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UNFPA – Internal audit and oversight

UNITED NATIONS POPULATION FUND

**REPORT OF THE DIRECTOR OF THE DIVISION FOR OVERSIGHT SERVICES ON UNFPA
INTERNAL AUDIT AND OVERSIGHT ACTIVITIES IN 2012**

Summary

The present report on the UNFPA internal audit and oversight activities of the Division for Oversight Services (DOS) for the year ending 31 December 2012 responds to Executive Board decisions 2011/22 and 2011/23, and other earlier pertinent Board decisions.

The report presents a review of oversight activities completed in 2012 by DOS on internal audit, evaluation and investigations. The report contains information on: (a) the overall audit assessment of the risk exposure of UNFPA; (b) the significant issues revealed through DOS oversight activities; (c) investigations, including cases of fraud and actions taken; (d) the review of internal audit recommendations issued in 2009-2012 and their implementation status; and (e) the disclosure of internal audit reports. Annexes 2, 3, 4 and 5 are available separately on the UNFPA website.

The annual report of the UNFPA Audit Advisory Committee and the management response thereto are contained in the addendum DP/FPA/2013/6 (Add.1). The management actions undertaken in follow-up to the 15 recommendations issued by DOS in its earlier report (DP/FPA/2011/5) are contained in annex 5, which is available separately on the UNFPA website. In addition, a separate comprehensive management response to the present report is also available on the UNFPA website.

Elements of a decision

Elements of a decision are contained in section X of the present report.



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List of Acronyms

AAC	Audit Advisory Committee
Atlas	PeopleSoft™ software
AWP	Annual workplan
BOA	United Nations Board of Auditors
DOS	Division for Oversight Services
EQA	Evaluation quality assessment
ERM	Enterprise risk management
FACE	Funding Authorization and Certificate of Expenditures
HACT	Harmonized approach to cash transfers to implementing partners
ICF	Internal control framework
ICT	Information and communications technology
IPSAS	International Public Sector Accounting Standards
ITIL	Information Technology Infrastructure Library
MHTF	Maternal Health Thematic Fund
NEX	National execution
OFA	Operating fund account
PCA	Programme coordination and assistance
RIAS	Representatives of internal audit services of the United Nations organizations, the multilateral financial institutions and other associated intergovernmental organizations
UNDG	United Nations Development Group
UNEG	United Nations Evaluation Group

I. Introduction

1. The present report provides the Executive Board with a summary of the internal audit and investigation activities, as well as a summary of the evaluation¹ activities conducted by the UNFPA Division for Oversight Services (DOS) in 2012. UNFPA is undertaking several key initiatives. Furthermore, pursuant to decision 2008/37, the annual report of the UNFPA Audit Advisory Committee (AAC) and the management response thereto are provided in the addendum, DP/FPA/2013/6 (Add.1), to the present report. Due to word-count limitations for official documents, annexes 2, 3, 4 and 5 are available separately on the UNFPA website. In addition, a comprehensive management response is made available separately on the UNFPA website.

2. This present report is submitted at a time when UNFPA has addressed a number of the recommendations raised by the United Nations Board of Auditors (BOA) in their past reports. UNFPA is also in the process of addressing the 15 high-level recommendations included in the earlier DOS report (DP/FPA/2011/5) and the implementation status at year-end 2012, as reported by UNFPA management, is included in annex 5 (available separately on the UNFPA website). In addition, in 2012, UNFPA embarked on implementing several corporate initiatives to improve and change operations. DOS will be following these in the course of its work in 2013.

II. Assurance at UNFPA

A. Mandate

3. Regulation 14.11 of the UNFPA Financial Regulations and Rules, the accountability framework,² the oversight policy³ and the evaluation policy⁴ approved by the Executive Board form the basis for the DOS mandate. The roles and responsibilities of DOS, as well as its authority, accountability and professional standards⁵ are set forth in its charter approved by the Executive Director. DOS solely performs, manages or authorizes others to perform or manage independent oversight services: in internal audit (effectiveness of the governance, risk management and internal control processes and economic and efficient use of resources); in evaluation (independent evaluations and assessment of quality of decentralized evaluations); and in investigations (allegations of violations of applicable regulations, rules and administrative or policy pronouncements).

¹ For details, see the biennial report on evaluation (DP/FPA/2012/8).

² DP/FPA/2007/20.

³ Executive Board decision 2008/37.

⁴ Executive Board decision 2009/18 and DP/FPA/2009/4.

⁵ Internal audit: international standards for the professional practice of internal auditing (standards) and code of ethics promulgated by the Institute of Internal Auditors. Evaluation: norms and standards of the United Nations Evaluation Group; Investigations: uniform guidelines for investigations adopted by the Conference of International Investigators.

4. The quality of DOS work is regularly monitored by the BOA and the AAC. The AAC continued to provide advice to promote the effectiveness of oversight services provided by DOS and reviewed the 2012 DOS annual workplan, budget, regular progress reports, annual report and audit reports. The BOA monitored the actions to implement the BOA recommendations aimed at improving DOS operations. The external auditors continued to rely on DOS work and reports in 2012.

5. Throughout 2012, DOS received support from UNFPA senior management. The DOS Director attended the meetings of the UNFPA Executive Committee as an ex officio participant, which also provided the Director an opportunity to give advice on governance, accountability or control aspects of new policies and to comment on any emerging potential risk to UNFPA.

6. In accordance with the standards, DOS hereby confirms to the Executive Board that it has enjoyed organizational independence. DOS has been free from interference in determining the scope of its work, performing it and communicating its results.

B. Basis for providing independent assurance

7. In 2012, DOS completed eight internal audit engagements, of which two were in its advisory capacity; one thematic evaluation; one evaluation of an instrument (thematic fund); and one country programme evaluation. Some of the work in audit, evaluation and investigation undertaken or completed in 2012 was done jointly with other organizations of the United Nations system.

8. The audit and evaluation reports issued in 2012 are listed in annex 2. Furthermore, the list of audit reports issued is available on the UNFPA website in accordance with Executive Board decisions 2008/37 and 2011/23. The evaluation reports are also posted on the UNFPA website.

9. Since most of the audit reports issued in 2012 covered operations and activities of UNFPA offices during 2010 and 2011, the audit outcomes generally reflect the status of operations in those two years. The audits at the country level, as well as the audits of corporate processes concluded in 2012 covered about \$124 million (8 per cent) of the \$1,648 million of UNFPA expenditures in the biennium 2010-2011, as reflected in the audited financial statements. An additional \$188 million in expenditures incurred in 2011 were covered by audits, in 2012, of national execution (NEX) projects.

III. Resources

A. Human resources

10. As of 31 December 2012, DOS had a total of 26 approved posts (21 at the professional level and five at the general services level), including two newly established posts in investigation (at the P2 level) for the biennial budget 2012-2013,⁶ pursuant to Executive Board decision 2011/22 (see table 1). The latter posts were filled

⁶ The two posts were established in March 2012.

in April 2012 and the investigations specialist post (at the P4 level), vacant at the end of 2011, was filled in June 2012.

11. At the end of 2012, of the 26 approved posts, 21 were encumbered and five were vacant: one in investigation, three in audit and one in the Directorate (Deputy Director). Vacancies affected mainly: (a) internal audit in the second half of 2012, in part compensated by using consultancy firms; and (b) investigations. Two of the vacant posts (Chief, Investigation Branch, and one internal auditor post) were filled by 1 March 2013 and a third one (an internal audit post) by 1 April 2013; one audit post was re-advertised; and the recruitment of the Deputy Director was put on hold pending developments regarding the evaluation function. This led to a vacancy rate of 21 per cent in 2012, compared to 8 per cent in 2011 and 24 per cent in 2010.

Table 1 - Human resources in the Division for Oversight Services in 2012

	Number of professional posts at year-end	Approved person-months	Person-months vacant	Percentage vacant
Director	1	12	1.5	13%
Deputy Director	1	12	10.5	88%
Special Assistant to the Director	1	12	0	0%
Internal Audit Branch	8	96	24.0	25%
Evaluation Branch	5	60	0	0%
Investigation Branch	5	56	15.5	28%
Total for DOS	21	248	51.5	21%

B. Financial resources

12. DOS receives funding from two sources: (a) the UNFPA institutional budget; and (b) UNFPA programme resources (global and regional programme). In 2012, the total DOS budget amounted to \$6,145,647, of which \$5,315,647 (86 per cent) was from institutional budget funds and \$830,000 (14 per cent) from the UNFPA global and regional programme resources. There was a slight decrease in overall budget funding for the oversight function, by 2 per cent compared to 2011 (\$6,298,842) (see details in table 2).

Table 2 - Overview of financial resources, 2011-2012*

Function	2011		2012	
	Authorized posts	Budget (in \$ million)	Authorized posts	Budget (in \$ million)
Audit	9 (8+1)	2.3	9 (8+1)	2.1
Investigation	4 (3+1)	1.0	6 (5+1)	1.2
Evaluation	6 (5+1)	1.6	6 (5+1)	1.7
DOS management and support	5 (3+2)	1.2	5 (3+2)	0.9
Audit Advisory	-	0.2	-	0.2

Function	2011		2012	
	Authorized posts	Budget (in \$ million)	Authorized posts	Budget (in \$ million)
Committee				
Total	24 (19+5)	6.3	26 (21+5)	6.1

*In parentheses and italics, the number of professional and general services staff.
For comparability, the 2011 costs were apportioned following the same definition as in 2012.

IV. Internal audit

A. Risk-based audit planning

13. DOS executes its assurance activities based on a risk-based audit plan, approved by the Executive Director after review by the AAC. The plan is based on a documented risk assessment of the auditable universe of business units (country offices; regional and subregional offices; liaison offices; and headquarters units involved in programme delivery activities), and of corporate business processes and initiatives. Risk is measured through a set of factors affecting the achievement of objectives of those entities, in terms of potential impact and likelihood.

14. The business unit audit risk assessment is based on financial and programmatic information (for example, financial materiality, effectiveness of controls and systems in place, level of change) and on the results of consultations with management at headquarters and in the regional offices. The model was revisited in 2012 for relevance and appropriateness.

15. A separate model was developed in 2012 for the audit risk assessment of corporate processes and initiatives, and of the headquarters units involved in their execution. This model includes factors relative to financial materiality, impact and complexity; the level of change affecting these entities; the effectiveness of controls and systems in place; and the capacity to manage these processes. It also incorporates the results of consultations with headquarters management.

16. The risk-based selection of audit entities and risk-based scoping of each individual audit ensure that DOS focuses on the areas of greatest risk for the organization.

B. Results of the audit risk assessment

17. UNFPA is exposed to significant risks which emanate from: (a) highly decentralized operations, with over 140 field offices⁷ worldwide, some of which are in fragile settings; (b) fragmented programming across global, regional and country levels, thematic areas and humanitarian response; (c) a large number of implementing partners (with varying degrees of capability) and annual workplans (AWPs) developed and managed with limited integrated systems and tools; (d) a sizeable workforce, including numerous service contract holders and consultants; (e) a significant level of local procurement of goods and services; (f) a large volume of financial transactions; and

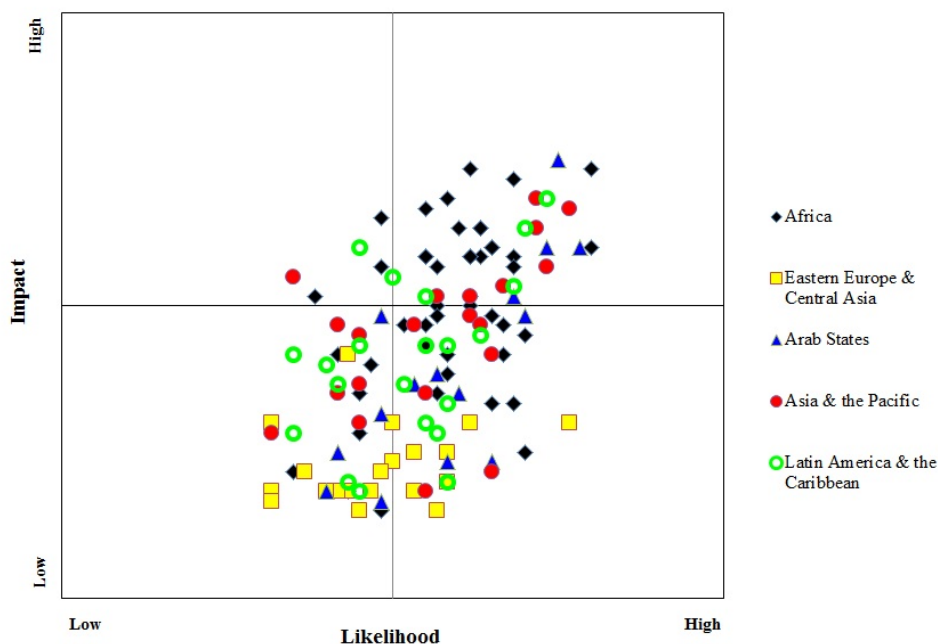
⁷ Country offices; regional and subregional offices; and liaison offices.

(g) an increasing proportion of non-core (earmarked) funding, with specific compliance and reporting requirements, and a correspondingly increased workload.

Business unit risk assessment

18. Figure 1 summarizes the results of the field offices' audit risk assessment, with expenditures amounting to \$628 million in fiscal year 2012, or 75 per cent of the UNFPA total annual expenditure.⁸ The concentration of points in the upper and lower right quadrants reflects the persistence of process and relationship risks⁹ that continue to affect field office operations. This is also confirmed by the results of field office audits conducted in 2012 by DOS and the BOA.

Figure 1 - Field offices audit risk assessment



19. In 2012, field offices continued to experience high vacancy levels in key managerial and operational positions and a high rate of staff rotation and reassignments; and control weaknesses, particularly in the areas of: (a) programme management; (b) monitoring and evaluation; (c) national execution; (d) operating fund account (OFA) management; (e) management of non-core resources; and (f) compliance with policies and procedures in various operational areas.

⁸ Given the enhancements made to the 2012 risk model, a comparison with previous years' risk models and outcome would be inappropriate.

⁹ Definitions are included in DP/FPA/2006/4 and DP/FPA/2007/14.

20. DOS acknowledges the improvements made as a result of management efforts through the business plan implementation, for example, enhancements to the internal control framework (ICF) for financial processes; improved programme planning and implementation policies and procedures; and revised procurement procedures. Additional efforts will be required to fully embed change in the organization.

Corporate risk assessment

21. The corporate audit risk assessment identified several significant cross-cutting risks, including those related to: (a) the implementation of the business plan, 2012-2013; (b) the development of the new strategic plan, 2014-2017; and (c) the design and implementation of other key corporate initiatives, such as the family planning strategy and the Global Programme to Enhance Reproductive Health Commodity Security.

22. Other significant corporate audit risks relate to: (a) the regionalization process and other governance issues identified through audit engagements; (b) the ICF completion; (c) the level of progress in the implementation of enterprise risk management (ERM); (d) humanitarian response capability; (e) human resources management; (f) quality-assured technical assistance to field units; (g) the full implementation of the International Public Sector Accounting Standards (IPSAS), with its impact on, for example, asset management, inventory management and financial reporting; (h) the information systems functionality required to support core business processes in an effective manner; (i) the maturity level of several information and communications (ICT) processes; (j) several major system development projects, such as the global programming system and the strategic information system; (k) changes to policies and procedures in key processes like programme planning and implementation, and procurement; (l) increased relevance of third-party procurement activities; (m) supply chain management processes and capability; and (n) implementation of a continuous monitoring system.

C. Internal audit activities in 2012

23. The execution of the 2012 internal audit plan was affected by the vacancy level in DOS and force majeure that limited internal audit staff availability throughout the year; and the impact of joint audit work and the introduction of a new report format. All 2012 planned audit work was initiated during the year, and completed to the extent possible, using consultants, wherever possible, with the extensive involvement of DOS management. Table 3 summarizes the status of audit engagements undertaken in 2012.

24. Further to country office or corporate process assurance engagements, DOS conducted, in its advisory capacity, a limited scope review of the financial statements for the biennium ended 31 December 2011, with the objective of assisting the AAC and the Executive Director in their own review; and a limited scope review of the process followed to quantify and clear unsupported NEX expenditures identified through the 2009 and 2010 NEX audits, with the objective of assisting the external auditors in their review of the financial statements for the 2010-2011 biennium.

Table 3 - Overview of engagements in 2012

	Country office	Corporate process audits	Advisory	Total
Total of audits to be undertaken/ completed in 2012	10	5	1	16
<i>Of which:</i>				
<i>Carried over from 2011</i>	-	1	-	1
<i>Joint audits carried over from 2011</i>	1	1	-	2
<i>Planned in 2012 (a)</i>	9	3	1	13
Total final audit reports issued in 2012	4	2	2	8
<i>Of which:</i>				
<i>Joint audits from 2011 and 2012</i>	1	1	-	2
<i>From workplan 2012</i>	3	1	1	5
<i>In addition to original workplan</i>	-	-	1	1
Total audits carried over to 2013	7	3	0	10
<i>Draft reports issued (b)</i>	4	1	-	5
<i>Audit in progress (c)</i>	3	2	-	5
<i>(a) Includes one joint audit of a "Delivering as one" country.</i>				
<i>(b) All final reports issued by mid-February 2013.</i>				
<i>(c) Field work completed before year-end for all except one.</i>				

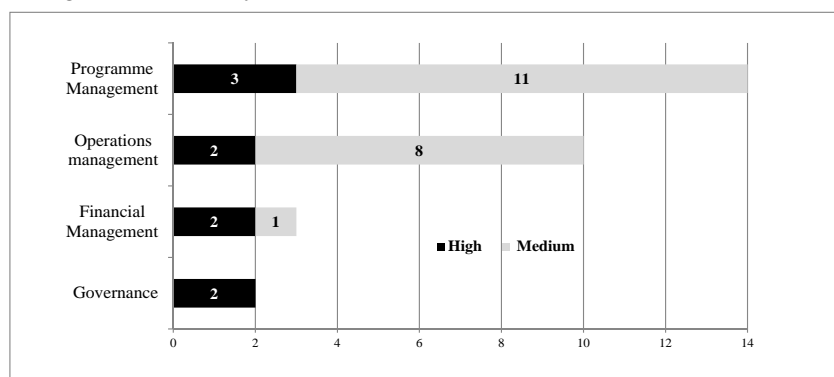
D. Significant issues derived from audit activities

Country offices

25. The two country office audits completed in 2012 revealed issues similar to those identified and reported in previous years, and are consistent with the audit risk assessment results. Most challenges were identified in the areas of: (a) programme management (programme planning and execution; monitoring; inventory management; and national execution); and (b) operations management (human resources management; procurement; asset management; processing of financial transactions; and accounting for value added tax). Annex 1 provides details on the most common audit issues identified. The audits of other country offices awaiting management answers at year-end revealed indications of the same issues.

26. The audit of the country office in the Republic of the Congo was rated as 'unsatisfactory' due to internal control, compliance and operational issues that could prevent the achievement of organizational objectives. The country office in the Kyrgyz Republic was assessed as 'satisfactory'. As shown in figure 2, the country office audit reports issued by DOS in 2012 contained 29 recommendations, nine of which were rated as high priority, and 20 as medium priority.

Figure 2 - Country office audit recommendations issued in 2012



“Delivering as one” programme

27. In 2012, DOS undertook, together with seven internal audit services of United Nations system organizations, the joint audit of the Tanzanian “Delivering as one” programme. The audit was rated as ‘partially satisfactory’. Of the 15 recommendations addressed to the United Nations country team, five were ranked ‘high priority’, and pertain to the One Country Programme, One Fund, One Leader and governance, one office and one voice. Implementation progress is tracked and will be reported by UNDP.

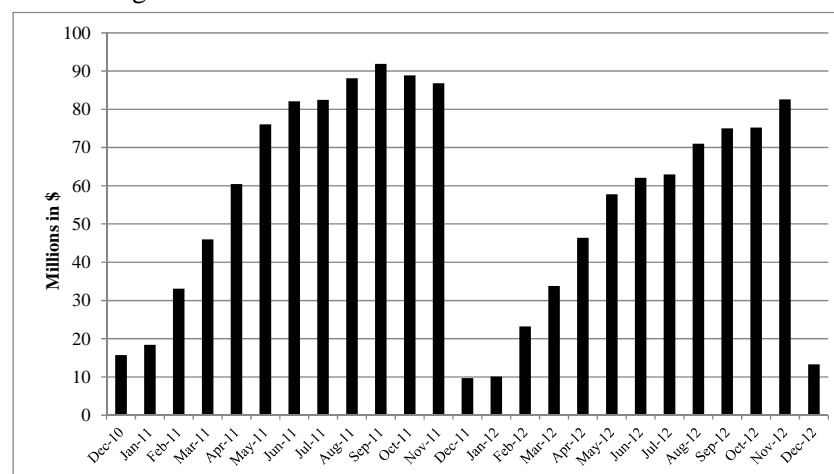
Corporate processes and headquarters units

Operating fund account

28. The audit of the OFA year-end process completed in 2012 received a ‘satisfactory’ audit rating and raised six recommendations, two of them rated as high priority and four as medium priority.

29. During 2011 and 2012, UNFPA management undertook a series of initiatives to improve controls over the funding provided to implementing partners and to reduce OFA balances. This included enhanced monitoring of advances by the Finance Branch; periodic reconciliation of OFA balances; and improved compliance with the OFA management policy that limits the payment of additional advances to implementing partners with qualified audit opinions, unsupported NEX expenditures or uncleared advances from previous years. While noteworthy, these efforts have not yet fully addressed the root causes that result in the accumulation of significant OFA balances and their liquidation over a short period towards the end of the year, as shown in figure 3.

Figure 3 - Evolution of OFA balances for 2011 and 2012



Harmonized approach to cash transfers to implementing partners

30. The joint audit of the harmonized approach to cash transfers to implementing partners (HACT) corporate governance arrangements, led by UNFPA, performed with UNDP, and supported by UNICEF, received an ‘unsatisfactory’ rating, i.e., the issues identified could compromise the achievement of the overall objectives of the HACT framework. The framework is not functioning as expected in improving risk management; enhancing assurance over the proper utilization of funds provided to implementing partners; strengthening national capability; and reducing transaction costs. The report, addressed to the United Nations Development Group (UNDG), included one recommendation,¹⁰ i.e., to revisit the HACT framework and its implementation. However, the remediation of the issues identified will require the significant attention and involvement of all organizations participating in HACT.

Assurance provided by NEX audits

31. There has been a significant improvement in the NEX audit process. As shown in table 4, NEX audits performed in 2012 allowed UNFPA to achieve a high audit coverage of its 2011 NEX expenditures, with: (a) a smaller number of qualified, modified or adverse opinion; (b) a lower level of unsupported expenditures; and (c) improved on-time report submission than in the past.

Table 4 - 2011 and 2012 national execution audit performance

Indicator	2009	2010	2011	Trend
Audit coverage				
Expenditures audited (\$ millions)	129.1	171	188	Improvement
Percentage of total NEX expenditures audited	69%	81.6%	85.9%	
Qualified, modified or adverse opinions				Significant improvement

¹⁰The status of implementation will be reported by UNDP.

Indicator	2009	2010	2011	Trend
Number of reports	107	102	71	
Percentage of audits performed	16.6%	13.0%	7.9%	
Unsupported NEX audit expenditures¹¹				
Amount (\$ millions)	3.8	6.4	4.7	Improvement
Percentage of audited NEX expenditures	2.9%	3.6%	2.5%	
Percentage of audit reports submitted late	46%	34%	7%	Significant improvement

32. During 2011 and 2012, management undertook significant efforts to clear the 2010 and 2011 NEX audit unsupported expenditures by obtaining from the concerned implementing partners, either appropriate supporting documentation or the reimbursement of the funds advanced. The aggregated amount of uncleared and unsupported expenditures for 2010 and 2011 was reduced from a total of \$11.1 million to \$0.7 million as at 23 January 2012. In addition, management engaged the concerned implementing partners and UNFPA business units to ensure that corrective actions are implemented to address the control issues related to the unsupported expenditures.

33. At the request of UNFPA management and the BOA, and to assist the latter in its review of the financial statements for the biennium ended 31 December 2011, DOS performed a limited scope review of the process followed by management for the clearance of unsupported NEX expenditures, and concluded that in general, management had obtained appropriate supporting evidence to support the clearance of said unsupported expenditures.

International Public Sector Accounting Standards

34. The most significant outstanding risks identified by previous audits in the area of IPSAS implementation related to: (a) the accuracy and completeness of inventory records and the accounting recognition of inventory transactions; (b) the accuracy of fixed asset records; and (c) the accuracy of leave records used as a basis to estimate corresponding liabilities in the financial statements. Efforts undertaken by management in 2012 to address these risks included: (a) the issuance of a detailed inventory management policy; (b) the execution and reconciliation, by an international accounting firm, of physical inventories in countries with significant fixed asset balances; and (c) the review, reconciliation and adjustment of Atlas leave balances.

¹¹ For both qualified and unqualified audit reports.

35. Key IPSAS accounting policies and procedures were reviewed by DOS as part of its limited scope review of the financial statements for the biennium ended 31 December 2011, and no significant issues were identified. No detailed follow-up work was performed in relation to the accuracy and completeness of Atlas leave balances as this area was extensively reviewed by the external auditors. In addition, and during the audit of the inventory management process started in 2012, DOS reviewed, in its advisory capacity, the detailed inventory management policy released towards the end of 2012, without identifying any significant concerns that could impact the preparation of the financial statements for the year ended 31 December 2012.

E. Follow-up of internal audit recommendations

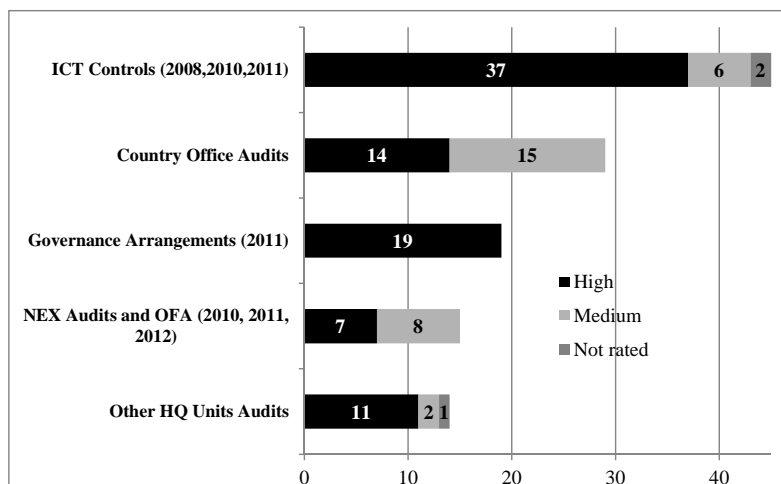
36. The Audit Monitoring Committee, established in 2011, maintained an ongoing review of the status of implementation of audit recommendations by business units. Together with the regular follow-up by DOS, this process enabled the closing of 241 recommendations in 2012. As shown in table 5, 122 recommendations (29 pertaining to country offices and 95 to headquarters units and corporate business processes) remained open as at 31 December 2012. This shows a continuous improvement over 505 in 2010; and 328 in 2011.

Table 5 - Status of implementation of audit recommendations by year

Year	Number of reports issued	Recommendations issued	Outstanding recommendations	
			2011	2012
2008	29	882	9 (1%)	2 (0%)
2010	18	463	90 (19%)	26 (6%)
Subtotal	47	1,345	104 (8%)	28 (2%)
2011	11	248	224 (90%)	71 (29%)
2012	3	37		23 (62%)
Grand total	61	1,630	328 (20%)	122 (7%)

37. Figure 4 presents all outstanding recommendations as at 31 December 2012, by engagement and risk level.

Figure 4 - Recommendations outstanding as at 31 December 2012



38. Outstanding recommendations from the ICT audits completed in 2010 and 2011 relate primarily to: (a) the development of the ICT governance and control framework; and (b) the design and implementation of formalized processes in key areas such as incident, configuration and change management processes. Management efforts to address these recommendations continued throughout 2012 and included the development and release of new ICT policies and progress in the implementation of Information Technology Infrastructure Library (ITIL)¹²-based processes and tools in the above-mentioned areas. Continuous management attention is needed to successfully conclude these efforts.

39. Outstanding recommendations from the 2011 governance audit relate to improvement opportunities identified regarding: (a) definition of indicators and a framework to monitor the UNFPA reorganization's successful implementation; (b) review of the resource allocation system; (c) AWP/Atlas integration; (d) enhancement of financial oversight mechanisms; (e) review and simplification of performance reporting requirements; (f) definition of roles and responsibilities for the provision of quality assurance based on needs assessment and supported by a corporate system for its delivery and monitoring; (g) enhancement of organizational structure and staffing of regional offices; and (h) management of vacancies.

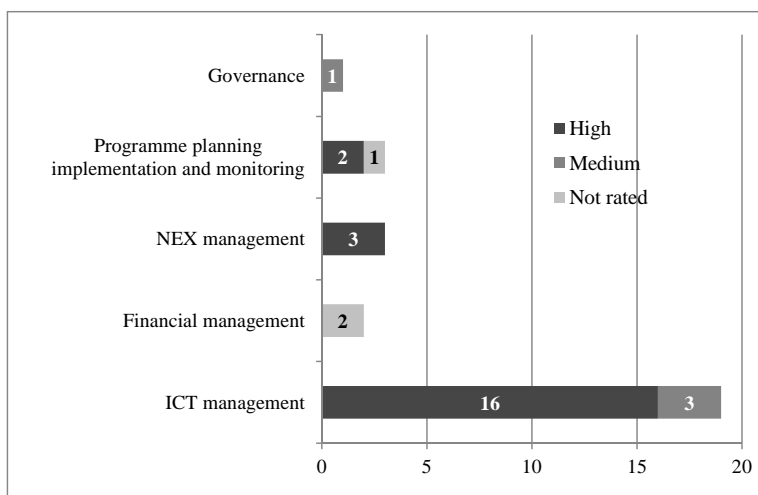
40. Outstanding recommendations from the headquarters contracts audit completed in 2011 relate to: (a) the need for a more clear definition and ownership of the contract management process; (b) the need to implement an integrated, end-to-end contract management system; (c) the need to design and implement preventive controls to enforce contract award approval requirements; (d) the need to implement stronger accounts payable controls; and (e) the need to enhance contract management staff capabilities. Management actions to address the gaps identified started in 2012 but had not yet been finalized at the time of preparation of this report.

¹² Best practices in information technology service management.

Recommendations unresolved for 18 months or more

41. Of the 122 outstanding recommendations, 28 remained outstanding for 18 months or more as at 31 December 2012. As shown in figure 5, approximately three quarters of these relate to ICT issues. Management efforts to address the recommendations were under way at year-end, as explained in paragraph 38. Detailed information on these recommendations is provided in annex 4.

Figure 5 - Recommendations unresolved for 18 months or more



F. Compliance with the oversight policy – disclosure of internal audit reports

42. The procedures for disclosure, as stipulated in DP/FPA/2008/14 and amended by subsequent Executive Board decisions, were in force throughout the year.

43. In 2012, eight internal audit reports were disclosed at the request of the United Kingdom of Great Britain and Northern Ireland. The disclosure took place remotely, and was undertaken in accordance with the relevant provisions of the UNFPA oversight policy and pertinent Executive Board decisions, under conditions of confidentiality.

V. Evaluation

44. Evaluations consist of assessments, as systematic and impartial as possible, of programmes, country programmes, themes and instruments. All evaluation reports focus on expected and achieved accomplishments, examining the results chain, processes, contextual factors and causality, in order to understand achievements (or lack thereof). Evaluation reports aim at determining the relevance, efficiency, effectiveness and sustainability of interventions and the contribution of UNFPA. Evaluations produced within the Evaluation Branch follow the norms established by the United Nations Evaluation Group (UNEG) for evaluation within the United Nation system.

45. In 2012, pursuant to Executive Board decision 2012/26, UNFPA engaged in reviewing and revising its 2009 evaluation policy, in close consultation with the Board, with a view to reinforcing the independence and effectiveness of the evaluation function.

A. Evaluations undertaken or completed in 2012

46. The thematic evaluation of UNFPA support to maternal health including the contribution of the Maternal Health Thematic Fund assessed the extent to which UNFPA assistance had been relevant, effective, efficient and sustainable in contributing to the improvement of maternal health in the last 10 years. The evaluation also reviewed the design, coordination, and added value of the Maternal Health Thematic Fund (MHTF) as a targeted effort to improve maternal health since the start of MHTF country support in 2008. The evaluation was finalized in September 2012, with the issuance of two separate evaluation reports. Additionally, reports of the 10 country case studies for the thematic evaluation were finalized between October and December 2012, and were posted on the website between December 2012 and January 2013. In its responses, management indicated its renewed commitment to maternal health, including family planning, as a strategic priority.

47. The independent evaluation of the UNFPA sixth country programme in Madagascar (2008-2013) assessed progress achieved by UNFPA against expected results and analysed the strategic positioning of UNFPA within the Malagasy development context. The evaluation also aimed at identifying structural weaknesses and proposed corresponding recommendations. A workshop presenting the results of the draft final evaluation report to key national stakeholders was held in Antananarivo, Madagascar, in October 2012. The final report was issued in November 2012.

48. The joint evaluation of the UNFPA-UNICEF joint programme on female genital mutilation/cutting: accelerating change, led by UNFPA, was launched in 2012, and joint evaluation reference and management groups with representation from both agencies were formed (chaired by the UNFPA Evaluation Branch). The inception phase was completed in late 2012 and the final inception report issued in December 2012. The field phase commenced in November 2012, with a field mission to Kenya as a pilot country case study. The final joint evaluation report will be available in midyear 2013.

49. The joint evaluation of joint programmes on gender equality aims at: (a) providing credible and useful evaluative information on the added value and worth of joint gender programmes in the United Nations system; and (b) generating knowledge for their improvement, including the identification of lessons learned, challenges and best practices. UN-Women leads this evaluation. The UNFPA Evaluation Branch is a member of the evaluation management group. The final inception report was issued in August 2012. The field phase was partially completed, with four of the five country case study missions conducted in December 2012. The final joint evaluation report will be available in the second half of 2013.

B. Support to decentralized evaluations

50. As in past years, country programme evaluations commissioned by country offices and provided by the Programme Division to DOS were subject to an evaluation quality assessment (EQA) process. The EQA examines the quality of decentralized evaluations and assesses their reliability to inform future programming. The methodology, introduced in 2011, utilizes a comprehensive EQA system, aligned with internationally recognized norms and standards. The 2012 EQA report was issued in February 2012 and presented the results of the quality reviews of 34 country programme evaluations provided in 2011. The report identified the main weaknesses of the country programme evaluation reports produced by UNFPA country offices, namely, the lack of credibility of the findings; the lack of validity of the conclusions; and the poor usability of the recommendations.

51. A further 21 decentralized country programme evaluations were subject to quality review in 2012. At year-end, 12 were finalized; four were in the last stage of finalization; and five were at an earlier review stage.

C. Training and knowledge sharing

52. Building upon the three-tier quality enhancement process introduced in 2011, a week-long knowledge-sharing workshop on “How to design and conduct a country programme evaluation at UNFPA” was held in Johannesburg, South Africa, in June 2012, in collaboration with the Africa Regional Office. The workshop was attended by 52 monitoring and evaluation officers and/or focal points from the Africa region, and the monitoring and evaluation advisers of the Latin America and the Caribbean Subregional Office, and the Eastern Europe and Central Asia Regional Office. The training material drew on the methodology developed in 2011 and the recent experience of conducting an independent country programme evaluation in the region (in Cameroon, in 2011). The workshop was interactive, with practical exercises to demonstrate and test understanding. The workshop agenda and presentations, together with a participants’ feedback report, are available on the UNFPA website.

53. In November 2012, the Evaluation Branch conducted a customized training session on the EQA process for staff responsible for monitoring and evaluation in the Asia and the Pacific Regional Office.

VI. Investigation

54. The Investigation Branch is the sole entity in UNFPA that is responsible for conducting investigations into allegations of all acts of misconduct, namely, fraud; corruption; and retaliation. Since November 2012, given the increasing due process requirements and the Joint Inspection Unit recommendation, the Branch also has responsibility for investigating abuse of authority, workplace harassment and sexual harassment, sexual exploitation and sexual abuse -- previously investigations in these areas were undertaken by the Division for Human Resources.

A. Caseload

55. In 2012, DOS received 23 complaints,¹³ compared to 30 in 2011. In addition, one case was carried forward from 2009, four from 2010 and 14 from 2011. The result was a total caseload of 42 cases in 2012, compared with 48 in 2011 (see table 6).

Table 6 - Overview of cases received and closed

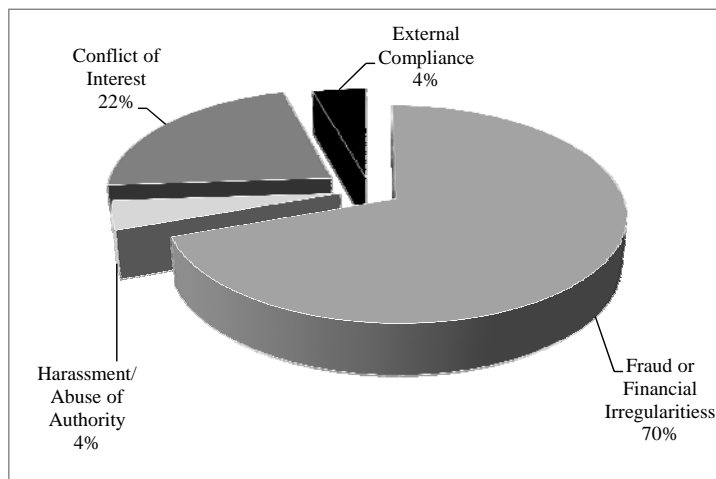
	2011	%	2012	%
Complaints carried over				
- from 2010 or earlier	18	38	5	12
- from 2011	-	-	14	34
Complaints received	30	63	23	54
Total caseload	48	101	42	100
Cases closed				
After initial review, including referral to other agencies or UNFPA management	7	24	1	4
After preliminary assessment	11	38	16	71
After investigation		0	1	4
Total cases closed with no further action necessary	18	62	18	79
After DOS investigation	11	38	3	17
After joint investigation		0	1	4
Total cases closed recommending further action	11	38	4	21
Total cases closed	29	100	22	100
Cases carried over to the following year	19		20	

56. Almost 61 per cent of the cases opened in 2012 were referred by complainants. Nine per cent came through the integrity hotline, and 30 per cent via other means (for example, from external organizations).

¹³Excluding information received marked 'for information'.

57. Of the 23 cases opened in 2012, 70 per cent involved some type of alleged fraud or financial irregularities (procurement fraud, entitlement fraud, theft and embezzlement, forgery, and misuse of UNFPA resources).¹⁴ Almost 22 per cent of the cases involved conflict of interest (for example, favouritism); 4 per cent of the cases pertained to external compliance; and 4 per cent concerned allegations of harassment or abuse of authority¹⁵ (see figure 6).

Figure 6 - Overview of complaints received in 2012



B. Disposition of cases

58. An initial review of complaints received is undertaken to determine whether they fall within the DOS mandate or jurisdiction. If they do, a preliminary assessment is conducted. If this assessment reveals that wrongdoing may have occurred, DOS conducts a formal investigation. If the allegations are substantiated, DOS then submits one or more investigation reports to the Executive Director for consideration of appropriate administrative or disciplinary action against the staff or other personnel involved, and when appropriate, for recovery of funds or assets. When an investigation reveals weaknesses in internal controls, DOS informs management through a separate report, recommending how to strengthen them.

59. Of the total caseload of 42 cases, 22 were finalized in 2012. Eighteen were closed without requiring further action, of which 16 were closed after a preliminary assessment; one case was referred to a sister agency; and one was closed after investigation as the allegations were not substantiated.

¹⁴ Definitions used in 2012: fraud and financial irregularity - bid manipulation, collusion, corruption, bribes/kickbacks, entitlement fraud, procurement irregularities, waste/misuse of funds, forgery; harassment/abuse of authority - hostile work environment, sexual harassment and exploitation, assaults/threats, nepotism; conflict of interest - gifts/awards, non-compliance with financial disclosure, favouritism, external activities (employment, membership on outside boards); external compliance - violation of local laws, violation of privileges and immunities, medical insurance fraud; and whistle-blower retaliation - retaliatory action against a whistle-blower or a participant in protected activity (audit or investigation).

¹⁵ Only included in DOS mandate in November 2012.

60. In four cases, the investigation resulted in the allegations being substantiated. In three cases, a report was issued to the Executive Director for further action; two cases involved fraud and financial irregularities; and one case concerned external compliance. In the fourth case, the joint UNDP-UNFPA investigation into allegations of fraud, financial irregularities and conflict of interest, involving UNDP, UNFPA and UN-Women, resulted in a joint UNDP-UNFPA report, which, in view of its findings, was issued to the appropriate authorities at UN-Women.

61. The aggregate value of substantiated cases closed in 2012 that involved fraud and financial irregularities amounted to \$1.1 million.

62. At the end of 2012, from the 20 cases carried over to 2013, five cases, complex in nature and usually consisting of multiple allegations, were under investigation;¹⁶ two were at the preliminary review stage; the closure of seven, without further action needed, was only a matter of formal documentation. The remaining six cases were under assessment.

C. Measures or sanctions taken

63. Of the 11 cases closed in 2011, by the end of 2012, management had taken action on eight in 2011, and on three in 2012. Of the latter three, management concluded that in two cases insufficient evidence against the subjects applied.

64. Of the four cases closed in 2012 in which further action was recommended, management took action on one case; in another case, management concluded that insufficient evidence against the subject applied; and regarding the joint case, action on the joint investigation will be reported by UN-Women. One case was under review by management at year-end.

D. Strengthening of investigation capacity

65. In 2012, DOS strengthened its investigative procedures and practices in view of the latest jurisprudence and practices (for assessment, preliminary review and investigation), benefiting from the experience of sister organizations and after interaction with relevant offices at UNFPA. DOS also reviewed its statistical and categorization system. This will be completed in 2013 with a revised investigative manual and the introduction of standard operating procedures.

¹⁶ One case involves four reports of which, at year-end 2012, three were issued to the Executive Director and the fourth report was in process.

E. Support to detection and prevention activities

66. Support to management's fraud detection and prevention activities was limited in 2012, in view of the staffing situation in DOS and the departure of the ERM Senior Adviser, who had been consolidating the agency-wide fraud risk assessment. Notwithstanding this situation, on numerous occasions, DOS supported management with advice, as appropriate, on a confidential basis. DOS expects to continue its support efforts in 2013.

67. The implementation of the continuous monitoring system project for addressing eight 'red flag' procurement situations was deferred to 2013, following the departure of the branch chief (and project manager), and the results of the first tests. Pursuing the implementation will require the recruitment, on a temporary basis, of personnel with information technology project management, accounting and auditing skills, and the joint involvement of the Investigation and Internal Audit Branches, and several other branches and divisions.

VII. Advisory activities

68. Advisory services cover a wide range of issues relating to internal control concerns, policies, business processes, proposed agreements, and specific issues on which management may request DOS views. It should be underscored that DOS does not assume any management responsibilities, for example, in making decisions, providing answers or implementing recommendations emanating from DOS.

69. During 2012, DOS provided comments on several draft policies and procedures, for instance on inventory management, procurement, information technology and the revision of the disciplinary framework. DOS also participated as an observer in steering or working committees, for instance on IPSAS, risk management and the financial part of the ICF. DOS, drawing on all its branches, provided comments on several draft strategic documents, like the family planning and the adolescent and youth strategy papers.

70. DOS further assisted in reviewing audit, evaluation and investigation clauses in proposed donor agreements in order to ensure compliance with Executive Board decisions, financial regulations and rules; and inclusion of appropriate oversight-related language.

VIII. Coordination within the United Nations system

71. In 2012, DOS was active in inter-agency activities and meetings on internal audit. It participated in the Meeting of Representatives of Internal Audit Services of the United Nations Organizations, Multilateral Financial Institutions and Other Associated Intergovernmental Organizations (RIAS) and, throughout the year, in the UN-RIAS meetings (which include only the internal audit services of the United Nations system organizations). In addition, DOS took the lead or participated in three joint audits.

72. The Evaluation Branch was active in inter-agency activities and meetings of the UNEG, its task forces, annual exchange of practices and general meeting. The Branch is actively involved in preparing the 2013 annual meeting, where it will conduct a joint session on managing evaluations, together with three other UNEG members.

73. DOS worked in close collaboration with other United Nations investigation services and conducted a joint investigation with UNDP. Furthermore, DOS was active in inter-agency investigation activities and meetings, at the Conference of International Investigators, and among the United Nations investigation offices.

IX. Overall conclusion and next steps

74. The results of the various DOS activities, as well as the actions taken by the relevant offices to address the issues raised by DOS, are positive indications of the effectiveness of the governance, risk management and control processes at UNFPA. The continuing support of senior management, the Audit Advisory Committee and the Executive Board enables DOS to successfully carry out its mandate.

75. DOS will also continue improving its internal procedures and processes to further enhance the usefulness and credibility of the services it renders. DOS remains ready to meet all challenges ahead, some of which may emanate from the implementation of the corporate initiatives, the organization's commitment to making internal audit reports available to the public, the implementation of the revised evaluation policy, and the resources at the disposal of DOS.

X. Elements of a decision

76. **The Executive Board may wish to:**

- (a) ***Take note of the present report DP/FPA/2013/6;***
- (b) ***Express its continuing support for the strengthening of the oversight functions at UNFPA;***
- (c) ***Acknowledge and support the engagement of DOS in joint oversight activities;***
- (d) ***Take note of the annual report of the Audit Advisory Committee and the management response thereto contained in DP/FPA/2013/6 (Add.1).***

Annex 1
ISSUES FOUND IN THE 2012 AUDIT REPORTS

The table below presents the issues found during the 2012 audit work, which can be either newly reported ('new'), 'recurrent', or 'improving' (fewer occurrences in 2012 than previously). The table is organized by standardized areas and major processes.

Area	Prevalence	Audit issues	Recommendations
Governance			
<i>Office management</i>			
	New	Insufficient supervision of operational activities	Enhance country office management's supervision of operational activities
<i>Organizational structure and staffing</i>			
	Recurrent	Lack of staff development plans	Develop multi-year staff development plans covering technical, managerial and operational skills
		High vacancy rates and staff turnover in key management and operational positions	Accelerate recruitment process while maintaining support and supervision by regional office and headquarters
		High level of dependency on service contract holders	Review organizational structure to ensure adequacy and alignment of staffing
Programme management			
<i>Programme planning, implementation and monitoring</i>			
	Recurrent	Late planning and initiation of project implementation activities leading to low implementation rates	Strengthen planning process to improve accuracy, timely monitoring and revision of annual workplans and budgets
		Incomplete or unclear annual workplans, insufficiently updated plans or budgets	Implement tools to support preparation and maintenance of annual workplans and budgets
		Insufficient monitoring of programme implementation and outputs due to lack of staff, processes and tools	Increase scope and frequency of project monitoring supported by appropriate tools and resources
		Lack of reconciliation of project expenditures to budgets	Provide training and tools and increase supervision to ensure programme officers' regular review and reconciliation of actual expenditures to project and activity budgets
	Recurrent	Use of programme coordination and assistance (PCA) projects and funds for programme and institutional budget costs	Train in proper use of PCA projects and funds Increase scope and frequency of monitoring of significant charges to PCA projects
<i>Inventory management</i>			
	Recurrent	Delays in inventory clearance and distribution (reproductive health commodities, kits and medical equipment) Lack of monitoring process for inventory shipments, stocks and distribution Deficient warehouse facilities and controls	Strengthen tracking and monitoring of inventory shipments, distribution and levels Enhance inventory controls at UNFPA and implementing partner-managed warehouses

Area	Prevalence	Audit issues	Recommendations
	New	Quality problems affecting medical equipment shortly after delivery	Enhance definition and review of technical specifications; improve quality control and acceptance processes
	New	Excessive freight costs	Strengthen procurement planning Assess cost-effectiveness of transportation options versus programme needs
<i>National execution</i>			
	Recurrent	Insufficient assessment of implementing partner capacity	Perform more rigorous assessment of implementing partner capacity to select implementation modality; identify capacity-building needs and determine monitoring scope and frequency
	Improving	Delays in project initiation and funding to implementing partners	Ensure earlier completion, approval and signing of letters of understanding and annual workplans Enhance controls regarding submission, review, approval and timely payment of funding requests
	Recurrent	Insufficient monitoring of implementing partner-implemented project activities	Increase scope and frequency of monitoring for implementing partners with weaker capacity
	Recurrent	Funding to implementing partner for programme activities provided outside the OFA process, through the issue of purchase orders or accounts payable vouchers	Clarify guidance when funding to implementing partners can be provided outside the operating fund account (OFA) process Introduce appropriate supervisory controls by country office management and the Finance Branch to ensure that funding to implementing partners is provided through the OFA process Ensure that national execution (NEX) audits are performed in 2013 for implementing partners that received funding outside the OFA process since or after 2010
	New	OFA write-offs processed without Finance Branch authorization	Enhance Finance Branch OFA monitoring controls to identify and investigate potential OFA write-offs recorded without authorization
	Improving	Lack of reconciliation of NEX expenditures and OFA balances to corresponding Funding Authorization and Certificate of Expenditures (FACE) forms	Implement supervisory controls to enforce compliance with NEX expenditures and OFA balance reconciliation controls introduced in 2011 Continue monitoring OFA balance, trend, adjustments and ageing
	New	Inadequate accounting for pool-funded contributions	Periodically review expenditures and OFA balances of pool-funded contribution for compliance with accounting policies
Operations management			
<i>Human resources management</i>			
	New	Deviations from policies and procedures regarding selection and award of consultant contracts	Strengthen composition and role of recruitment panels and other country office supervisory controls to improve compliance with applicable consultant recruitment policies and procedures

Area	Prevalence	Audit issues	Recommendations
<i>Procurement</i>			
	Recurrent	Deviations from procurement policies and procedures regarding bidding and purchase approval	Strengthen country office management and Procurement Services Branch monitoring and supervisory controls to improve compliance Introduce automatic enforcement of approval levels and submissions to contracts review committees
	New	Inadequate procurement planning and needs assessment	Strengthen training and planning processes
	New	Limited use of long-term agreements to improve procurement transaction cost effectiveness	Increase use of long-term agreements for high volume and lower cost/risk goods and services procurement, preferably at inter-agency level
	New	Limited documentary evidence of receipt and inspection of goods and services before payments are made to vendors	Complete and formalize receipt and inspection procedures for all goods and services procured before payments to vendors are approved
<i>Financial management</i>			
	Recurrent	Recording of procurement and other financial transactions in the wrong ledger, project, activity or fund codes	Enhance the chart of accounts and provide training Enhance supervisory controls to ensure accurate and timely recording of financial transactions
	Improving	Insufficient tracking of cash advances to staff	Minimize usage of cash advances Enhance process and accounting controls for tracking cash advances paid, including payroll deduction of any amount not timely liquidated
	New	Inadequate management and accounting of value added tax payments and reimbursements	Ensure that reimbursable value added tax payments and related reimbursements are accounted for in accordance with the 2012 Finance Branch guidance note
<i>General administration: asset management</i>			
	Recurrent	Incomplete and/or inaccurate fixed asset records Inadequate physical inventory procedures and/or lack of reconciliation of inventory results to asset records	Enhance controls over fixed asset capitalization and transfers to implementing partners Improve effectiveness of fixed asset inventory process
<i>Information and communications technology (ICT) management</i>			
	Recurrent	Limited disaster recovery capability	Ensure that disaster-recovery plans are developed and tested for operating effectiveness
<i>Security management</i>			
	Improving	Lack of compliance with security standards	Perform more frequent monitoring of non-compliant operations