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UNFPA – Internal audit and investigation

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**Report of the Director of the Office of Audit and Investigation Services
on UNFPA internal audit and investigation activities in 2016**

Summary

The present report on the UNFPA internal audit and investigation activities of the Office of Audit and Investigation Services (OAIS) for the year ending 31 December 2016 responds to Executive Board decisions 2015/2 and 2015/13 and earlier pertinent Board decisions.

The report presents a review of activities completed in 2016 by OAIS on internal audit and investigation. The report contains information on (a) the resources in OAIS for 2016; (b) significant issues revealed through OAIS internal audit and investigation activities; (c) investigations, including cases of fraud and actions taken; (d) the review of internal audit recommendations issued in 2010-2016 and their implementation status. Finally, the opinion of OAIS, based on the scope of work undertaken, on the adequacy and effectiveness of the UNFPA framework of governance, risk management and control is included in document (DP/FPA/2017/6/Add.1). Annexes 1 to 7 are available separately on the UNFPA website.

Pursuant to Executive Board decision 2015/2 and earlier pertinent decisions, the annual report of the UNFPA Audit Advisory Committee (DP/FPA/2017/6/Add.2) is provided as an addendum to the present report. The management response thereto and to the present report is also available (DP/FPA/2017/CPR.4).

Elements of a decision

The Executive Board may wish to:

Take note of the present report (DP/FPA/2017/6), the opinion, based on the scope of work undertaken, on the adequacy and effectiveness of the UNFPA framework of governance, risk management and control (DP/FPA/2017/6/Add.1), the annual report of the Audit Advisory Committee (DP/FPA/2017/6/Add.2), and the management response (DP/FPA/2017/CRP.4) thereto and to the present report;

Express its continuing support for the strengthening of the audit and investigation functions at UNFPA, and for the provision of sufficient resources to discharge their mandate;

Acknowledge and support the engagement of the Office of Audit and Investigation Services in joint audit and investigation activities.

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(Annexes 1 to 7 are available separately on the UNFPA website)

I. Introduction

1. The present report provides the Executive Board with a summary of the internal audit and investigation activities conducted by the Office of Audit and Investigation Services (OAIS) in 2016. It also provides the opinion of OAIS, based on the scope of work undertaken, on the adequacy and effectiveness of the UNFPA framework of governance, risk management and control processes, as per decision 2015/13. This report provides first an overview of assurance, resources and activities undertaken by OAIS, before presenting a synthesis of findings from the work undertaken and of recommendations made and management action.

II. Assurance at UNFPA

A. Mandate, professional standards and independence

2. The OAIS mandate is based in Article XVII of the 2014 UNFPA financial regulations and rules, the oversight policy,¹ and the accountability framework.² OAIS solely performs or manages, or authorizes others to perform or manage, the following oversight functions: (a) independent internal audit services (adequacy and effectiveness of governance, risk management and internal control processes, and economic and efficient use of resources); and (b) investigation services (allegations of wrongdoing). The UNFPA Executive Director last approved the OAIS Charter on 17 July 2014. The revised draft version, incorporating the changes recommended in the external quality assessments of OAIS (see paragraph 6) is included in Annex 1.

3. The Audit Advisory Committee (AAC) and the United Nations Board of Auditors regularly monitor the quality of OAIS work. The AAC continues to offer advice to promote the effectiveness of audit and investigation services provided by OAIS; in 2016, it reviewed the OAIS annual workplan, budget, regular progress reports, annual report and internal audit reports. The United Nations Board of Auditors monitored the actions taken to implement their recommendations aimed at improving OAIS operations. The external auditors continued to rely on OAIS work and reports in 2016.

4. As in past years, OAIS received support from UNFPA senior management throughout the year. The OAIS Director attended, inter alia, meetings of the UNFPA Executive Committee in ex-officio capacity, which provided her with an opportunity to advise senior management on governance, accountability or control aspects of new policies or procedures and to comment on any emerging potential risks to UNFPA.

5. OAIS conducted its work in accordance with the professional standards by which it is bound and the policies by which it has to abide – the oversight policy, the financial rules and regulations, and the staff rules and regulations; for internal audit, the International Standards for the Professional Practice of Internal Auditing;³ and for investigation, the UNFPA disciplinary framework, the UNFPA vendor sanction policy, the UNFPA policy on protection against retaliation for reporting misconduct or for cooperating with an authorized fact-finding; and the Uniform Principles and Guidelines for Investigations.

6. To ensure its continuing effectiveness in carrying out its mandate, OAIS maintains a quality assurance and improvement programme for both the internal audit and the investigation functions. This programme includes ongoing and periodic external quality assessments. In 2015, the UNFPA internal audit function was independently reviewed by the Institute of Internal Auditors (IIA), which confirmed that this function was in general conformance with the international standards and the IIA Code of Ethics. In 2016, the UNFPA

¹ Executive Board decision 2015/2; see also DP/FPA/2015/1

² See DP/FPA/2007/20

³ Promulgated by the Institute of Internal Auditors (IIA)

investigation function was reviewed by two independent reviewers, who confirmed that the investigation function is in conformity with generally accepted standards for investigations in international organizations as reflected in the Uniform Principles and Guidelines for Investigations. Recommendations for improvement made as a result thereof are under consideration as this report is written.

7. The OAIS Director hereby confirms to the Executive Board that OAIS enjoyed organizational independence in 2016. OAIS has been free from interference in determining and performing the scope of its work, and communicating its results.

B. Opinion on the adequacy and effectiveness of the UNFPA framework of governance, risk management and control

8. In OAIS' opinion, based on the scope of work undertaken, the adequacy and effectiveness of the UNFPA governance, risk management and internal control processes was '*partially satisfactory*' – which means that the processes were generally established and functioning, but that one or more issues were identified that, if not addressed by management, could negatively affect the achievement of UNFPA objectives. None of the issues identified were, however, assessed as having the potential to seriously compromise that achievement.

9. The reasons for the opinion formulated, information on the criteria used as a basis therefor, the scope of work undertaken and additional sources of evidence considered, as appropriate, to formulate the opinion, and the processes followed for aggregating and assessing the issues identified are provided in document DPA/FPA/2017/6/Add.1.

C. Compliance with the oversight policy

10. The procedures for disclosure of internal audit reports, as stipulated in DP/FPA/2015/1, were in force throughout 2016, the fourth year of public disclosure. No request for access to reports issued between September 2008 and November 2012 was received in 2016. All reports issued after 1 December 2012 have been made public, within – in average – one month of internal issuance. For OAIS, the clarity and quality of its internal audit reports remain a matter of continuous attention, with significant time and effort invested in management interactions.

11. As stipulated in DP/FPA/2015/1 (paragraph 27), OAIS resources were effectively and efficiently deployed in 2016 but the funds available were insufficient for expanding internal audit coverage, addressing the increasing, and increasingly complex, investigation caseload, or for supporting management other than through sporadic advisory services (see Section III, IV, V, VIII and IX).

III. Resources

12. As at 31 December 2016, OAIS had 21 approved posts: 4 at the general-service level and 17 at the professional level; one of which was vacant at year-end. The internal audit complement includes a Chief, eight auditors and a data analyst, augmented, for field missions, by individual consultants and staff from local audit firms under long-term agreement; all positions were filled at year-end. On investigation, the complement includes a Chief, four staff investigators; one investigator joined in October 2016 and another was under recruitment at year-end; further to two full-time investigation consultants. The OAIS directorate, with the Director and two general-service staff (one post being vacant at year-end) covers the general management and administration of OAIS; the issuance of reports; relations with member states and donors; most advisory services; the UNFPA focal point for the Joint Inspection Unit; the AAC secretariat; the strengthened internal audit quality assurance and improvement function has been included since 2016 in the directorate, with a dedicated professional staff.

13. Past difficulties in identifying suitably qualified candidates, compounded by delays in the entry-on-duty process, remained valid in 2016. The overall vacancy rate in OASIS was slightly reduced in 2016, at 14 per cent, with a different distribution compared to 2015 (see Table 1).

14. Since 2014, OASIS has been solely funded from the UNFPA institutional budget. In 2016, as in previous years, OASIS continued to proactively manage its budget, with the original 2016 level being reinstated in July 2016. Adjusted for the 2016 actual vacancy rate, the yearly budget increased slightly, compared to 2015 (see Table 1).

Table 1
Resources – 2015 and 2016

	Internal Audit		Investigation		Directorate		AAC		Total	
	2015	2016	2015	2016	2015	2016	2014	2016	2015	2016
Professional posts - approved	10	10	5	5	2	2	-	-	17	17
<i>Vacancy rate</i>	13%	13%	9%	22%	50%	0%	-	-	16%	14%
Support posts – approved	1	1	1	1	2	2	-	-	4	4
<i>Vacancy rate</i>	0%	0%	0%	0%	6%	50%	-	-	3%	25%
<i>(In thousands of United States Dollars)</i>										
Staff costs (vacancy adjusted)	2 193	2,179	949	789	483	719 (***)	-	-	3 625	3,687
Individual consultants	87	171	173	299	-	-	58 ^(*)	67	318	537
Procured services	736	472	29	27	-	-	-	-	765	499
Travel	238	336	184	136	15	11	73	53	510	536
Operational costs ^(**)	37	32	20	45	1	-	3	10	61	87
TOTAL	3 291	3,190	1 355	1,296	499	730	134	130	5 279	5,346

(*) After relinquishing Chairperson fee.

(**) Mainly for information technology (IT) systems.

(***) Strengthened audit quality function included in Directorate starting 2016.

IV. Internal audit activities in 2016

A. Audit risk assessment methodology

15. OASIS executes its assurance activities based on a risk-based audit plan, approved by the Executive Director after review by the Audit Advisory Committee. The audit plan is developed based on a documented audit risk assessment of the audit universe, composed of 138 business units involved in programme delivery activities, 15 core business processes, and 10 information and communications technology (ICT) areas. Risk is measured through a portfolio of indicators representing the potential impact and likelihood of events that might adversely affect the achievement of objectives of the business units, processes and systems assessed.

16. The business unit audit risk assessment uses indicators that measure: (a) programme materiality, complexity, performance and changes; (b) operational complexity and performance; (c) business unit capacity to manage programme and operational activities; and (d) corruption levels⁴ in the countries where field offices are located.

⁴ Based on indicators published by the World Bank.

17. The core business process audit risk assessment uses indicators that measure: (a) the monetary value flowing through these processes, their impact and complexity; (b) the changes affecting them; (c) the perceived effectiveness of systems and controls in place; and (d) the capacity to manage processes.

18. Risks associated with ICT are assessed separately, based on indicators that measure: (a) their relevance and complexity; (b) changes affecting them; and (c) the perceived effectiveness of controls in place in these areas.

19. The audit risk assessment also considers: (a) the outcome of the enterprise risk management (ERM) and control self-assessment processes under implementation by management; (b) the results of consultations with management at headquarters and regional offices; and (c) the results and completion dates of previous internal and external audits as well as investigation work. The outcome of the risk assessments is elaborated in section VI.A.

B. Audit plan for 2016

20. The audit plan for 2016 was based on (a) the 2014 business unit and process audit risk assessment results (details included in document DP/FPA/2015/7, Section V.A and DP/FPA/2016/7, Section V.B); and (b) the ICT risk assessment conducted in late 2015.

21. The 2016 internal audit workplan included 29 audit engagements covering primarily 2015 expenses, and comprised a mix of high and medium-risk business units; high-risk processes, programmes and ICT areas; and joint audits as decided among the internal audit services of the United Nations system organizations (UN-RIAS). In order to maximize resources, audits were deliberately planned to reach varying degrees of completion by year-end. The actual level of implementation of the plan is presented in Table 2.

Table 2
Overview of 2016 audits

Status	Business Units	Processes and Programmes	ICT	Joint audits (a)	Remote audit process ^(b)	Total
Planned audits – by finalization year						
To be finalized in 2016	12	2	2	2	1	19
To be started in 2016 and finalized in 2017	8	1			1	10
Total audits	20	3	2	2	2	29
Actual audits – by status at year-end						
Final reports issued ^(c)	8	2	1	1	1	13
Draft reports issued ^(d)	5			1		6
Subtotal	13	2	1	2	1	19
Draft reports under preparation or review	5		1			6
Planning or fieldwork phase	1	1			1	3
Total^(e)	19	3	2	2	2	28

Notes

(a) Under leadership of other United Nations internal audit services.

(b) Review, from headquarters, of the operating effectiveness of selected key controls and financial transactions of field offices. Implementation started in 2016.

(c) List of all reports issued in Annex 2.

(d) Three final reports issued as at 15 March 2017.

(e) One audit postponed due to OASIS managerial constraint.

22. The eight business unit audits (one regional and seven country offices), together with the remote audit of the 17 country offices in the Eastern Europe and Central Asia region, covered expenses amounting to \$148.5 million – 15 per cent of 2015 total expenses. Five audits (56 per cent) were rated as ‘partially satisfactory’⁵ and three (33 per cent) as ‘unsatisfactory’.⁶ The remote audit was the first one with the four-level audit rating system (based on the proposed harmonized engagement-level audit ratings endorsed by UN-RIAS in September 2016), and was rated as ‘some improvement needed’⁷ (11 per cent). Ratings by audited area are shown in Table 3.

Table 3
2016 business unit audits - ratings by area

Rating	Areas ^(a)					
	Office governance ^(b)		Programme management		Operations management	
	Offices	Per cent	Offices	Per cent	Offices	Per cent
Satisfactory	1	13%	-	-	4	45%
Some improvement needed	-	-	1	11%	1	11%
Partially satisfactory	6	74%	5	55%	2	22%
Unsatisfactory	1	13%	3	33%	2	22%

(a) Scope and depth of review varies by audit, commensurate with the results of the planning audit risk assessment.

(b) The regional office audit also covered support to and oversight over country offices in its region – which was rated as ‘partially satisfactory’.

23. Out of the three process, programme and ICT audits completed (see Table 2), one (33 per cent) was rated as ‘satisfactory’ and two (66 per cent) as ‘partially satisfactory’. One programme audit (‘Governance and strategic management of UNFPA Supplies’) was affected by a scope limitation, as some documents necessary for performing planned audit procedures were not made available to the audit; additional audit findings may have been identified and different conclusions may have been reached had the audit been able to examine these documents.

24. Timeliness of report finalization improved in 2016 (with 19 reports issued versus 15 in 2015), despite limited OAIS management capacity, lengthy discussions with management on report content, and elapsed time in receiving management responses.

25. Details on the most significant findings are provided in Section VI.B.

⁵ “One or more issues were identified that could negatively affect the achievement of the objectives of the audited entity if not addressed by management”.

⁶ “One or more issues were identified that could seriously compromise the achievement of the objectives of the audited entity”.

⁷ “The assessed governance arrangements, risk management practices and controls were adequately designed and operating effectively but needed some improvement to provide reasonable assurance that the objectives of the audited entity/area should be achieved. The issue(s) and improvement opportunities identified did not significantly affect the achievement of the audited entity/area objectives. Management action is recommended to ensure that identified risks are adequately mitigated”.

C. Resulting audit coverage

26. The OAIS audit strategy indicates that high-risk business units would be audited over a three-year cycle, and medium-risk business units over a 10-year cycle, with additional assurance provided through the remote audit process, which also covers low-risk business units. Supplementing the coverage provided by business unit audits, high-risk core processes would be covered through cross-cutting reviews over a 10-year period.

27. The average audit cycle for high- and medium-risk business units for the period 2014-2016 was 6 and 12 years (versus 10 and 18 years, respectively); and 10 to 12 years for the higher-risk core processes.

28. Based on the preliminary four-year internal audit plan for 2017-2020, and assuming (a) no change in the UNFPA structure and business model, (b) a full OAIS staff complement and no vacancies, and (c) financial resources remaining at the 2017 level (increased compared to 2016), the audit cycle aims at reaching, in average over the period 2017-2020, 3 years for high-risk business units, 10 years for medium-risk business units and 10 years for high-risk business processes – which would be in line with the above mentioned OAIS audit strategy.

V. Investigation activities in 2016

29. OAIS is responsible for conducting investigations into all types of allegations of wrongdoing:

- (a) Internal investigations: misconduct by UNFPA staff, ranging from fraud and corruption to workplace harassment, abuse of authority, retaliation against whistle-blowers, sexual exploitation and abuse, and other violations of applicable regulations, rules and administrative or policy issuances; and
- (b) External investigations: failure by independent contractors, implementing partners, suppliers and other third parties to comply with their obligations, including fraudulent and other proscribed practices, committed to the detriment of UNFPA.

30. After receiving a complaint, OAIS conducts a preliminary assessment to determine whether there are reasonable indications of wrongdoing. When OAIS determines that there are insufficient grounds to merit a full investigation, the matter will be closed, documented with a closure note; when appropriate, situations are referred to management for attention or action, or for informal resolution. If the assessment shows the allegation(s) to be credible, OAIS opens a formal investigation. Should these be substantiated, OAIS issues an investigation report by subject (staff, other personnel or entity involved) to the Executive Director, for appropriate administrative or disciplinary action, or sanction, and where relevant, for recovery of funds or assets. When an investigation reveals systemic weaknesses in internal controls which are not already covered in internal audit reports, OAIS may issue a separate communication for management to address the identified weaknesses.

A. Caseload

31. In 2016, OAIS dealt with 90 new complaints, a 27 per cent increase, compared to 2015. New complaints are increasingly complex and resource-intensive, especially external ones (32 in 2016 versus 27 in 2015).

32. Together with the 52 cases carried over from 2015, OAIS dealt in 2016 with 142 active cases (see Table 4), a 23 per cent increase, compared to 2015 (and 75 per cent, compared to 2013). In addition, OAIS dealt with 12 cases of staff soliciting advice related to the OAIS investigation mandate.

Table 4
Overview of cases received and closed in 2016

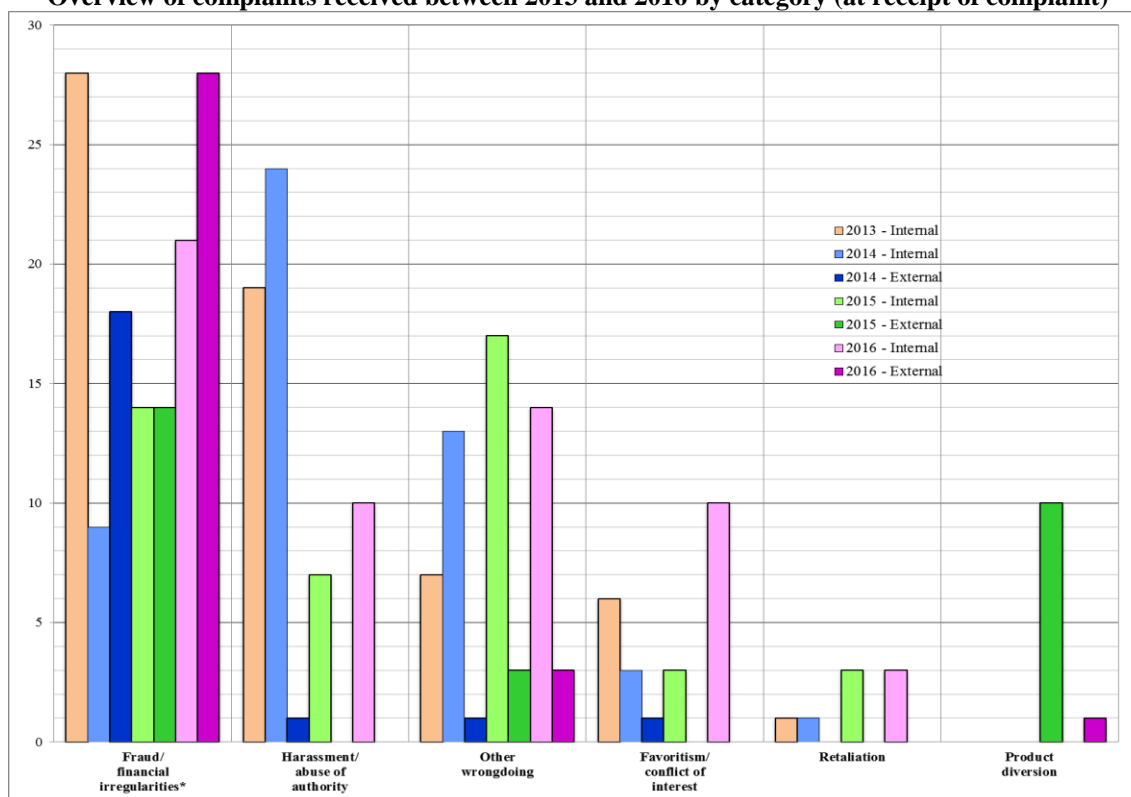
	2013	%	2014	%	2015	%	2016	%
Cases carried over								
- from 2012 or earlier	20	25%	2	2%				
- from 2013		0%	32	30%	3	3%		
- from 2014					41	36%	4	3%
- from 2015							48	34%
Complaints received in current year	61	75%	71	68%	71	61%	90	63%
<i>of which: internal</i>	55	68%	50	48%	44	38%	58	41%
<i>external</i>	6	7%	21	20%	27	23%	32	23%
Total caseload	81	100%	105	100%	115	100%	142	100%
Cases closed								
After preliminary assessment	40	85%	41	67%	35	56%	75	74%
After full investigation	7	15%	20	33%	28	44%	26	26%
<i>of which: substantiated</i>	6	13%	15	24%	13	21%	19	19%
<i>unsubstantiated</i>	1	2%	5	8%	15	24%	7	7%
Total cases closed	47	100%	61	100%	63	100%	101	100%
Cases carried over to the following year	34		44		52		41	
<i>of which: internal</i>	28	82%	27	61%	26	50%	25	61%
<i>external</i>	6	18%	17	39%	26	50%	16	39%

B. Types of complaints

33. In 2016, 39 cases received (40 per cent) related to fraudulent practices⁸ (internal and external), followed by allegations of other forms of wrongdoing without financial implications (e.g. death threats, misuse of UNFPA resources) with 17 cases (19 per cent); harassment and abuse of authority with 10 complaints (11 per cent). Other allegations received involved theft – 7 cases (8 per cent); conflict of interest – 6 cases (7 per cent); favouritism – 4 cases (4 per cent); misrepresentation – 3 cases (3 per cent); retaliation – 3 cases (3 per cent) and product diversion – 1 case (1 per cent). Figure 1 presents the trend by category and by year.

⁸ As determined upon receipt. The categorization may change in the course of investigative work.

Figure 1
Overview of complaints received between 2013 and 2016 by category (at receipt of complaint)



(*) Includes fraudulent practices, theft and misrepresentation.

34. Complaints were reported by email or letter directly to OAI (53 per cent); through the OAI confidential investigation hotline (29 per cent); by referral from internal audit, entities external to OAI or to UNFPA (10 per cent); and in person (6 per cent). Allegations were also derived proactively from other investigations (2 per cent).

C. Disposition of cases

35. Of the overall caseload (142 cases), 101 cases were concluded in 2016: 75 after a preliminary assessment and 26 after a full investigation, with 23 investigation reports issued (some reports covered several cases).

36. Of the 26 cases investigated, 19 cases were substantiated in full or in part (see Table 5 and details in Annex 6). The approximate aggregate value of substantiated cases involving fraudulent practices and financial irregularities amounted to \$36,700.

Table 5
Overview of cases investigated in 2016 by category (at conclusion of investigation)

Description	External	Internal	Total	Percentage
Fraud/ financial irregularity	16	6	22	84%
<i>Substantiated</i>	10	5	15	57%
<i>Unsubstantiated</i>	6	1	7	27%
Retaliation	-	3	3	12%
<i>Substantiated</i>	-	3	3	12%
<i>Unsubstantiated</i>	-	-	-	-

Description	External	Internal	Total	Percentage
Other wrongdoing	1	-	1	4%
<i>Substantiated</i>	<i>1</i>	<i>-</i>	<i>1</i>	<i>4%</i>
<i>Unsubstantiated</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
Grand Total	17	9	26	100%
<i>Substantiated</i>	<i>11</i>	<i>8</i>	<i>19</i>	<i>73%</i>
<i>Unsubstantiated</i>	<i>6</i>	<i>1</i>	<i>7</i>	<i>27%</i>

37. Forty-one cases were carried over to 2017 (less than the 2014 level). Of these, all but four were received in 2016. Cases carried over related primarily to internal matters. ‘Fraudulent practices’ represented 63 per cent, followed by ‘conflict of interest’ (10 per cent), ‘other misconduct’ (10 per cent), ‘harassment’ (10 per cent), ‘theft’ (5 per cent) and ‘favouritism’ (2 per cent). Of the carried-over portfolio, 34 per cent (14 cases) corresponded to high-priority cases; 56 per cent (23 cases) were at the preliminary assessment stage, and 44 per cent (18 cases) either at the investigation or report writing stages.

VI. Key findings from internal audits and investigations in 2016

A. 2016 Audit risk assessment

38. Table 6 summarizes the outcome of the 2016 audit risk assessments of (a) business units and (b) of the components of core processes and ICT – which supports the 2017 audit plan.

Table 6
Outcome of the 2016 audit risk assessment

Entities	Risk			Total
	High	Medium	Lower	
Country offices	12	50	59	121
Regional offices	1	4	1	6
Liaison offices	-	-	6	6
Headquarters units involved in programme delivery	1	2	2	5
Business units	14	56	68	138
Components of core processes and ICT^(*)	33	87		120

^(*) Core processes and ICT were decomposed in their components; the assessment focussed on higher-risk ones.

39. The audit risk assessment reflects the UNFPA risk exposure, which remained fundamentally unchanged compared to previous years. The resulting audit risk factors are, in general, consistent with those identified through the enterprise risk management process under implementation by management, and arise primarily from:

- A complex and relatively atomized programme, implemented by a large number of business units; several of them operate in fragile settings, in collaboration with a large number of implementing partners with varying capacity levels;
- A significant growth in humanitarian response activities, particularly in countries affected by conflict;
- A large reproductive health commodity security programme (‘UNFPA Supplies’), including the supply of a high volume of contraceptives – creating multiple supply-chain management challenges;

- (d) Continued dependency on a small number of key donors and exposure to currency fluctuations;
 - (e) An increasing proportion of other resources (non-core funding) – reducing programming flexibility, increasing the workload of those business units involved in dealing with these funds, while covering only partially the cost of core management functions; and
 - (f) Highly decentralized operations, with a sizable and dispersed workforce (including extensive use of consultants), significant local procurement levels and a large number of financial transactions.
40. Twenty-eight business processes and five information and communications technology areas were assessed as higher audit risk; key causes therefor are included in brackets.
- (a) *Governance*: (i) integrated control framework; management oversight (i.e., “second line of defense” controls); ERM and fraud risk management (control and capacity gaps); (ii) management of corporate priorities; and (iii) structure and personnel alignment; and workforce and succession planning (capacity constraints, including prolonged vacancies in key positions); and (iv) resource mobilization (changes in funding landscape);
 - (b) *Programme management*: (i) programme design; and governance and oversight (gaps in results frameworks and planned policy changes); (ii) workplan, programme financial management, and monitoring (control gaps); (iii) humanitarian response (control and capacity gaps; growth in humanitarian interventions, and challenges affecting them); (iv) implementing partner capacity assessments; advances and expense management; and assurance mechanisms (process and system changes); (v) supply-chain management (control and capacity gaps); (vi) development and costing of funding proposals (larger proportion of non-core funding) and (vii) trust-fund management (process changes);
 - (c) *Operations management*: (i) human resources strategy implementation, recruitment, and contract personnel management (process gaps and changes); (ii) field office procurement (operating effectiveness gaps); (iii) humanitarian procurement (volume increase and risks inherent to using emergency procurement procedures); (iv) commitment control (control gaps); (v) project cash advances (growing use of third-party payment systems); and (vi) value-added tax management (control gaps); and
 - (d) *Information and communication technology*: (i) governance of process, project, and data; service delivery (control and capacity gaps), and (ii) business applications (gaps in functionality and controls in the enterprise resource planning and other ICT systems – increasing workload and non-compliance risk, and limiting information available for monitoring and management oversight).

B. Key internal audit and investigation findings

41. Good practices, and improvement opportunities revealed through internal audit and investigation work in 2016 are consistent with those identified and reported in previous years, as well as those included by the United Nations Board of Auditors in its 2016 management letter. They are presented below, and a tabular overview included in Annex 3.

Business units

(i) Office governance

42. Regular meetings of staff and management, for information sharing, programme implementation monitoring and coordination of programmatic and operational activities, were observed again in 2016. Some offices prepared clear and relevant annual management plans and effectively established decentralized structures for better implementation and monitoring of programme activities. An office implemented well-defined mechanisms for coordination and follow-up of humanitarian response activities.

43. Improvements in annual office management plans were noticed, with further enhancements needed to ensure that these plans consistently reflect all relevant outputs, including a better definition thereof, and the corresponding indicators, baselines, targets, and milestones. Further, the timely approval and implementation of organizational structure and personnel alignment reviews is required to ensure that staffing capabilities are aligned with programme delivery and operational needs. Process improvements contributed to lower the vacancy rate for senior office positions. Yet there were some instances where vacancies were not promptly filled – in particular at offices managing large or complex programmes, or operating in fragile contexts – over which headquarters and regional support and oversight should be strengthened.

44. Business units should put in place a more effective process to (a) identify and assess all (relevant) risks impacting them; and (b) define and implement appropriate risk mitigation actions. The ERM process was partially operationalized in 2015 and a revised process was launched in 2016, reflecting some improvements, particularly regarding tools; yet more is needed.

(ii) *Programme management*

a. *Programme planning, implementation and monitoring*

45. Some offices implemented effective processes to facilitate the payment of travel expenses, remuneration of field personnel, and per-diems to programme participants using mobile phone banking technology or payment services providers. These practices, which minimize the risks associated with handling cash payments, should be considered for replication. To engage with potential donors on resources, one office established an effective structure for dealing with co-financing – relying on evidence, critical data and testimonies of direct beneficiaries. This practice could be also considered for replication.

46. As mentioned in past years, more comprehensive programme results and resources frameworks should be developed, supplementing country and regional programme documents. They should better outline: (a) programme outputs; (b) indicators and related baselines and targets; (c) milestones (i.e., intermediate results); and (d) resource estimates, with disaggregated information for all periods within the programme cycle. This would allow a more effective planning and implementation of programme activities, and better tracking of progress towards achieving expected programme results. Headquarters management indicated that it is working to issue new guidelines and tools to that effect.

47. Workplan management should be further strengthened, particularly as regards (a) improved finalization timelines; (b) a finer level of details; (c) regular updates; (d) better supported workplan budgets; (e) enhanced effectiveness of programme financial management controls, including expense reviews and budget-to-actual reconciliations; (f) alignment with the ‘workplan snapshots’ reflected in the global programming system; and (g) a more consistent and rigorous monitoring of workplan implementation and results achieved.

b. *National execution*

48. Thorougher and better documented assessments of the programmatic and financial management capacity of implementing partners continue to be required, together with increased financial monitoring – to ensure that the funds provided are used for their intended purposes, and are in line with approved workplans and budgets. It should be remembered that the revised harmonized approach to cash transfers (HACT) framework was rolled out in 2016; hence, the audits concluded in 2016 partially reflect this change, and the improvements expected therefrom.

c. Inventory management

49. As mentioned in past reports, increased support to programme countries, together with other relevant programme stakeholders, to address gaps in supply-chain management systems that may reduce the availability of reproductive health commodities and originate stock-outs, is required. Receiving and inspection controls should be more consistently performed and documented. Regularly monitoring the inventory level of reproductive health commodities held by implementing partners, as well as tracking its timely distribution and availability at service delivery points remain needed.

50. Inventory order tracking continues to require attention – bearing in mind that audits concluded in 2016 covered in a limited way the improvements related to implementing the new Atlas-based ‘shipment tracker’ application (replacing the previous inventory management system in use throughout 2015).

d. Management of non-core resources

51. No significant issues were identified in 2016.

(iii) Operations management

a. Human resources

52. Improved compliance with the policies and procedures regarding awarding and managing service and individual consultancy contracts, and with mandatory training requirements continued to be stressed in 2016.

b. Procurement

53. While some offices enhanced their procurement planning process, significant improved needs continued to be identified in this area.

54. Several instances of non-compliance with procurement procedures at the local level – in the areas of bidding, contract award and contract management – were found. Due to limited managerial oversight, these were not timely identified and properly addressed. Recurring opportunities to expand the use of long-term agreements at the local level, to increase procurement efficiency and value-for-money, were also noticed. Finally, better documentary evidence of receipt and inspection of goods and services procured remained needed.

c. General administration

55. Procuring air travel services at least 21 days ahead of travel date was not always respected – limiting the ability to get better fares compared to those typically charged close to travel date.

d. Financial management

56. Almost all audits continue to reveal instances of expenses recorded in incorrect account codes – thereby diminishing the overall reliability of programme and financial information. Compensating controls implemented at headquarters, as part of the financial statement preparation process, partially mitigated the impact of this issue.

57. To minimize the risk of transactions executed without appropriate management approval and, potentially, incurring expenses in excess of available financial resources, financial commitments should be more timely reflected and approved in Atlas through issuance of requisitions or purchase orders prior to decisions to procure goods and services or reimburse expenses be communicated to suppliers and implementing partners.

58. In addition, more specific guidelines are needed regarding the processes and controls over disbursements made through payment services providers, including banks, money transfer operators and mobile telephony companies.

59. Finally, better management of value-added-tax payments and reimbursements continued to be noted in some cases.

(iv) Support to and oversight over country offices (regional offices)

60. Of particular importance is the need to significantly enhance the effectiveness of regional office oversight over country office performance, with clear terms of reference and corporate guidelines covering the nature, scope and frequency of expected oversight, as well as sufficient human and financial resources provided therefor. Consistent with other regional office audits, the audit of the Arab States regional office identified opportunities to improve the effectiveness of the technical assistance and consultant roster management processes (see paragraph 73).

Processes and programmes

Condom procurement process

61. Risk management and internal controls over the procurement of condoms in the period 1 January 2014 to 31 March 2015, amounting to \$32 million, were assessed as ‘satisfactory’.

62. The audit identified multiple good practices as regards condom procurement, and provided 15 recommendations for further improvement, primarily of an operational nature. The most significant ones related to (a) exploring sourcing alternatives; (b) easing the impact of in-country product registration requirements for quality-assured contraceptives supplied by UNFPA; (c) advocating for a risk-based approach for in-country post shipment testing requirements – which add complexity to condom procurement and supply activities, and could limit the UNFPA ability to provide value-for-money; and (d) enhancing strategic supply-chain management activities.

Governance and strategic management of UNFPA Supplies

63. ‘UNFPA Supplies’ is the UNFPA flagship programme designed to accelerate the progress of countries in greatest need of reproductive health commodity security; \$185.2 million were invested in 2014, primarily for the procurement of reproductive health commodities (\$111.4 million) and capacity building activities (\$62.5 million). All areas in the audit scope (‘programme design’; ‘programme governance and strategic management’; ‘workforce management’; and ‘programme reporting and systems’) were assessed as ‘partially satisfactory’.

64. Key improvement opportunities in ‘programme design’ referred to a better definition of (a) capacity building within the programme framework – to ensure better focus on cost-effective interventions, including those required to address commodity availability and stock-out problems (largely attributed to supply-chain capacity gaps); (b) a process and full set of criteria to “graduate” countries from the programme.

65. Country-specific, multi-year implementation strategies and medium-term rolling action plans could enhance ‘strategic programme management’ – allowing a better focus, consistency and an improved resource allocation with a long-term vision. In addition, more effective supply-chain management organizational arrangements, processes and systems – from procurement to the ‘last mile’, through enhanced quantification, planning, sourcing, procurement, delivery and distribution of reproductive health commodities – could better support the achievement of programme goals, foster cost-effectiveness, and help better discharge UNFPA fiduciary oversight and contractual obligations.

Information and communication technology

66. The global programming system is the business application implemented in November 2014 to support the preparation, budgeting approval, maintenance and system set-up of workplans used to manage programme implementation.

67. The controls were assessed as ‘partially satisfactory’ – primarily due to control design issues in the areas of (a) access to system functions; (b) segregation of duties in the workplan development and maintenance process; (c) functionality related to workplan budget development and approval; and (d) overall workplan generation and approval.

68. Further, the ICT governance process should be enhanced, through the implementation of a mandatory sign-off on new business applications for compliance with internal control framework requirements.

Joint audit

69. OAIS participated in the joint audit of the ‘governance arrangements of the South Sudan Common Humanitarian Fund’, which was rated ‘partially satisfactory’. Four medium priority recommendations were made, to enhance (a) certain aspects of to the reserve allocation process; (b) the management and sharing of records and reports; (c) the risk mitigation process; and (d) the quality and accuracy of information reported to programme stakeholders.

VII. Recommendations made and management actions

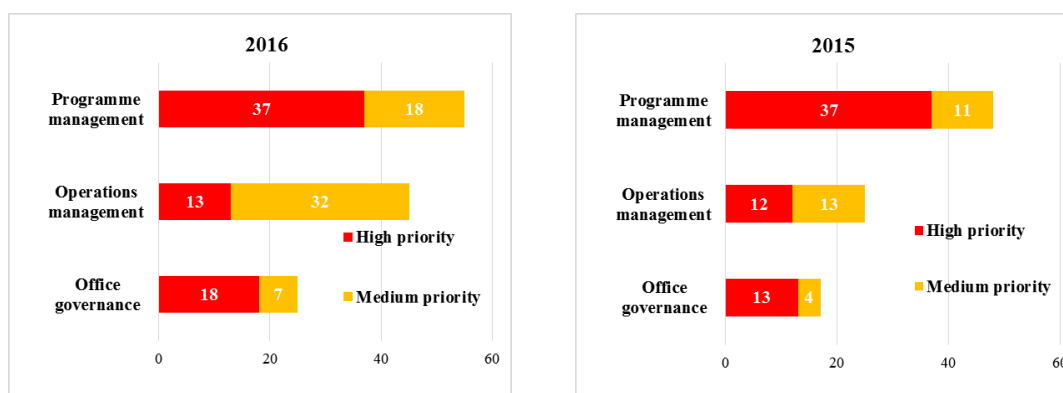
A. Audit recommendations

New recommendations

Country offices

70. Overall, 125 recommendations in relation to country office audits were issued in 2016. Consistent with prior years, ‘programme management’ continued to account for the larger number of recommendations (44 per cent), with an increase in the number of recommendations related to ‘operations management’. Of the 125 recommendations, 68 (54 per cent) were rated ‘high priority’; the remaining 57 (46 per cent) were rated ‘medium priority’ (see Figure 2).

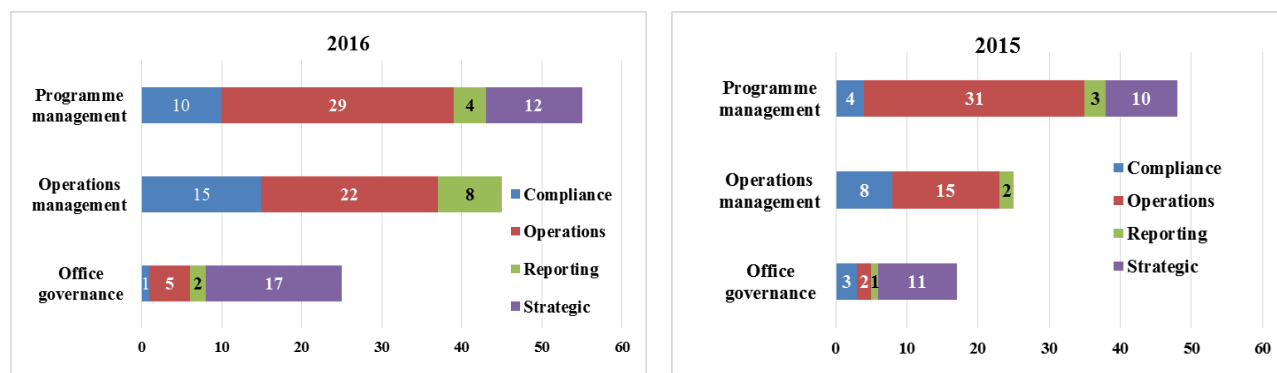
Figure 2
Country office audit recommendations – by priority level



71. Similar to past years, most recommendations relate to ‘operations’ and ‘strategic’ objective categories – 56 (45 per cent) and 29 (23 per cent) recommendations, respectively,

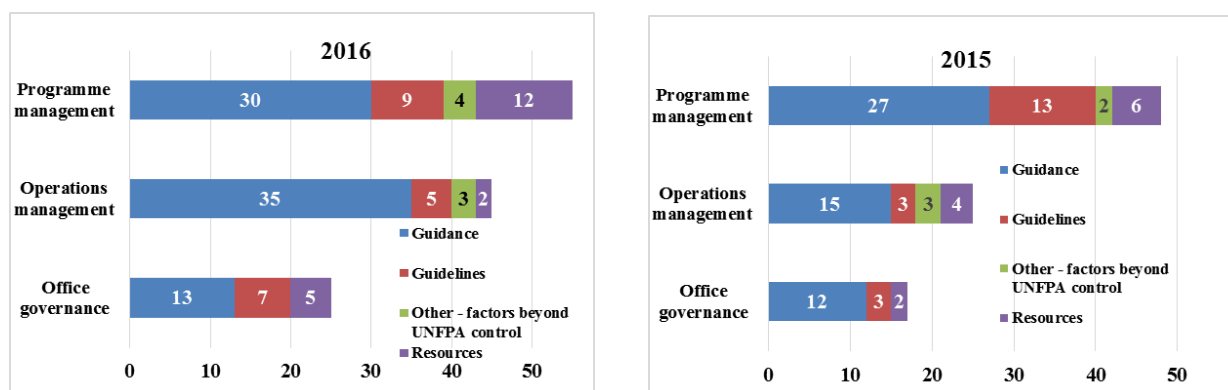
with a lower incidence of ‘compliance’ and ‘reporting’ related matters – 26 and 14 recommendations, respectively (see Figure 3).

Figure 3
Country office recommendations – by type



72. Insufficient ‘guidance’ (inadequate or insufficient supervisory controls) remained the main root cause for issues identified – 78 recommendations (62 per cent) – followed by inadequate ‘guidelines’ (lack of or inadequate policies) – 21 recommendations (17 per cent) – and ‘resources’ (human or financial) – 19 recommendations (15 per cent) (see Figure 4).

Figure 4
Country office audit recommendations – by cause



Regional offices

73. OASIS issued 17 recommendations as a result of its audit of the Arab States Regional Office. Six of them (of which four were of ‘strategic’ nature) referred to ‘support to and oversight over country offices’, a key regional office role. The remaining 11 recommendations, in ‘office governance’ and ‘programme and operations management’, corresponded to issues similar to those identified in country office audits, with similar priorities, objective categories, root causes as those discussed previously.

Process and programme audits

74. Overall, 41 recommendations were issued in relation to the three process audits completed in 2016 (see paragraphs 61 to 63). The recommendations related to ‘governance’, ‘programme management’ and ‘operations management’. Fifty-eight per cent of them were assessed as ‘high priority’, Inadequate guidelines was the root cause for over 75 per cent of them, relating primarily to ‘strategic’ and ‘operations’ objectives.

Outstanding recommendations

75. As shown in Table 7, 239 recommendations⁹ were outstanding as at 31 December 2016, following the closure of 128 recommendations in 2016.

Table 7
Status of implementation of audit recommendations by year

Year	Number of reports	Recommendations issued	Outstanding recommendations	
			2015	2016
2010 ^(*) -2014	36	565	36 (6%)	12 (2%)
2015	11	171	148 (87%)	69 (40%)
Subtotal	47	736	184 (25%)	81 (11%)
2016	12	183	n.a.	158 (85%)
Total	59	919	n.a.	239 (26%)
<i>Of which: past their implementation deadline</i>			118 (64%)	134 (56%)
<i>due for implementation after 31 December</i>			66 (36%)	105 (44%)

(*) For 2010, only including the number of reports with outstanding recommendations

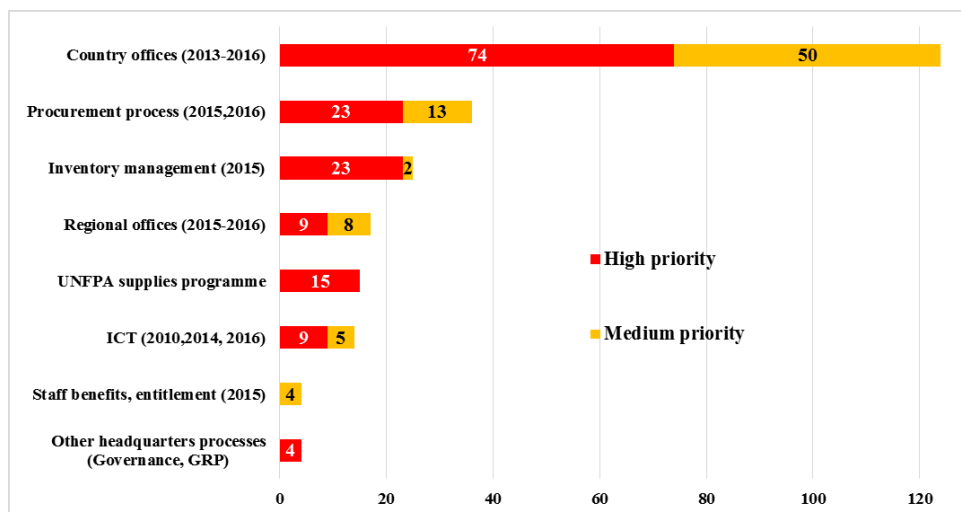
76. Figure 4 provides details on the outstanding recommendations, of which 124 (52 per cent) pertain to country office audits (primarily from 2015 and 2016); 17 (7 per cent) to regional office audits (2015 and 2016), and 98 (41 per cent) to process, programme and ICT audits.

77. Of the 124 outstanding country office recommendations, 56 correspond to ‘programme management’ (including 20 related to ‘programme planning and implementation’, 16 to ‘inventory management’ and 16 to ‘national execution’); 45 to ‘operations management’ (of which 17 refer to ‘financial management’ and 14 to ‘procurement’); and 24 to ‘office governance’ (with 10 related to ‘organizational structure and staffing’ and 8 related to ‘risk management’).

78. Out of the 98 outstanding process or programme-related recommendations, 25 correspond to the 2015 inventory management audit; 36 to procurement audits completed in 2015 and 2016; and another 15 to the 2016 audit of the ‘governance and strategic management of the UNFPA Supplies’ programme.

⁹ Excluding the status of implementation of joint audit recommendations, which is reported by the United Nations Development Programme.

Figure 5
Outstanding recommendations as at 31 December 2016



GRP – Global and regional programme

Acceptance of risk by Management

79. Four high priority recommendations were closed in 2016 based on management's acceptance of the risk of not implementing them, as detailed below.

Country offices

- (a) Implement a quarterly process to identify funding to implementing partners outside of the national execution process and ensure that the corresponding projects are subject to a national execution audit (2013, high priority);
- (b) Implement supervisory controls to enforce compliance with the inventory management policy and procedures issued in 2012 (2014, high priority);

Information and communication technology

- (c) Modify the Atlas user profiles and workflow to enforce the approval of financial transactions in excess of a predetermined amounts (for instance the threshold applicable for submission to the contract review committee) by at least two different 'level 3' managers (2014, high priority);

Human resources

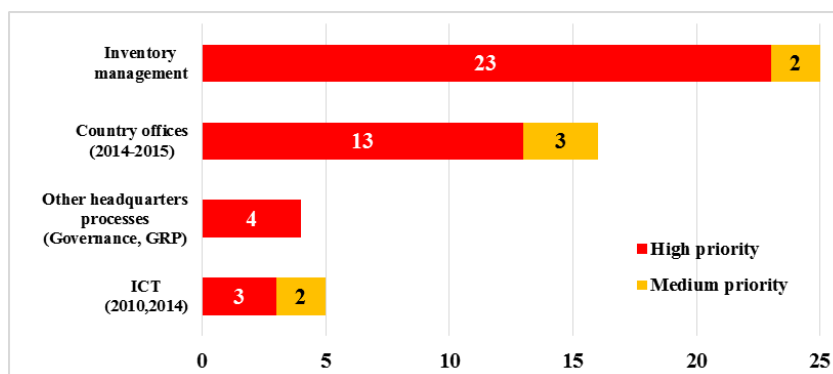
- (d) Strengthen management oversight over staff benefits, entitlements and financial assistance, by developing and reviewing periodic reports on management thereof, to identify and analyse unusual trends and potential exceptions (2015, high priority – management disagreed with the recommendation).

Recommendations unresolved for 18 months or more

80. Of the 239 outstanding recommendations as at 31 December 2016, 50 remained unresolved for 18 months or more (see Figure 6 and Annex 4), compared to 22 recommendations in 2015. Of the 50 recommendations, 16 correspond to five country office audits and 25 to the 2015 inventory audit, with limited implementation progress in 2016. The implementation of the recommendation of the 2014 follow-up audit of the 'global and regional programme' showed progress; so did three recommendations related to the 2011 governance

audit – (a) improving programme financial management mechanisms; (b) providing tools and training to build monitoring capacity in country offices; and (c) developing a system for monitoring and controlling the use of contract personnel. The implementation of five ICT recommendations – including the need to update the segregation of duties guidelines and complete the development of a more robust ICT internal control framework – also showed progress.

Figure 6
Recommendations unresolved for 18 months or more



B. Disciplinary measures or sanctions taken after investigations

81. Disciplinary or administrative action, or sanction was initiated in 11 of the 19 cases which were substantiated in 2016, with management action pending for the remaining eight.¹⁰

82. Of the 13 cases substantiated in 2015, by year-end 2016, management took action for nine of them, with actions pending for the other four. Of the remaining, recovery of funds was initiated in two cases; and two cases remained under consideration for referral to national authorities.

83. Of the 14 cases substantiated in 2014, two were pending with the vendor review committee.

VIII. Advisory activities

84. The external and internal environment in which UNFPA operates changes rapidly and continuously; the rationale elaborated in DP/FPA2015/7 (paragraph 74) remained valid in 2016.

85. The demand for OAIS advisory services stayed high and is primarily ad-hoc. Several requests required significant investment, specially by OAIS management. This continued to have a disruptive ‘domino-effect’ on other OAIS activities although, due to its capacity, OAIS continued to limit drastically its involvement to the following:

- (a) *Review of audit and investigation clauses in financing agreements.* OAIS reviewed multiple versions of the 23 agreements brought to its attention in 2016 (16 in 2015; 34 in 2014; 25 in 2013), most continue to require responses within very short timeframes;
- (b) *Assessments of audit and investigation functions.* OAIS participated in several reviews conducted by Member States and donors at the local and corporate levels for which its input was sought, while responding to their questions throughout the year;

¹⁰ Details for 2016 are in Annex 6, and for 2014 and 2015 in Annex 7.

- (c) *Policies*. OAIS reviewed 18 policies, in particular the revision of the 2009 fraud policy (10 in 2015; 22 in 2014; 12 in 2013);
- (d) *Support to UNFPA senior management*. This includes, but is not limited to, OAIS participation as an observer in various steering or working committees;
- (e) General support to UNFPA staff.

IX. Collaboration within the United Nations system

A. Internal audit

86. In 2016, OAIS continued its active involvement in inter-agency activities and meetings on internal audit, including two joint audits. OAIS participated in the sharing of practices and experience among the internal audit services of the United Nations Organizations, Multilateral Financial Institutions and Other Associated Intergovernmental Organizations (UN-RIAS and RIAS), in particular presenting its remote audit approach.

87. In 2016, OAIS was once more the UN-RIAS Vice-Chair for joint audits and focal point for United Nations Development Group (UNDG) interactions. In this capacity, OAIS was actively involved in improving the process for gathering and analysing data for pooled funds, also as a basis for possible joint audits.

B. Investigation

88. In 2016, OAIS continued working in close collaboration with the United Nations Representatives of Investigative Services (UN-RIS). OAIS was active in inter-agency investigation activities, in the meetings of UN-RIS and the Conference of International Investigators, inter alia, in the working groups on investigating sexual exploitation and abuse allegations, and on investigating aid provided for the ‘whole of Syria’ response.

C. Joint Inspection Unit

89. OAIS continued its role as the UNFPA focal point for the Joint Inspection Unit. OAIS actively participated in the fourth meeting of Joint Inspection Unit focal points, and liaised on about 20 reviews (some of them converging with OAIS work) with UNFPA units, the Joint Inspection Unit itself and the Secretariat of the Chief Executives Board for Coordination.

90. OAIS noted, with concern, the significantly increasing workload required to fulfil the focal point role – which is expected to rise further, given the mandate given to the Unit in the quadriennial comprehensive policy review.

X. Overall conclusion and next steps

91. OAIS wishes to thank senior management, the Executive Board and the Audit Advisory Committee for their continuous support, which has enabled OAIS to carry out its mandate as successfully as possible in 2016.

92. Through its various actions in response to OAIS reports and advice, management continued to demonstrate in 2016, as in previous years, its commitment to increasing the effectiveness of the governance, risk management and control processes at UNFPA.

93. Looking ahead, in the context of reduced institutional budget funding, the main challenge for OAIS remains, more than ever, the alignment of expectations with available resources.

94. The mismatch between “supply”, i.e. the resources available to the Office, given the risk appetite at UNFPA, and the growing “demand” for OAIS services – for internal audit (more frequent internal audit cycle coverage); investigation (prompt handling of increasingly complex cases while respecting due process); increasing reporting requirements to donors (particularly on investigations); more requests for advisory services and a higher demand related to the Joint Inspection Unit – continues to create a significant fiduciary and reputation risk for UNFPA, as already noted in previous years.

95. OAIS appreciates the management commitment to increasing its funding in 2017, despite the financial situation. It is expected that the resulting recruitment of an additional investigator will improve managing the caseload better and, for internal audit, the addition of a second chief and an auditor will expand audit coverage and ease the OAIS senior level workload, after the current Chief (taking up other responsibilities in UNFPA) is replaced.

96. OAIS will continue its commitment to providing high-quality services, to the extent of the resources at its disposal.
