the importance of the UNFPA Executive Committee's support for ERM, underscoring that additional focus was needed on issues of governance, management and administration, including the role of the Executive Board and the AAC, and relationships with other United Nations agencies. It is even more critical to introduce formalized risk management considering the significant risks identified through the DOS risk assessment. However, the ERM Senior Adviser, who left in early 2012, was not able to develop a comprehensive implementation plan. In 2011, the AAC noted that the amount of management changes occurring in 2012 were significant and full implementation of ERM could only occur when senior management is in place to lead this important initiative. During 2012, the AAC noted that the ERM implementation project was assigned to the Deputy Executive Director (Management) and that an integrated ERM strategy would be developed. The AAC supports the integrated ERM approach and looks forward to viewing the ERM plan in 2013.

#### **IV. Audit Advisory Committee advice related to the Division for Oversight Services**

23. In accordance with item 16 of its TOR, the AAC regularly reviews "DOS's function, including its charter, scope, plans, activities, resources, staffing and organizational structure".

24. Change in staffing: During the first quarter of 2012, DOS began the transition from the retiring DOS Director to a new Director of DOS (who joined UNFPA in March) along with several other management changes (see paragraph 11). The DOS Deputy Director left prior to the arrival of the new Director. The position has not been filled in light of the evolving situation of the evaluation function. The Chief of the Investigation Branch left in the second quarter; the recruitment was immediately initiated and the replacement joined UNFPA in March 2013. These transitions will provide challenges and the Committee trusts that they will lead to increased cooperation among all UNFPA divisions without losing any of the momentum that had been achieved over the last several years.

25. DOS performance: During 2012, the AAC continued to see significant improvement in the quality and timeliness of DOS performance, including report issuance.

26. DOS resources: The AAC has repeatedly stressed the importance of identifying whether and how DOS resource levels and capacities impact on its ability to implement its charter and provide the level of assurance necessary to support UNFPA strategic objectives. In this respect, ongoing issues with regard to the adequacy of DOS resources and

recruitment challenges have been highlighted to the AAC. The AAC appreciates the challenges of recruiting and retaining suitable candidates for DOS professional positions and how this may impact the capacity and overall results achieved by DOS. Furthermore, in complex and changing internal and external environments, a steep learning curve exists for all newly recruited UNFPA employees. This underscores the importance of a flexible and appropriate staff learning plan that includes professional training to ensure continuous learning opportunities. As such, it is critical that DOS has the capability needed and resources required to ensure that sufficient coverage exists in internal auditing, evaluation and investigation work at UNFPA.

27. Performance assessment of the Director of DOS: In accordance with item 16 of its TOR, the Chairperson of the AAC provided input on the performance of the Director of DOS for 2012.

#### **A. Audit**

28. DOS audit recommendation follow-up: Further to a 2008 recommendation by the AAC, DOS developed a system in 2009 whereby it monitors implementation of the recommendations from internal audits and regularly follows up with clients on the status of implementation. The results of such follow-up activities help support UNFPA management's accountability by providing objective and independent evidence-based assessments concerning the status of management actions to implement recommendations made as a result of UNFPA oversight activities. In 2012, DOS intensified its efforts and conducted quarterly comprehensive follow-up reviews of recommendations which were presented to the Audit Monitoring Committee. The AAC recommends that this monitoring continues in future years.

29. DOS audit plan: The AAC recommended approval in principle of the DOS audit plan 2012 and reviewed the DOS business plan 2012. The AAC noted that DOS has tailored its overall strategy to be more aligned with the needs of UNFPA, taking into consideration the change in senior management in 2012, the change in the reputation risk profile of UNFPA because of the qualified financial statements for the biennium 2008-2009, and the forthcoming change in accounting standards (IPSAS) in 2012. In this respect, the AAC recognizes the continued efforts of DOS to provide overall assurance and advisory services to UNFPA to support achievement of UNFPA strategic objectives.

30. Audit planning: The AAC supports the DOS risk-based annual planning process and the use of the risk model. Further to a recommendation made by the AAC, DOS developed a risk assessment of headquarters and cross-cutting functions in its 2010 plan in addition to assessing the risk universe of country offices. When developing its 2011 business plan, DOS strengthened its headquarters risk analysis and completed several engagements at UNFPA headquarters. In 2011, a separate risk model was developed for headquarters activities to support DOS 2012 audit activities. The AAC encourages DOS to continue with its risk-based planning model, in which selected headquarter functions would be audited in addition to country offices.

## **B. Evaluation**

31. The AAC has noted the results of the 2011 quality assessment review conducted by the DOS Evaluation Branch. It concluded that the country programme evaluations fell short of expectations in terms of quality. The Evaluation Branch also surveyed selected country offices to identify constraints and difficulties in conducting evaluations. The results indicated that evaluations were “inadequately planned”, “insufficiently funded”, and “neither managed nor performed by adequately skilled staff whether in country offices or by external experts”. This is of significant concern to the AAC.

32. In the AAC 2009 report, “the AAC stressed the importance of clearly identifying the roles of DOS and management in conducting evaluations as well as the means by which the independence of evaluations conducted by management would be assured” and “the AAC expressed concern as to whether UNFPA...has sufficient resources and appropriately qualified people to effectively implement the policy in the short-term”.

33. Furthermore, in its 2010 report, the AAC noted that “improving the quality of evaluations will require an enhanced culture of evaluation and accountability for results within UNFPA” and the AAC encouraged “further attention to improving evidence-based programme design, programmatic focus, and monitoring and evaluation”.

34. It would appear that UNFPA management may not be sufficiently focused on ensuring the quality and independence of country programme evaluations through appropriate resourcing, capacity-building and effective results-oriented monitoring and accountability. The AAC understands that, pursuant to Executive Board decision 2012/26, UNFPA is in the process of revising its evaluation policy and the issues of quality and independence, among others, will be addressed in the revised policy. Furthermore, in drafting the revised evaluation policy, UNFPA engaged closely with the Executive Board through a number of formal and informal consultations; and the revision of the evaluation policy has been guided by the advice and guidance of the Board.

35. The AAC supports the initiative of the Evaluation Branch to adopt a three-tier quality enhancement process to improve the quality of country programme evaluations. This includes elaboration of a methodology tailored to country programme evaluations, conduct of selected country programme evaluations with country offices, and reinforcement of local evaluation capacities.

36. The AAC continues to stress the important role of the evaluation function in improving programme planning, design and results, thus contributing to achieving UNFPA strategic and operational objectives.

37. The AAC has been briefed during the year about the review of the evaluation policy, provided advice and participated in the informal consultation meeting held with Member States on 12 June 2012.



### **C. Investigations**

38. The AAC regularly reviews the activities and results of the UNFPA investigation function and supports the need for additional tools such as a continuous monitoring system and appropriate resources to ensure that the function can effectively meet UNFPA needs. The AAC was pleased to learn of the progress in 2012. The AAC supported the UNFPA position for additional staff and its commitment to fully implement the continuous monitoring system.

39. In November 2012, the investigation of harassment, sexual harassment and abuse of authority was transferred from the Division for Human Resources to DOS. This would allow uniform investigation procedures and practices across the organization, and address increasing due-process requirements. The AAC will follow the impact of this transfer on the workload and resources of DOS.

### **D. Advisory services**

40. The AAC also supports DOS representation at meetings and provision of advice relating to key UNFPA business initiatives such as the implementation of IPSAS, enterprise risk management, results-based management, national execution, and the internal control framework. Through the provision of such ongoing advisory services, DOS contributes on a timely basis to more effective controls and/or operational efficiencies.

41. The AAC also notes DOS advice in reviewing draft policies or oversight related clauses in agreements to ensure their compliance with rules and regulations, as well as decisions of the Executive Board.

### **E. Reporting**

42. DOS progress reports to the AAC: During 2012, the AAC was provided with new DOS progress reports involving audits, investigations and evaluations. The AAC noted that these progress reports were helpful summaries of both activities and findings for the periods presented. The AAC encourages DOS to share these reports with the UNFPA Executive Committee and suggests that it might be informative for the same presentations to be made to the Executive Committee that are made to the AAC. Furthermore, the AAC encouraged DOS to have regular meetings (both formal and informal) and discussions with the Executive Director and Deputy Executive Directors in order to ensure good communications, especially in the beginning year of transition.

43. DOS report to the Executive Board on audit and oversight: The AAC has reviewed the report on UNFPA internal audit and oversight activities in 2012 (DP/FPA/2013/6) being submitted to the Executive Board at the annual session 2013, has taken note of its overall assessment of UNFPA risk exposure and trends, and concurs with the report's contents. The AAC supports the report's focus, namely, providing recommendations for consideration by the Executive Board to enable UNFPA to deliver its mandate with enhanced efficiency and effectiveness.

## **V. United Nations Board of Auditors**

44. Coordination and communication: The AAC meets regularly with the UNFPA external auditor, i.e., the United Nations Board of Auditors, to share relevant information and understand strategies implemented to ensure overall audit coverage of UNFPA, which includes the work performed by DOS. The Committee had substantive discussions with representatives of the Board of Auditors at each of its in-person meetings in 2012.

45. The AAC reiterates its recommendation that UNFPA management continue to collaborate with the United Nations Board of Auditors, as appropriate, on relevant financial matters including the Fund's financial statement reporting to ensure common understanding, particularly on technical issues.

## **VI. Ethics Office**

46. Because the ethics function is a key contributor to UNFPA accountability and oversight, the AAC revised its TOR in 2010 to specifically identify ethics as an area of AAC focus (Item 16). In this respect, the AAC supports the direct reporting relationship of the Ethics Adviser to the Executive Director and encourages the Ethics Adviser to support the management decision-making process, adding ethics dimensions to key strategic decisions or policy formulation. The AAC had a private meeting with the Ethics Adviser on 19 April 2012.

## **VII. Overall conclusion**

47. The AAC appreciates the substantial progress made by UNFPA over the last several years in an environment marked by many challenges. The AAC expresses support for continued nurturing by UNFPA of an accountability culture across the organization along with the strengthening of its assurance processes. The Committee trusts that the strategic advice and recommendations provided to UNFPA management in 2012 contribute to developing and sustaining the appropriate oversight and accountability framework along with the necessary supporting systems and implementing practices.

48. As 2012 is the first year following the implementation of IPSAS, the AAC will closely follow the progress being made and will monitor the review and audit of 2012 IPSAS-compliant financial statements by the new auditors from the United Nations Board of Auditors.

## **Management response to the annual report of the Audit Advisory Committee**

1. The UNFPA management response to the annual report of the Audit Advisory Committee (AAC) is provided as per decision 2008/37 of the Executive Board. Further information on a number of topics covered in this response can be found in the comprehensive management response (made available separately on the UNFPA website) to the report on UNFPA internal and oversight activities in 2012 (DP/FPA/2013/6).

2. UNFPA acknowledges and welcomes the 2012 annual report of the AAC. Throughout 2012, UNFPA continued to benefit from regular consultations with the Committee and would like to express its gratitude to the Chair and members of the Committee: their commitment and guidance have been invaluable in contributing to the strengthening of UNFPA management practices.

*Strategic advice to management in 2012 (paragraphs 10 to 22 of the annual report of the Audit Advisory Committee)*

3. UNFPA is pleased to have been able to staff a number of key high-level positions during 2012 with well-qualified candidates: (a) Deputy Executive Director (Management); (b) Deputy Executive Director (Programme); and (c) Directors for the Division for Oversight Services (DOS), the Division for Human Resources, the Technical Division, and the Information and External Relations Division.

4. UNFPA appreciates the Committee's advisory role in reviewing the UNFPA Financial Regulations and Rules and will continue to consult the AAC for future policy revisions.

5. As a follow-up to the reorganization efforts started in 2008, UNFPA continues to implement a number of measures aimed at strengthening the Fund's field focus and emphasis on results. The business plan, led by the new executive leadership, was rolled out in 2011 to all regions and countries. The business plan provided a road map for increasing UNFPA efficiency and effectiveness and addressing issues related to seven priority areas: (a) focused vision; (b) enhanced field support; (c) improved communications; (d) strengthened staff skills; (e) streamlined management and operations; (f) strengthened organizational culture; and (g) enhanced senior management accountability. A programme review committee has been formed to provide an additional quality-assurance mechanism for draft country programmes prior to their submission to the Executive Board for review. In 2012, an interdivisional working group was set up to look into effective ways to deliver integrated technical, programme and operational support to countries and regions. There is already evidence that these efforts have resulted in more focused programmes at the country level and in enhanced field support. Following the approval by the Executive Board in decision 2012/3, and in order to accelerate support to Africa where the burden of disease is the highest, including with regard to maternal mortality and morbidity, a second regional office was opened in Africa at the beginning of 2013. Moreover, in the context of the development of the new strategic plan, 2014-2017, and the integrated budget for 2014-

2017, UNFPA is reviewing its approaches to regional and country programmes. This will include a review of the current terms of reference and staffing requirements of regional offices, aimed at strengthening their capacity in providing support to the country offices.

6. UNFPA appreciates the encouragement expressed in the annual report of the AAC with regard to the implementation of the International Public Sector Accounting Standards (IPSAS). In addition, the United Nations Board of Auditors stated in its report (see A/67/5/Add.7) that UNFPA was on track in the implementation of IPSAS. In that regard, UNFPA has finalized its accounting policies; amended its financial regulations and rules; and made the required system customization of its enterprise resource planning (ERP) system, Atlas. The project was monitored by UNFPA senior management, and the project board (steering committee) was chaired by the Executive Director. Concerns expressed in the aforementioned report of the Board of Auditors are being addressed.

7. In 2012, UNFPA thoroughly reviewed and updated its internal control framework (ICF). The review covered the six existing activities and a new addition, namely, inventory management. The project was overseen by a major consultancy firm that ensured that the update was in line with industry best practice established in the “Internal Control – Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission. A recommendation from the project was that the ICF should be further developed to include other significant business processes, including aspects of programming. UNFPA will further explore this enhancement during 2013. Also, in 2012, UNFPA launched a mandatory training course and certification on the ICF.

8. During 2012, the Division for Management Services, in extensive collaboration with DOS, conducted a review of unsupported expenditures to determine if sufficient independent evidence existed for the implementation of associated activities which would support clearance of the expenditure amounts. The United Nations Board of Auditors was also consulted before management action was undertaken and views of the Board of Auditors were fully taken into account. This exercise was instrumental in the clearance of some of the outstanding unsupported expenditures.

9. Revision of the harmonized approach to cash transfers to implementing partners (HACT) framework is now at a critical stage, as United Nations organizations, under the auspices of the HACT Inter-agency Advisory Committee, are validating initial proposals and conclusions from the consultant. The process is expected to be completed by June 2013. The joint audit was a major input into this revision process, along with the global assessment of HACT. The AAC noted earlier that it would welcome a briefing on the outcome of the revision. Such a briefing can be arranged once the revision process is completed.

10. UNFPA takes note of the comments made by the AAC on the need to continually monitor compliance with, and further strengthen, its operating fund account (OFA) management policies and is committed to improving its compliance in 2013. In 2012, the Finance Branch provided guidance and tools to UNFPA business units to monitor, clear, reconcile and liquidate OFA balances. Furthermore, the Finance Branch assisted a number of business units, on an individual basis, to reconcile complex and aged OFA balances. The above measures resulted in a significant drop in aged OFA balances. Furthermore, a

concerted effort was made to fully investigate and process OFA write-off requests received. A more stringent policy on direct cash transfers that was issued in January 2013, coupled with mandatory quarterly OFA reconciliations, should enhance systematic efforts to clear OFA balances.

11. UNFPA is aware that the success of enterprise risk management (ERM) depends on the high-level commitment of and leadership by the champion for the exercise. The Deputy Executive Director (Management), who came on board in April 2012, is the designated champion and is fully committed to championing ERM. An interdivisional working group is developing the ERM framework and is, inter alia, utilizing the ERM frameworks of other United Nations agencies as guidance. In developing the next strategic plan, 2014-2017, UNFPA has planned and budgeted for the recruitment of one dedicated senior adviser for ERM. The plan includes the development and production of online ERM training material; and face-to-face orientation sessions at regional meetings for all field staff.

*Audit Advisory Committee advice related to the Division for Oversight Services in 2012 (paragraphs 23 to 43 of the annual report of the Audit Advisory Committee)*

12. Adequate staffing for DOS is a challenge and will remain so in the future. This is partly due to the competitive nature of the job market for the types of qualifications needed to staff the division and because UNFPA, like other public sector agencies, has to compete with the commercial market for such talent. UNFPA does not have a ready solution in this regard.

13. UNFPA management shares with the AAC its appreciation of the risk-based process utilized by DOS for internal audit planning. UNFPA is fully committed to monitoring the implementation of recommendations made in the DOS audit reports, through the monthly reporting to the Audit Monitoring Committee, which is chaired by the Executive Director.

14. Pursuant to Executive Board decision 2012/26, UNFPA is presenting a revised evaluation policy (DP/FPA/2013/5) to the Executive Board at the annual session 2013. The revised policy has been prepared through extensive consultation with the Executive Board, in addition to wide internal consultation. The revised policy takes into account the review of the existing UNFPA evaluation policy conducted by the United Nations Office of Internal Oversight Services in 2012, as well as the outcome of the quadrennial comprehensive policy review of the operational activities for development of the United Nations system and the guidance provided by the General Assembly in resolution 67/226. In developing the revised evaluation policy, UNFPA also consulted and took on board the guidance provided by UNDP, UNICEF and UN-Women. The revised evaluation policy fully aligns the evaluation function with the norms and standards of the United Nations Evaluation Group and international best practices.

15. As envisaged in the revised UNFPA evaluation policy, the independent evaluation office, reporting administratively to the Executive Director and reporting directly to the Executive Board, will be the custodian of all evaluation functions at UNFPA, both corporate and programme-level evaluations, as well as all evaluation-related core tasks. The revised policy seeks to ensure that the roles and responsibilities related to evaluation tasks

are clearly and unambiguously articulated. Furthermore, the revised policy ensures quality assurance and safeguards the independence of the evaluation function.

16. UNFPA management appreciates that the AAC has encouraged DOS to: (a) share its report to the AAC with UNFPA senior management; and (b) maintain regular communications with the Executive Director and Deputy Executive Directors to ensure timely and effective actions on audit issues.

*Audit Advisory Committee advice related to the United Nations Board of Auditors in 2012 (paragraphs 44 and 45 of the annual report of the Audit Advisory Committee)*

17. UNFPA management appreciates the recommendations made by the AAC throughout 2012 and the Committee's consultations with the United Nations Board of Auditors. UNFPA is fully committed to cooperating closely with the United Nations Board of Auditors on relevant financial matters. UNFPA will also provide training for the Board of Auditors in April 2013 on the UNFPA Financial Regulations and Rules, among other subjects.

*Audit Advisory Committee advice related to the ethics function (paragraph 46 of the annual report of the Audit Advisory Committee)*

18. UNFPA management welcomes the inclusion of ethics as an area of focus in the revised terms of reference of the AAC and takes note of the Committee's comments.

*Audit Advisory Committee's overall conclusion (paragraphs 47 and 48 of the annual report of the Audit Advisory Committee)*

19. UNFPA would like to reiterate its strong commitment to accountability and to developing the necessary supporting systems and strengthening the assurance processes that are in place. UNFPA anticipates satisfactory implementation of IPSAS, as supported by the observation made by the United Nations Board of Auditors. The verification of success in implementation will be made by the Board of Auditors after the first full year of implementation.

20. UNFPA management appreciates the advice and counsel provided by the AAC throughout the year. UNFPA would like to thank the outgoing Committee members, Ms. Elisabeth McRae (Canada) and Mr. Mak Yuen Teen (Singapore), who provided invaluable services to the organization during the last three years. UNFPA would like to welcome Mr. Verasak Liengsriwat (Thailand) and Mr. Peter Maertens (the Netherlands) who joined the Committee in January 2013. UNFPA looks forward to continuing the close engagement with the AAC and to receiving the Committee's advice. Finally, UNFPA would like to convey special thanks to Mr. William Fowler (United States of America) for his leadership and guidance in his capacity as Chair of the Committee.

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