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UNFPA management response

Report of the Director of the Division for Oversight Services
on UNFPA internal audit and investigation activities in 2013
(DP/FPA/2014/6)

Internal audit and oversight

**Executive Board of UNDP, UNFPA and UNOPS
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List of acronyms

AAC	Audit Advisory Committee
AMC	Audit Monitoring Committee
BOA	United Nations Board of Auditors
COSO	Committee of Sponsoring Organizations of the Treadway Commission
DHR	Division for Human Resources (UNFPA)
DOS	Division for Oversight Services (UNFPA)
ERP	Enterprise resources planning
GPS	Global programming system
ICPD	International Conference on Population and Development
ICF	Internal control framework
IPCAT	Implementing Partner Capacity Assessment Tool
IPSAS	International Public Sector Accounting Standards
MDG	Millennium Development Goals
NEX	National execution
OAIS	Office of Audit and Investigation Services
PAD	Performance appraisal and development
PID	Project initiation document
SIS	Strategic information system
UNDG	United Nations Development Group
UNDP	United Nations Development Programme
UN-RIAS	Representatives of Internal Audit Services of the United Nations Organizations, Multilateral Financial Institutions and Associated International Organizations

I. INTRODUCTION

1. Pursuant to decision 2006/13, UNFPA is pleased to present its management response to the report of the Director of the Division for Oversight Services on UNFPA internal audit and investigation activities in 2013 (DP/FPA/2014/6). This response should be read in conjunction with the addendum (DP/FPA/2014/6 (Add. 1), which contains the annual report of the Audit Advisory Committee (AAC) and the UNFPA management response to the AAC annual report.
2. UNFPA embraces its unique mandate in delivering programmes that promote sexual and reproductive health and reproductive rights, and its contribution to the achievement of the Millennium Development Goals, particularly Goal 5 aimed at improving maternal health and universal access to reproductive health, with a special focus on women and adolescent girls. UNFPA management welcomes the opportunity to reflect on its accountability and to update the Executive Board on progress achieved and challenges encountered. Against the background of the International Conference on Population and Development (ICPD) beyond 2014 review and the discussions around the post-2015 development agenda, UNFPA welcomes any opportunity to strengthen its operational and programmatic areas so that it can deliver results more efficiently and effectively in supporting countries in achieving ICPD and other internationally agreed goals, including the Millennium Development Goals.
3. UNFPA acknowledges the annual report of the Director of the Division for Oversight Services on UNFPA internal audit and investigation activities in 2013 (DP/FPA/2014/6) and would like to call attention to the structural changes made in 2013 by separation of the Evaluation Branch to form a separate Evaluation Office headed by a Director, and the expanded mandate of the Investigation Branch to include allegations of wrongdoing related to contractors, vendors and implementing partners. UNFPA particularly welcomes the overall conclusion of the report that the actions taken by management are positive indicators of the increasing effectiveness of the governance, risk management and control processes at UNFPA. UNFPA continues to make progress in addressing the 15 high-level internal audit recommendations delineated in the earlier DOS report, DP/FPA/2011/5.
4. The Audit Monitoring Committee (AMC), chaired by the Executive Director, successfully supported efforts in improving the implementation of the audit recommendations that brought greater accountability within business units: 81 outstanding recommendations prior to 2013 and 30 recommendations from 2013 audit reports were successfully implemented and closed. UNFPA remains committed and affirms its continued efforts to accord the highest priority to strengthening the culture of accountability.
5. To strengthen accountability, UNFPA initiated tracking of UNFPA organizational priorities and projects for 2013. Some of these corporate priorities – (a) field support; (b) communication, messaging and collaboration; (c) integrated budget; (d) global

programming system; (e) strategic information system; (f) strengthened humanitarian response; (g) strengthened human resource management; (h) enhancing transparency – have placed the organization on a solid footing to address the outstanding audit recommendations, accelerate the implementation of key strategies and demonstrate results systematically and efficiently.

II. RESOURCES

A. Human resources

6. Management acknowledges the challenges in identifying suitably qualified candidates for DOS, due to the highly competitive nature of the business. This is compounded further by the delay in administrative steps related to the entry-on-duty process. Management also takes note of the decrease in the DOS vacancy rate in 2013 by 11 percentage points, when excluding evaluation, and 9 percentage points, when considering all three oversight functions.

B. Financial resources

7. UNFPA management takes note of the increase in the adjusted budget funding of \$6.9 million for three oversight services, by 10 per cent, compared to 2012. This increase was primarily due to the lower vacancy rate in DOS in 2013. UNFPA provided \$6.0 million from the institutional budget funds and \$0.9 million from UNFPA global and regional programme and other resources.

III. INTERNAL AUDIT

A. Audit risk assessment

8. UNFPA management takes note of the extensive audit risk assessment undertaken by DOS in the last quarter of the 2013, with its business unit and corporate process risk models. UNFPA management also takes note of the risks affecting operations, including 5 key corporate audit risk areas and 12 corporate processes identified as high risk. UNFPA management is committed to strengthening mitigation mechanisms as presented below under these models.

- i. Business unit audit risk assessment

9. UNFPA management takes note that the DOS report has identified control weaknesses in programme management, especially monitoring. UNFPA management indeed recognized that programme monitoring is a relatively weak area. In order to address this, UNFPA is working to strengthen the programme monitoring system. This new mechanism will be gradually developed and introduced over the next four years, and its vital elements will be the new strategic information system (SIS), which will include a module for systematically tracking programme results and the performance of office units on a

quarterly basis, and the global programming system (GPS), which will focus on management and monitoring of implementation of annual work plans of implementing partners.

10. Under decentralized field operations, UNFPA takes note of the high vacancy level in key managerial and operational positions in field offices. Institutionalization of a leadership pool to complement the annual rotation exercise is expected to contribute to speeding up selection and placement of candidates.

- ii. Corporate audit risk assessment

11. In the area of programme management, UNFPA programmes are now more focused with enabling structures such as the Programme Review Committee (PRC). The PRC, chaired by the Executive Director, reviews all country programme documents (CPDs) prior to their submission to the Executive Board to ensure quality, focus and alignment with the strategic plan. In addition, UNFPA has identified a number of key corporate priorities that aim to improve the organization's capacity to deliver programmes in an effective and efficient manner, and to strengthen accountability for results. Time-bound projects with clear management structures and measurable deliverables are set up to attain these results. Each project is sponsored by an Executive Committee member to strengthen the accountability for delivering on those commitments.
12. UNFPA management takes note of the identified key audit risk areas and commits to further improve the corporate risk management in order to decrease the probability and mitigate the impacts of the risks. UNFPA management recognizes the risks involved in the implementation of the strategic plan 2014-2017, especially the integrated results framework, the new business model, resource allocation system and global and regional interventions. To mitigate these risks, management will provide pro-active guidance and support to all UNFPA units, especially regional and country offices, throughout the process. UNFPA management will also ensure adequate monitoring.
13. UNFPA management will also ensure the finalization of the internal control framework for programming processes. To address this, a separate project has recently been launched. UNFPA is further updating its financial internal control framework to align it with the latest framework revision (2013) of the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
14. UNFPA management has elevated strengthening humanitarian preparedness and response as a corporate priority for 2014. More specifically, in 2014, UNFPA will further strengthen the focus on (a) surge capacity and rapid response; (b) fast-track procedures, including at regional and country levels; (c) standard operating procedures for Level 3 responses; (d) communicating the results of the organization's work in crises; (e) preparedness and pre-positioning; and (f) timely tracking of implementation and related issues.
15. To mitigate the risk of business units not complying with the new UNFPA cost recovery policy and guidelines, UNFPA has advocated intensively with donors to ensure that their field delegations are informed of the new policy approved by the Executive Board.

UNFPA is working with United Nations Development Group (UNDG) and partner agencies to embed cost recovery in pooled funding mechanisms, multi-donor trust funds and joint programming. Furthermore, UNFPA uses multiple information channels to update its business units on the policy, and will use the monthly and quarterly accountability checklists certified by Heads of Offices to monitor that staff posts funded from other resources are part of donor agreements.

16. In the area of information communication technology (ICT), UNFPA management would like to highlight that the 2014-2017 ICT Strategy was developed with a risk section which summarizes the risks the strategy incurs, the severity of each risk and the proposed approach to mitigating them. Major ICT projects like the Global Programme System (GPS), Strategic Information System (SIS), and Messaging and Collaboration project have their own project boards and follow the Prince2 methodology. As part of their project initiation document (PID), a risk table is identified – again specifying the severity of each risk and the proposed approach to mitigating the risk.
17. To minimize the risks related to the introduction of the strategic information system and global programming system, UNFPA will provide elaborate training prior to the launch, and pro-active support and monitoring of the usage of the systems, once launched, will be undertaken under the leadership of the Programme Division.

B. Risk-based audit planning

18. UNFPA management takes note of the risk-based audit planning, which was based on business unit and corporate process risk models and appreciates the increased coverage in the 2014 audit plan for the high-risk business units, from nine-year to five-year cycles and medium-risk business units from 17-year to 10-year cycles, respectively. The UNFPA Executive Director has approved the 2014 internal audit plan, which is based on this risk assessment, and had been reviewed by the Audit Advisory Committee of UNFPA.

C. Key findings of internal audit activities

19. UNFPA management takes note of the key findings (good practice and improvement opportunities), and is committed to further strengthening mitigation mechanisms as presented below by area and sub-area.
 - i. Office governance
20. The issue of accuracy of the information reported in the country office annual reports will be addressed by the GPS and SIS systems already referred to above. These systems will enable quarterly tracking of not only the programme efforts, but also the strategic plan results to which these efforts contribute.
21. UNFPA management is systematically addressing issues related to country office organizational structure and staffing alignment with country programme needs and organizational priorities in the context of human resources assessment missions or realignment exercises conducted in the country offices. Of the country offices that were

audited, staffing reviews have been conducted in Benin, Uganda, Fiji, and Nicaragua. Some of the country offices under audit are now awaiting approval of the budget for the next country programme before undertaking staffing changes.

22. With a view to enhancing the degree of support and managerial oversight provided by headquarters and regional offices to those country offices experiencing extended vacancies, UNFPA is introducing the role of strategic partners for human resources. A partner, tasked with supporting the effective implementation of the human resources aspects of the UNFPA Strategic Plan and Business Model, will be located in each of the regional offices. An additional measure in addressing vacancies, as mentioned above, is the institutionalization of a leadership pool to complement the annual rotation exercise, which is expected to contribute to speed up selection and placement of candidates. Furthermore, recruiting communication advisers and resource mobilization advisers at each office is now strengthening the programme support capacity of the regional offices. UNFPA management is also looking into the skill sets available in regional offices to best support country offices experiencing extended vacancies.

- ii. Programme management

- a. *Programme planning, implementation and monitoring*

23. The specific issues related to planning, implementation and monitoring of programmes will be addressed through a forthcoming revision of the policy for preparation and management of annual work plans, as well as through the aforementioned planned measures, such as the global programming system and the internal control framework for programming processes.

- b. *National execution (NEX)*

24. UNFPA management, based on a consultative process and feedback from users, has already revised the Implementing Partner Capacity Assessment Tool (IPCAT), improving it by making it accessible online and partitioning it into three modules: government implementing partners, global implementing partners, and national implementing partners. In order to address the recommendations, UNFPA is also exploring the best possible integration of implementing partner assessments with the existing IPCAT.
25. UNFPA was party to the development of the revised Harmonized Approach to Cash Transfer (HACT) Framework issued in February 2014, and is a member of the United Nations Interagency Advisory Committee on HACT. The revised framework incorporates strengthened assurance processes including micro-assessment of implementing partner procurement processes and financial audits for high-risk implementing partners. In order to gauge that the application of the framework will meet UNFPA business needs and provide sufficient assurance that funds are spent for the intended purposes, UNFPA is piloting the framework during 2014-2015. Full deployment of the revised HACT framework, eventually replacing the current NEX audit approach of UNFPA, is dependent on confirmation that this approach meets UNFPA assurance requirements. Other strategies to mitigate risks related to national execution put in place by UNFPA in

the course of 2012 and 2013 include issuance of corporate guidance for implementing partners (manual and training package), training of UNFPA operations and programme staff on NEX and finance management, and development of websites where UNFPA personnel can easily access all related policies, procedures and guidance. UNFPA takes note of the instances highlighted in the report that impair the appropriate utilization of funds provided to implementing partners and commits to provision of more robust guidance to country offices and stronger internal control to prevent such occurrences in the future.

c. Inventory management

26. Additional to training business unit staff on the policies and procedures for inventory management, UNFPA strengthened the business units' inventory information systems through the release of an upgraded version of the inventory tracking system CHANNEL. It features better integration with Atlas ERP, reducing the risk of human error and strengthening the ability of headquarters to track business units' handling of inventory. Furthermore, beginning in 2014, UNFPA has moved from an annual to a quarterly inventory certification system, requiring all field business units holding both inventories in stock and in-transit to review all goods received within a quarter and submit quarterly certifications in the system. Submission rates will be monitored, and gaps identified.

iii. Operations management

a. Procurement

27. UNFPA appreciates acknowledgement of several good practices related to medical equipment procurement, and improvements in controls over the procurement process. UNFPA is committed to strengthen procurement planning; increased use of LTAs; Improved Contract Review Committee submissions and receipt controls as presented below.

28. UNFPA management is strengthening procurement planning, and the supply chain management team, in collaboration with other stakeholders, is putting in place a consolidated plan and forecasting tool. This initiative has been institutionalized by including it in the multi-year plan of UNFPA procurement services branch.

29. In order to enhance the submission to contract review committees, UNFPA is exploring the possibility of using the UNDP online Contract Review Committee system in 2014, which includes greater functionalities than the current one in use at UNFPA.

b. Human resources

30. UNFPA applies the UNDP policy for the hiring of personnel on service contracts. In order to ensure greater compliance with established policies, UNFPA has set specific attention on the review of the use of the service contracts modality when conducting human resources assessment missions or realignment exercises in the country offices.

31. In order to mitigate risks associated with leave management, UNFPA management issued a revised Absence Management Policy in the second quarter of 2013. Under the revised policy, it is mandatory for all leave to be registered, monitored, and approved through the UNFPA online system consistent with the roles and responsibilities designed into the e-services system. Staff members are responsible for registering their leave, supervisors are responsible for holding staff accountable for accurate registration of their leave, and managers are responsible for holding supervisors accountable for the correct registration of leave by staff under their supervision. A comprehensive information campaign supported this change, including an article and informational videos explaining the changes in the absence management policy and roles of the leave administrators. UNFPA continues to update and distribute the step-by-step guides on various functionalities of Atlas e-Service, frequently asked questions (FAQs), and provides technical support to users as required.
32. UNFPA management has instituted different measures to reinforce compliance with mandatory training. The UNFPA Performance Appraisal and Development application system (PAD) records compliance with completion of mandatory learning, which rests with each staff member and their respective supervisor. The related development output (i.e., Output No. 3 “All mandatory learning courses completed”) is automatically set in each staff member’s PAD. By virtue of this feature, all managers and staff are required to report on this output in their PAD, and it is the manager’s responsibility to check that their staff members have completed mandatory training (i.e. Output 6 “Effective Management”, Indicator 3 “All staff members in my unit have completed mandatory e-learning courses”). Furthermore, once in place in each of the regional offices, the new human resources strategic partners will hold formal consultations with each regional director to discuss and review regional capabilities and performance, including compliance with training requirements.

c. Financial management

33. UNFPA organized training of finance staff and issued guidance on the right usage of account codes and will, in 2014, further improve expense controls, through additional training and close monitoring, to reduce instances of funds transferred to implementing partners outside of the OFA process.
34. UNFPA utilizes a mix of risk mitigation strategies to address business units’ handling of value-added tax (VAT), including detailed guidance, regular spot checks and dialogue with business units. In 2014, UNFPA will continue to undertake spot checking of business units with pending VAT reconciliations to ensure full compliance.

D. Status of implementation of internal audit recommendations

35. UNFPA management would like to highlight the decrease in the number of outstanding internal audit recommendations. Two-thirds of all outstanding recommendations prior to 2013 were successfully implemented and closed by 31 December 2013. Equally, 27 per cent of the recommendations from 2013 audit reports were successfully implemented and

closed. At the same time, 41 recommendations prior to 2013 and 82 recommendations from 2013 audit reports are currently under implementation. UNFPA remains committed to implement them fully. As a result of developing new policies and enhancing core processes, there is a significant drop in the number of pending recommendations related to information and communication technology, and efforts are underway to address remaining recommendations in the area of governance and headquarters contract audits. This affirms the continued efforts of UNFPA to accord the highest priority to strengthening the culture of accountability.

E. Public disclosure of internal audit reports

36. Pursuant to the decision of the Executive Board, UNFPA management is fully complying with the policy regarding disclosure of internal audit reports. Management also takes note of the associated advantages of public disclosure of internal audit reports with improved clarity in report writing; simplified disclosure process and enhanced management attention, with sharpened answers and timely actions on audit recommendations that have contributed to organization-wide enhanced transparency and accountability.

IV. INVESTIGATION

37. UNFPA management would like to commend the investigation branch for successfully concluding 47 cases in 2013, including six substantiated cases involving multiple allegations. UNFPA management appreciates the investigation branch for its proactive support and close collaboration with the UNFPA Legal Office, the Ethics Office, the Procurement Service Branch and the Division for Human Resources, the development of the vendor sanction framework and supporting integrity initiatives of the Chief Executives Board.
38. UNFPA management takes note of the increase in caseload (81 cases in 2013, compared to 42 in 2012), with 36 per cent of the cases involving fraud and financial irregularities, including entitlement fraud, amounting to roughly \$196,000. UNFPA takes special note of a high proportion of entitlement-related frauds (half of all substantiated cases), and is committed to strengthening controls to mitigate this risk.
39. UNFPA fully supports and encourages the Division for Oversight Services to continue to strengthen its investigative procedures and practices, including implementing guidelines to ensure compliance with emerging jurisprudence and recognized best practices.

V. ADVISORY ACTIVITIES

40. UNFPA management would like to express its appreciation to the Division for Oversight Services for providing advisory services on the complete range of policy issues; for reviewing and providing valuable comments on draft policies and procedures; and for providing comments on several draft strategic documents and contributions to negotiations of donor agreements.

VI. COORDINATION WITHIN THE UNITED NATIONS SYSTEM

41. UNFPA appreciates the proactive involvement of the Division for Oversight Services in the activities of the Representatives of Internal Audit Services of the United Nations Organizations (UN-RIAS). Management also takes note of the active participation of DOS in joint audits, and its joint leadership in preparing the paper on the experience gained in joint audits and subsequent preparation of updated guidance on audit and investigation of joint programmes. Its active engagement in inter-agency investigation activities as well as its role as the focal point for the Joint Inspection Unit is well appreciated.

VII. CONCLUSION

42. UNFPA management welcomes the overall conclusion that the actions taken by senior management to address the issues raised by DOS are positive indications of the increasing effectiveness of the governance, risk management and control processes. UNFPA management appreciates DOS role as a trusted partner and acknowledges its valuable advice in maintaining an unmodified audit opinion from the United Nations Board of Auditors for its financial statements for the year that ended on 31 December 2012. Additionally, UNFPA management acknowledges the need for significant modifications in the oversight at UNFPA; renaming the Division for Oversight Services as the 'Office of Audit and Investigation Services' (OAIS), with a revised charter and appropriate amendment in relevant policies. UNFPA management has full confidence in the DOS leadership for the guidance it has provided in implementing these changes and for its support to management in enhancing the accountability of the organization.