



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

Distr.: General  
20 November 2012

Original: English

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**First regular session 2013**

28 January to 1 February 2013, New York

Item 9 of the provisional agenda

**UNFPA — Recommendations of the Board of Auditors**

**United Nations Population Fund**

**Follow-up to the report of the United Nations Board of Auditors  
for 2010-2011: status of implementation of the recommendations**

**Report of the Executive Director**

*Summary*

Pursuant to decision 97/2 of the Executive Board, the Executive Director, UNFPA, is pleased to submit the final report on the implementation of the recommendations contained in the report of the United Nations Board of Auditors for the biennium that ended on 31 December 2011 (A/67/5/Add.7).

A separate table, available on the web page of the UNFPA Executive Board (<http://www.unfpa.org/public/home/exbrd/pid/12129>), provides an up-to-date status of the implementation of the audit recommendations. UNFPA also addressed audit issues in its report on internal audit and oversight activities in 2011 (DP/FPA/2012/9), presented at the annual session 2012 of the Executive Board.

UNFPA is pleased to note the unmodified audit opinion of the United Nations Board of Auditors for the financial statements of the biennium that ended on 31 December 2011. Since the previous modified audit opinion, UNFPA has accorded the highest priority to resolving the concerns of the Board of Auditors and the concerns of the UNFPA internal auditors. The report of the Board of Auditors (A/67/5/Add.7) acknowledges improved oversight by UNFPA management in implementing all the recommendations, especially those related to national execution.



## I. Introduction

1. Pursuant to decision 97/2 of the Executive Board, the Executive Director, UNFPA, is pleased to submit a report on the implementation of the recommendations of the United Nations Board of Auditors (hereinafter referred to as the Board of Auditors) for the biennium that ended on 31 December 2011 (A/67/5/Add.7). In document A/67/381, the Advisory Committee on Administrative and Budgetary Questions reviewed a summary of the principal findings and conclusions of the Board of Auditors and the corresponding report of the United Nations Secretary-General (A/67/173). The Advisory Committee emphasized the need to establish a dedicated follow-up mechanism to address the root causes of the problems identified by the Board of Auditors.

2. Since the previous modified audit opinion, UNFPA has accorded the highest priority to resolving the concerns of the Board of Auditors. The Board of Auditors acknowledged improved oversight by UNFPA management in implementing all the recommendations, especially those related to national execution.

3. UNFPA has established a dedicated monitoring mechanism to implement external and internal audit recommendations. The Audit Monitoring Committee, chaired by the Executive Director, reviews the implementation of the audit recommendations on a regular basis. The hiring of a global audit firm and monthly reporting to the Audit Monitoring Committee have strengthened the monitoring of activities under national execution. UNFPA provides the report of the global audit firm to the Audit Advisory Committee and to the UNFPA Executive Committee.

4. UNFPA is committed to addressing all of the issues identified by the Board of Auditors. UNFPA has either: (a) completed action on the recommendations; or (b) plans to complete the implementation of all recommendations by the end of 2013 or earlier. UNFPA considers some of the recommendations to be of an ongoing nature; therefore some recommendations cannot be completed per se. UNFPA has enhanced its response to the recommendations through a comprehensive and systemic approach that strengthens controls and ensures compliance with the recommendations.

5. This report provides an update on the actions taken by UNFPA to implement the recommendations of the Board of Auditors, as contained in document A/67/5/Add.7. Further updates with target dates for pending recommendations are also available in the report of the Secretary-General on the recommendations of the Board of Auditors (A/67/319/Add.1). In addition, UNFPA addressed audit issues in its report on internal audit and oversight activities in 2011 (DP/FPA/2012/9), and in the management response to that report, which UNFPA submitted to the annual session 2012 of the Executive Board. An updated status of the implementation of the recommendations contained in document A/67/5/Add.7 may be found on the web page of the UNFPA Executive Board <http://www.unfpa.org/public/home/exbrd/pid/12129>.

6. This report includes the following sections:

- (I) Introduction
- (II) Status of implementation of the audit recommendations
- (III) Conclusion
- (IV) Recommendation

## **II. Status of implementation of the audit recommendations**

7. During the biennium that ended on 31 December 2011, the Board of Auditors issued 34 recommendations. As of 15 October 2012: (a) UNFPA had already implemented seven (21 per cent) of those recommendations, but the Board of Auditors has not yet verified their implementation; (b) UNFPA is in the process of implementing the remaining 23 recommendations (68 per cent); and (c) UNFPA management has not accepted three (9 per cent) of the recommendations. One recommendation is no longer relevant.

8. In the audit report for the biennium that ended on 31 December 2009 (A/65/5/Add.7), the Board of Auditors issued 93 recommendations. UNFPA implemented 64 recommendations (69 per cent), which the Board of Auditors verified. UNFPA also implemented 11 (12 per cent) of the 29 pending recommendations from previous periods, but the Board of Auditors has not yet verified their implementation. The remaining 17 recommendations (18 per cent) have been repeated in the most recent report of the Board of Auditors (A/67/5/Add.7). UNFPA management has not accepted one (one per cent) of the recommendations. UNFPA is confident that the implementation of the current recommendations will result in the full implementation of almost all previous pending recommendations.

9. This report describes the status of implementation and plans for implementation of the recommendations made by the Board of Auditors on the following issues: (a) international public sector accounting standards (IPSAS); (b) the harmonized approach to cash transfers; (c) trust funds; (d) national execution; (e) reorganization; (f) procurement; (g) asset management; (h) human resource management; (i) operating fund advances; and (j) fraud.

### **A. International Public Sector Accounting Standards**

10. In January 2012, UNFPA began implementing IPSAS. As noted in the report of the Board of Auditors (A/67/5/Add.7) and its previous reports (A/65/6/Add.7 and A/67/168), UNFPA is on schedule with regard to implementing IPSAS. It has concluded major phases of the project, including: (a) the development of accounting policies; (b) the revision of the financial regulations and rules; and (c) the customization of the Atlas system (Enterprise Resource Planning system).

### **B. Harmonized approach to cash transfers**

11. The review by the Board of Auditors on the implementation of the harmonized approach to cash transfers in organizations such as UNFPA identified systemic issues, including: (a) the lack of progress in the United Nations system on implementing the framework on the harmonized approach to cash transfers; (b) the lack of a clear business owner for monitoring the implementation of the harmonized approach to cash transfers; and (c) the uneven implementation of the framework in the field. A review by the United Nations Development Group also found deficiencies in the framework. These deficiencies indicate that the existing framework is not operating as intended and requires further revision.

12. The Board of Auditors has recognized that the implementation of the harmonized approach to cash transfers is a United Nations system-wide issue in

which UNFPA plays a limited role. The Board of Auditors further noted that the implementation of the harmonized approach to cash transfers has not been applied consistently in UNFPA country offices. The Advisory Committee on Administrative and Budgetary Questions further noted, in its review of the report of the Board of Auditors (A/67/381), that this initiative lacked a clear leader among the funds and programmes of the United Nations.

### **C. Trust funds**

13. The Board of Auditors repeated its concern that: (a) donor funds must be utilized efficiently or paid back in a timely manner upon the expiration of donor agreements; (b) progress reports must be submitted in accordance with donor agreements; and (c) the submission of progress reports should be monitored. UNFPA has a system to follow up with donors if they have not sent responses to UNFPA. UNFPA communicates with donors with regard to the unspent balances of trust funds through the submission of yearly donor financial statements. More recent agreements state how UNFPA should utilize the unspent balances.

14. UNFPA has been corresponding frequently with donors that have unspent balances. It will now include in such correspondence a time frame for a response, after which time UNFPA will transfer unspent balances to the general fund. UNFPA has also established a global monitoring system to track the submission of progress reports. UNFPA forwards updated information to all country and regional offices and headquarters units about implementation rates, along with requests that corrective and timely action be taken.

### **D. National execution**

15. During the previous biennium (2008-2009), the Board of Auditors issued a modified opinion on the financial statements of UNFPA to reflect weaknesses in the audit process and audit results of the national execution modality. Following improved management oversight, the Board of Auditors is satisfied with the improvements in the management and monitoring of national execution from headquarters. These improvements included more detailed instructions to country office staff, more training of country office staff, an improved database for audit reports, revised terms of reference for audits, and the engagement of a global audit firm for over 90 per cent of nationally executed expenditures. However, the Board of Auditors indicated that the control environment in the field is still not operating effectively. Country-office internal controls and risk-management practices are not functioning well and require improvement.

### **E. Reorganization**

16. The Board of Auditors recommended that UNFPA: (a) clarify the extent of oversight that regional offices should provide to country offices; (b) enable regional offices to carry out oversight functions; and (c) design and implement a performance system to measure the effectiveness and performance of regional offices. The Board of Auditors further recommended that UNFPA address the weaknesses in its regional office architecture, as noted in the audit report of 14 September 2011 of the Division

for Oversight Services on governance arrangements for country-office programme delivery. UNFPA must address questions such as whether the regional offices should develop their own regional expertise or act as clearing houses. The Advisory Committee on Administrative and Budgetary Questions raised questions regarding “a continued lack of clarity regarding the extent of oversight that [UNFPA] regional offices should exert over country offices” in A/67/381.

17. The audit report by the Division for Oversight Services further noted that one result of the reorganization was a decrease in technical advisory capacity in the regional offices. This has raised questions about the role of the regional offices in providing technical support to UNFPA country offices.

18. UNFPA is committed to addressing these concerns by evaluating its reorganization, emphasizing, in particular, the regional office architecture and the technical capacity of the regional offices. UNFPA will seek to implement the recommendations of the evaluation in January 2014, at the start of the next strategic plan. The evaluation is planned for 2013, when regional offices will have been operational for at least two years.

## **F. Procurement**

19. The Board of Auditors noted a number of deficiencies in procurement, including: (a) a number of exceptions to competitive bidding without adequate justification; (b) weaknesses in the solicitation processes; and (c) a lack of vendor evaluations.

20. In the previous UNFPA procurement policy, there was no requirement for vendor evaluations. However, in 2009, the Procurement Services Branch began to conduct vendor evaluations for vendors that were bidding for long-term agreements. UNFPA introduced a preliminary, Internet-based vendor evaluation tool in March 2011; however, the system required improvements. The revised vendor performance evaluation system will be functional in November 2012. This will mark full UNFPA compliance with the revised procurement policies and procedures regarding the evaluation of vendor performance.

21. UNFPA has also instituted a procedural requirement to post all bids on the United Nations Global Marketplace website at [www.ungm.org](http://www.ungm.org). Emergency procurement procedures are also in place. Revised procurement procedures have been in effect since October 2012. A handbook for all procurement practitioners in the United Nations elaborates the steps in the procurement cycle.

22. UNFPA has enhanced its monitoring of requests for waivers for competitive bidding. These procedures provide clear instructions and requirements regarding the justification that must accompany such waivers. A web-based Contracts Review Committee tool will ensure that the requesters submit additional documentation in order to provide full justification for waivers.

## **G. Asset management**

23. The Board of Auditors noted that UNFPA should perform a complete asset register verification for assets held in the field. The Advisory Committee on Administrative and Budgetary Questions also noted its concern (A/67/381) about the

“continued improper accounting for non-expendable property, which poses a reputational risk, in particular to funds and programmes”. The Board of Auditors recommended that UNFPA implement focused initiatives on: (a) asset verification/certification procedures; (b) asset identification; and (c) accurate record keeping on acquisition. UNFPA will implement these initiatives by undertaking a review of the guidelines on asset management, and by conducting training on asset management to improve capacity in the field. The maintenance of an accurate and a complete entity-wide asset register will be critical for implementing IPSAS.

24. In 2011, UNFPA engaged the services of a professional accounting firm to perform the physical verification of assets in 16 country offices identified as ‘high risk’ for incorrect records. The findings led to adjustments in the accounting records in several of these offices. To ensure an accurate disclosure of assets, UNFPA will conduct a second independent asset verification exercise in select country offices at the end of 2012.

25. In addition, UNFPA will launch a revised asset policy in late 2012 to reflect changes related to IPSAS. A training course on how to properly record the assets in the asset-management module will be available in late 2012. The annual asset certification process is scheduled for November 2012.

## **H. Human resource management**

26. The Board of Auditors reiterated its recommendation that UNFPA: (a) address vacant positions; (b) shorten the lead time for filling vacancies; and (c) ensure that it has sufficient resources to achieve its programme objectives.

27. UNFPA has taken steps to reduce the lead time in filling vacancies. Such steps include: (a) expanding outreach recruitment missions; (b) the creation of applicant rosters; (c) the development of a new career-management website; and (d) the use of social media. UNFPA has also enlisted the services of an external executive search firm to assist in identifying candidates for senior-level positions. In 2011, the average recruitment time was 3.4 months. This time frame is within the target recruitment time of four months.

28. The Board of Auditors continued to note weaknesses in the management of leave balances, where manual leave balances were not reconciled with system balances in Atlas. The Board of Auditors is concerned that these discrepancies may increase the risk of misstatements of leave liability under IPSAS.

29. UNFPA has taken measures to address leave management, including: (a) the roll-out of the Atlas absence-management module for all staff; (b) issuance of self-learning and step-by-step guides on how to manage absences in Atlas; (c) the issuance of an absence-management policy; (d) user training on absence management in Atlas for all operations managers; (e) roll-out of an employee self-service module in Atlas, entitled e-services, for various benefits and entitlements, including an online leave application/approval module; (f) webinars on the use of the e-service modules; and (g) training for absence processors and managers.

## I. Operating fund advances

30. The Board of Auditors reiterated its previous recommendation that UNFPA: (a) follow up on long outstanding operating fund advances in a timely manner; (b) ensure that operating fund advances are utilized for intended purposes; and (c) reallocate credit balances in operating fund advances to accounts payables.

31. UNFPA has mobilized additional resources to analyse all older balances of operating fund advances as of 31 December 2011. Based on the results of the analysis, UNFPA will issue write-offs, depending on whether the funds are deemed no longer recoverable. During the second half of 2012, UNFPA conducted a new reconciliation exercise for operating fund advances involving all country offices. The Finance Branch has provided additional guidance on how to deal with operating fund advances. Business units with the 10 largest balances of operating fund advances that are older than one year as of 31 December 2011 will be required to complete a reconciliation exercise. The Division for Management Services will oversee the resolution of any discrepancies.

## J. Fraud

32. UNFPA had nine cases of fraud in the 2010-2011 biennium, down from 20 cases in 2009-2010. Of the nine cases: (a) two staff members resigned; (b) UNFPA dismissed one staff member; (c) UNFPA censured two staff members; (d) UNFPA terminated the contract of one staff member; (e) two staff members were subject to disciplinary measures; and (f) one case was settled due to irregularities in the investigation process.

### Implementation status of audit recommendations in the Report of the Board of Auditors (A/67/5/Add.7), by unit of responsibility, as of 15 October 2012

Division/country office	Number of recommendations	Not implemented	Implemented*	In progress	Priority	
					High	Medium
Division for Management Services	15	0	3	12	11	4
Division for Human Resources	4	0	1	3	2	2
Information and External Relations Division	2	0	2	0	0	2
Procurement Services Branch	7	0	2	5	5	2
Office of the Executive Director	3	0	0	3	3	0
Country offices	3	0	3	0	0	3
<b>Total</b>	<b>34</b>	<b>0</b>	<b>11</b>	<b>23</b>	<b>21</b>	<b>13</b>

\* Includes those recommendations that have not been accepted by management and/or taken over by events.

**Implementation status of audit recommendations in the report of the Board of Auditors (A/67/5/Add.7, including annex 1), by subject areas and paragraph references, as of 15 October 2012**

	<i>Recommendations from the biennium ending on 31 December 2011 (A/67/5/Add.7)</i>				<i>Recommendations from the previous biennium ending on 31 December 2009 (annex 1, A/67/5/Add.7)</i>			
	<i>In progress</i>			<i>Subtotal*</i>	<i>In progress</i>			<i>Subtotal*</i>
	<i>Priority (High)</i>	<i>Priority (Medium)</i>	<i>Implemented</i>		<i>Priority (High)</i>	<i>Priority (Medium)</i>	<i>Implemented</i>	
International public sector accounting standards	25, 30, 134	–	120, 133	5	–	309, 313, 314	–	3
Harmonized approach to cash transfers	64, 66	65	–	3	–	–	–	0
Trust funds	–	–	[39], [42], [46]	3	–	–	[68]	1
Reorganization	83, 84, 147	–	–	3	–	–	–	0
Procurement	91, 92, 99, 104	95	103, 106	7	232, 346, 370, 379	–	–	4
Country offices	–	–	[69], 108, 110	3	–	215	58, 65, 90, 114, 116,	6
Asset management	115, 116	–	–	2	256, 262, 267, 273, 281, 291	–	251	7
Human resources management	126	33, 144	124	4	–	49, 50	296, 300	4
Payroll	129	–	–	1	–	53	–	1
Operating fund advances	74, 76	75	–	3	–	–	197, 198	2
Others	–	–	–	–	–	–	90	1
<b>Total</b>	<b>18</b>	<b>5</b>	<b>11**</b>	<b>34</b>	<b>10</b>	<b>7</b>	<b>12**</b>	<b>29</b>

\* Numbers indicate the total number of recommendations per subject areas.

\*\* Implementation not yet verified by the Board of Auditors as of 15 October 2012.

Paragraph numbers in brackets are those that are not accepted by the management or taken over by events.

### III. Conclusion

33. UNFPA is pleased to note the unmodified audit opinion contained in the report of the Board of Auditors for the 2010-2011 biennium (A/67/5/Add.7). UNFPA is following up on the new recommendations contained therein. As noted by the Board of Auditors, the challenge for UNFPA is to sustain the efforts it has made since January 2011 to implement all audit recommendations. UNFPA will continue to: (a) strengthen the oversight of its country offices; (b) address the vacancy rate; and (c) ensure that its regional structure is better able to support country offices. In order to achieve these goals, UNFPA has, during the last two years, put in place a number of new and revised policies, procedures and tools.

34. UNFPA notes the concerns raised by the Board of Auditors on the pending recommendations from the previous biennium, namely: (a) asset management; (b) leave management; and (c) procurement. Two examples of the work that UNFPA is undertaking to address these concerns are: (a) reconciling manual and Atlas leave



records; and (b) conducting independent evaluations to ensure the accuracy and completeness of asset registers. The Board of Auditors and the Advisory Committee on Administrative and Budgetary Questions noted that these issues were system-wide issues that would be resolved when IPSAS was fully implemented. The Board of Auditors has underscored that UNFPA is on schedule in implementing IPSAS and noted UNFPA training efforts on these accounting standards.

35. The remaining 17 recommendations (18 per cent) from the previous period are repeated in the most recent audit report (A/67/5/Add.7). In implementing the current recommendations, UNFPA will have therefore completed the implementation of all previous recommendations.

#### **IV. Recommendation**

**36. The Executive Board may wish to take note of the present report (DP/FPA/2013/1) on the actions taken by UNFPA and the further actions planned by UNFPA in implementing the recommendations of the United Nations Board of Auditors for the 2010-2011 biennium.**

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