



AUDIT ADVISORY COMMITTEE

ANNUAL REPORT

April 2007

United Nations Population Fund
Audit Advisory Committee
Activities in 2006
Annual Report to the Executive Director
April 2007

Background:

1. In February 2006, the Executive Director of the United Nations Population Fund constituted an independent Oversight Committee of five members to further enhance accountability and transparency within the Organisation.
2. In January 2007, the Executive Director approved the Terms of Reference of the Oversight Committee, under the name Audit Advisory Committee (AAC). The approved Terms of Reference are attached.
3. Item 1 of the Terms of Reference delineates the mission of the Committee as follows: "The Audit Advisory Committee (AAC) shall assist the Executive Director of the United Nations Population Fund (UNFPA) in fulfilling the Executive Director's responsibilities for financial management and reporting, external audit matters, risk management, the systems of internal control and accountability, and the oversight process (hereinafter referred to as internal audit, evaluation, and investigative functions). The primary role of the AAC is to advise the Executive Director taking into account the organization's process for monitoring compliance with the Rules and Regulations adopted by the UNFPA's Governing Bodies."
4. As at December 31, 2006, the Committee was comprised of four members, as follows:
 - William Fowler (United States)
 - J. Graham Joscelyne (South Africa)
 - Yuen Teen Mak (Singapore)
 - Elizabeth (Libby) MacRae (Canada)

Each committee member possesses the required expertise in risk management and control and financial management and reporting, with some members also possessing expertise in development and programme matters.

5. This report is pursuant to Item 14 of the Terms of Reference of the Committee.



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Audit Advisory Committee Activities in 2006:

6. The Audit Advisory Committee appointed its current Chair, Elizabeth (Libby) MacRae, at its first meeting in October 2006.

7. The Audit Advisory Committee held two meetings in 2006. Minutes from the meetings were prepared and approved, and in accordance with Item 13 of the AAC's Terms of Reference, the Audit Advisory Committee formally reported back to the Executive Director after each meeting. In addition, all members met with the Executive Director in person during and after the first meeting.

8 The Chair of the AAC attended the 2006 second regular session of the Executive Board in January 2007 and also met with the Executive Director at that time.

9. The Audit Advisory Committee reviewed and endorsed the Charter of the Division for Oversight Services (UNFPA). It was approved by the Executive Director in January 2007.

10. The Audit Advisory Committee recommended approval in principle of the UNFPA – Division of Oversight Services (DOS) 2007 Audit Plan, and supports the continuing strengthening of the internal audit and oversight services of UNFPA to ensure sufficiency of audit coverage in future audit plans.

11. The Audit Advisory Committee reviewed the 2006 Quality Assessment on the Division of Oversight Services and encourages implementation of key recommendations including: increasing resources to support coverage of investigations and information systems; documenting DOS's practices and procedures and strengthening supervision over assignments to ensure consistent and appropriate work performance; and reducing the time between conducting an audit and issuing the report in order to expedite the implementation of recommendations.

12. Pursuant to its Terms of Reference, the Audit Advisory Committee met with the United Nations Board of Auditors and initiated a relationship to routinely share relevant information and to ensure overall audit coverage of the UNFPA, including the work performed by the Division of Oversight Services.

13. The Audit Advisory Committee reviewed the Report to the General Assembly of the Board of Auditors on the accounts of the United Nations Population Fund for the biennium ended 31 December 2005 and noted the concerns regarding Nationally Executed Expenditure (NEX). The Committee supports the efforts of the UNFPA to strengthen management controls and practices, and to implement the recommendations made by the Board of Auditors in a systematic and ongoing manner.



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14. The Audit Advisory Committee reviewed the document DP/FPA/2007/14 entitled: "United Nations Population Fund UNFPA Internal Audit and Oversight Activities in 2006 Report of the Executive Director" and concurs with Section VI) RECOMMENDATION, which states:

"The Executive Board may wish to:

(a) Take note of the present report DP/FPA/2007/14 and express support for the continued strengthening of the accountability and assurance process in UNFPA and the reorganization of the internal audit and oversight services of the Fund;

(b) Provide the necessary guidance to the Executive Director in addressing challenges in the following three main areas: business processes, national execution and information technology;

(c) Advise on the appropriate modalities of reporting by the Audit Advisory Committee."

15. The Audit Advisory Committee understands that there will be significant implications for UNFPA's financial reporting and underpinning financial policies during the phased implementation of the International Public Sector Accounting Standards (IPSAS) by UNFPA, and that UNFPA must be fully IPSAS-compliant by 2010. The Audit Advisory Committee will be regularly up-dated by UNFPA management on IPSAS implementation.

16. Subject to the agreement by the UNDP/UNFPA Executive Board, The Audit Advisory Committee of the United Nations Population Fund recommends that for the year ending December 31, 2007, its annual report to the Executive Director be formally presented at the 2008 annual session of the Board.



United Nations Population Fund

Audit Advisory Committee Terms of Reference

Mission

1. The Audit Advisory Committee (AAC) shall assist the Executive Director of the United Nations Population Fund (UNFPA) in fulfilling the Executive Director's responsibilities for financial management and reporting, external audit matters, risk management, the systems of internal control and accountability, and the oversight process (hereinafter referred to as internal audit, evaluation, and investigative functions). The primary role of the AAC is to advise the Executive Director taking into account the organization's process for monitoring compliance with the Rules and Regulations adopted by the UNFPA's Governing Bodies.

Authority

2. The AAC has the authority and the responsibility to review any activity relevant to these terms of reference. This includes, but is not necessarily limited to:
 - Seek any information and documents that it requires from external parties or employees – all of whom are directed to cooperate with the AAC's requests;
 - Ask any UNFPA official to assist the AAC with its discussions on any particular matter;
 - Retain outside counsel or persons having special competence, as necessary;
 - Meet with UNFPA's officers, United Nations Board of Auditors (external auditors) or outside counsel, as necessary.
3. The AAC will meet with each of the Executive Director, the Director of the Division of Oversight Services (DOS) and the external auditor at least annually in separate private sessions.

Composition

4. The AAC shall be comprised of five members appointed by the Executive Director to serve three-year terms, renewable once. After the initial term, membership will be staggered so as to provide continuity.
5. Each member of the AAC shall have the required level of expertise in financial and programme matters, as such qualification is interpreted by the UNFPA in its business judgment.
6. The AAC shall appoint a Chairperson to serve a maximum of three years.
7. The Secretariat function will be provided by the Office of the Executive Director.

Meetings

8. The AAC will meet in person at least three times a year. For these meetings, a minimum of three members must be physically present to constitute a quorum.
9. The Chairperson may convene additional meetings as deemed necessary. For these additional meetings, at least three members must be in attendance to constitute a quorum.
10. The Chairperson may designate a member to act in the Chairperson's capacity.

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11. The Executive Director may ask the AAC to convene further meetings to discuss particular issues on which advice is sought.

Reporting

12. The minutes of each meeting shall be prepared by the Secretariat and sent to AAC members for approval.

13. The AAC will formally report back to the Executive Director after each meeting.

14. The AAC shall submit a report on its work for the previous year to the Executive Director by 31 March every year and will present it to the Executive Board at its annual session.

Responsibilities

15. The AAC shall:

- Review policies significantly impacting financial management and reporting; the internal audit, investigation and evaluation functions; and the effectiveness of UNFPA's systems of internal control and accountability;
- Review UNFPA's financial statements and reports prior to finalization;
- With regard to external audit:
 - Review and discuss external audit work plans and performance against these plans;
 - Review relevant reports and management letters by the external auditor, including reports on UNFPA's financial statements and related internal controls;
 - Discuss internal controls and matters raised by the external auditors;
 - Review the adequacy of management response to the observations and recommendations of the external auditor and assess the status of implementation.
- With regard to risk management:
 - Advise on risk management strategy, processes and issues;
 - Review any significant risk and exposure to UNFPA and the steps management has taken to minimize or manage such risks, including compliance with policies and regulations;
 - Advise on UNFPA's fraud prevention and detection policies and activities, code of ethics and whistleblower policy;
 - Review the arrangements for employees to raise concerns in confidence about fraud, ethics, conflict of interest, violations of rules and regulations, and oversight matters;
 - Review the process for ensuring regulatory compliance.

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- With regard to DOS:
 - Review DOS's function, including its charter, scope, plans, activities, resources, staffing and organizational structure;
 - Assess whether DOS has sufficient authority, support and access to personnel, facilities and records to carry out its work without restrictions or limitations;
 - Review relevant reports and management letters by the internal auditors, including reports on UNFPA's financial statements;
 - Discuss internal controls and matters raised in internal audits, evaluations and investigations;
 - Review the adequacy of management response to issues identified by internal audit and evaluation and assess the status of implementation;
 - Participate in, review and advise on the selection of the Director of DOS; participate in, review and advise on any intended removal of the Director prior to the end of the term of appointment at least 30 days in advance of any such action being taken; and provide input to the performance assessment of the Director.

Limitation on AAC's role

16. While the AAC has the responsibilities and powers set forth in this Terms of Reference, it is not the duty of the AAC to plan or conduct audits or to determine that the UNFPA's financial statements and disclosures are complete and accurate and are in accordance with applicable accounting principles and rules and regulations.

Membership Independence

17. For a candidate member to be considered independent she/he should be independent in character and judgment and may not have any material relationship with UNFPA. In addition, a candidate will not be considered independent, if she/he:

- Is or has been an employee of UNFPA within the last three years;
- Is or has been a member, or has an immediate family member who is or has been a senior member, of the Government of a Member State within the last three years;
- Has an immediate family member who is or has been a senior official of UNFPA within the last three years;
- Has received or has an immediate family member who has received during any 12-month period within the last three years more than \$50,000 in direct compensation from UNFPA (other than AAC fees);
- Is a current employee of an entity in the United Nations system or an employee of a member of the United Nations Board of Auditors;
- Is a current employee or has an immediate family member who is a current executive officer of a company/organization that has made payments to or

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received payments from UNFPA in any of the last three fiscal years in excess of 2 per cent of the consolidated revenues of the company/organization;

- Holds any other Board mandates or Member State Government appointed position that might infringe on his/her independence;
- Held an interlocking directorship over the past year between the companies related to the candidate and UNFPA;
- Has entered into or accepted any consulting, advisory or other compensatory fees from UNFPA other than in his capacity as an AAC member (fee for AAC services) over the past year.

Amendment of the Terms of Reference

18. The Chairperson of the AAC is responsible for applying this Terms of Reference and for recommending amendments, as needed, but at least annually. This Terms of Reference, approved by the Executive Director after taking advice from the external auditors, shall form an annex to the Financial Rules and Regulations of UNFPA. Amendment of this Terms of Reference is subject to the approval of the Executive Director.

Performance Assessment of the Committee

19. The AAC will conduct an annual self-assessment of its performance and report on the results to the Executive Director.

Confidentiality and Disclosure of Conflict of Interests

20. All members of the AAC shall sign a statement of confidentiality at the time of appointment. Where an actual or potential conflict of interest arises during the conduct of a meeting, the interest will be declared and will cause the member(s) to either be excused from the discussion or abstain from voting on the matter. In such an event, a quorum will be required from the remaining members.

Confidentiality of Meetings and Minutes

21. The deliberations of the AAC and the minutes of the meetings are confidential unless otherwise decided by the AAC. The documents and information material provided for the consideration of the AAC and the Secretariat shall be handled in the same prudent and confidential manner as by those employees normally accountable for them.

Voting

22. Decisions will be made by the members in attendance by voting and on the basis of a simple majority.

Liability and Indemnity of members

23. Members shall act in an independent, non-executive capacity while performing their advisory role on the AAC. As such, members shall not be held personally liable for decisions taken by the AAC acting as a whole.

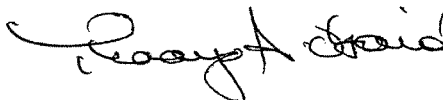
24. The members will be indemnified by UNFPA from actions taken against them as a result of activities performed in the course of business of the AAC.

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Fees and Costs

25. Members of AAC serve in their personal capacity and not as representatives of a Government, an institution, corporate body or any other authority external to UNFPA. They are neither "staff members" under the Staff Regulations of the United Nations nor "officials" for the purpose of the Convention on the Privileges and Immunities of the United Nations dated 13 February 1946.
26. AAC Members will receive from UNFPA a fee for Committee services performed in order to compensate them for the time needed to fulfill their responsibilities under this Terms of Reference. This fee should be discussed annually with the Executive Director who will approve it. Special consideration should be given to the extra responsibilities of the Chairperson.
27. AAC Members will be reimbursed for any travel, subsistence and communications costs that are necessarily incurred in relation to the activities of the AAC.

Date: 22 June 2007



**Dr. Thoraya A. Obaid
Executive Director
United Nations Population Fund**