



2 May 2017

UNFPA management response

**Report of the Director of the Office of Audit and Investigation Services
on UNFPA internal audit and investigation activities in 2016,
including the annual report of the Audit Advisory Committee
(DP/FPA/2017/6; Add.1 and Add.2)**

Agenda item 14: UNFPA Internal audit and oversight

Pursuant to decision 2006/13, UNFPA is pleased to present its management response to the report of the Director of the Office of Audit and Investigation Services (OIAS) on UNFPA internal audit and investigation activities in 2016 (DP/FPA/2017/6 and Add.1).

This management response should be read in conjunction with the 2016 annual report of the Audit Advisory Committee (AAC), issued as an addendum to the OIAS report (DP/FPA/2017/6/Add.2).

This report is organized into two sections. Section I provides the management response to the issues and improvement areas identified in the OIAS report. Section II provides the management response to the strategic advice contained in the AAC report.

Executive Board of UNDP, UNFPA, and UNOPS
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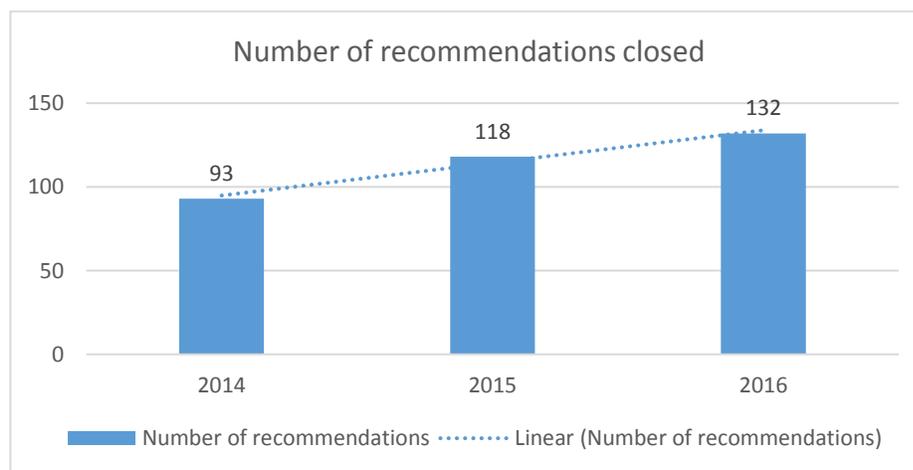
Section I

Management response to the report of the Director of the Office of Audit and Investigation Services on UNFPA internal audit and investigation activities in 2016 (DP/FPA/2017/6 and Add.1)

I. Introduction and assurance at UNFPA

1. UNFPA acknowledges the annual report of the Director of the Office of Audit and Investigation Services (OAIS) on UNFPA internal audit and investigation activities in 2016 (DP/FPA/2017/6). Management also takes note of the OAIS “partial satisfactory” opinion on the adequacy and effectiveness of the UNFPA framework of governance, risk management and control processes. UNFPA management welcomes OAIS overall conclusion that UNFPA, through its various actions, continued to demonstrate in 2016, as in previous years, its commitment to improving the effectiveness of the governance, risk management and control framework.

2. The UNFPA Audit Monitoring Committee, chaired by the Executive Director, monitored business units’ efforts in improving the implementation of the audit recommendations. UNFPA successfully closed 132 recommendations (63 per cent) out of 211 outstanding recommendations that were due for implementation by 31 December 2016.¹ UNFPA remains committed – and accords the highest priority – to strengthening the culture of accountability.



3. Notwithstanding the reduction in core funding (for regular resources) and subsequent austerity measures that have impacted UNFPA programmes and operations across the organization, the vacancy-adjusted budget of OIAS has seen a modest increase over the past three years.

¹ The number of recommendations actually due for implementation in 2016 following the revision of deadlines.

4. As acknowledged in various external (and internal) assessments, UNFPA has an effective and wide-ranging system of governance, risk management and internal control that also compares favourably with other United Nations organizations. UNFPA continues to further develop, expand and strengthen its governance by observing, studying and adopting best practices proposed by professional bodies and independent consultants through its ongoing projects on enterprise risk management, the internal control framework and related interlinkages, including strategic information management initiatives.

II. Internal audit activities in 2016

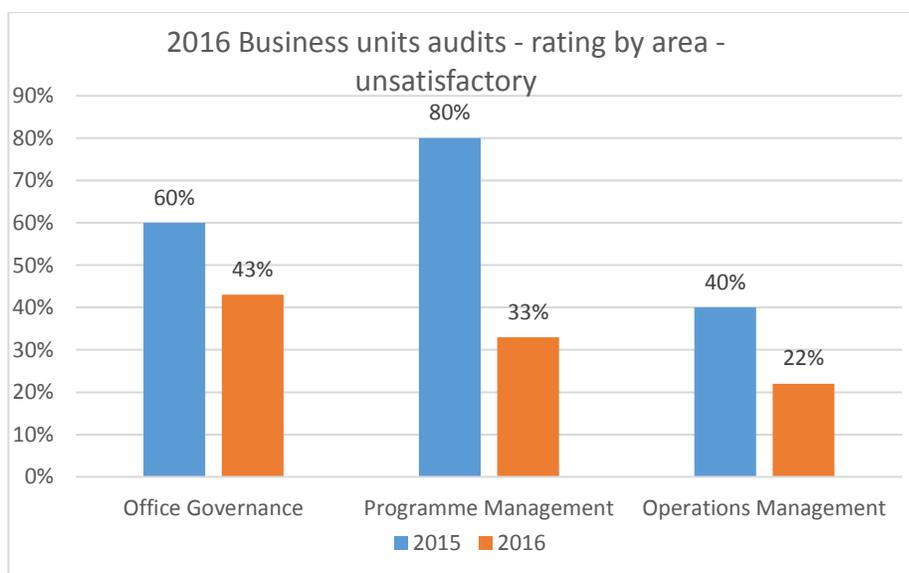
5. Management takes note of the following internal audit activities in 2016, including a comparison of 2015 planned versus achieved audit engagements.

A. 2016 Audit risk assessment

6. UNFPA management takes note of the audit risk assessment methodology and related indicators of the audit universe of 138 business units, 15 core business processes and 10 information and communication technology (ICT) areas. Management is pleased to note the steady decline in the number of business units with ‘high-risk’ ratings.

B. Implementation of audit plan 2016

7. Management appreciates the OAIS risk-based audit plan, the status of implementation, and the improvements in the timeliness of the report finalization. Management is pleased to observe the decline in ‘unsatisfactory’ ratings in 2016 in the areas of (a) office governance, (b) programme management and (c) operations management.



8. Management appreciates the improvements in the resulting average audit cycle for high- and medium-risk business units for 2014-2016 – shortened to 6 and 12 years (previously 10 and 18 years), respectively. Management will support OAIS in achieving a projected audit coverage of 3 years for the high-risk business units and 10 years for medium-risk business units in the audit plan for 2017-2020.

III. Investigation activities in 2016

A. Caseload

9. UNFPA management notes with appreciation that OAIS dealt with 90 complaints in 2016. This constitutes a 27 per cent increase, compared to the 2015 caseload. UNFPA management further notes the increasingly complex resource intensive nature of the complaints. Management also noted that OAIS closed 101 cases; 75 of which were closed after a preliminary assessment and 26 after a full investigation. UNFPA management appreciates the proactive support of OAIS and its proactive collaboration with the UNFPA Legal Unit, Ethics Office, the Vendor Review Committee and other relevant business units.

B. Types of complaints and disposition of cases

10. UNFPA takes note of the three most prevalent categories of complaints cases received by OAIS in 2016 – fraudulent practices (40 per cent), other types of wrongdoing without financial implications (19 per cent) and harassment and abuse of authority (11 per cent). UNFPA management also notes a substantial decline in complaints relating to product diversion. Management reaffirms its commitment to a zero tolerance for wrongdoing, including fraudulent and other proscribed practices, as well as all types of harassment, abuse of authority and retaliation.

11. UNFPA management takes note of the fact that of the 26 full investigations, 19 cases were substantiated in full or in part, with an aggregate value of three substantiated cases (involving two external parties and one internal) involving fraud/financial irregularities amounting to \$36,700.

C. Disciplinary measures and sanctions taken after investigation

12. In addition to the disciplinary or administrative actions reported in the report, management wishes to provide updates, as at 13 April 2017, on the number of concluded cases and cases in which management action has been initiated:

- (a) *For 2016*: of the 19 cases that were substantiated, four cases have been concluded (with recovery ongoing in two cases). In the remaining 15 cases, management has initiated action;
- (b) *For 2015*: of the cases substantiated in 2015, management concluded 10 cases by imposing disciplinary or administrative measures. In 4 cases, management has initiated action;
- (c) *For 2014*: of the cases substantiated in 2014, only one case remains pending and is close to being concluded.

IV. Progress on key issues and improvement areas

A. Enterprise risk management

13. In 2016, UNFPA launched its second annual enterprise risk management (ERM) assessment cycle, with streamlined risk registers, improved governance and a modified online application platform. Management is pleased to report that all 137 business units completed the online assessment. The results of this assessment cycle as well as prior assessments were shared with the OAIS. The annual ERM cycle also incorporates a risk response stage in which subject-specific teams review high-risk items. These teams have developed global mitigation actions and strategies. The United Nations Board of Auditors reviewed the country offices risk assessments, acknowledged positive progress with recommendations for further improvements. UNFPA will launch a third, modified annual ERM cycle incorporating feedback and suggestions received from the United Nations Board of Auditors and OAIS.

B. Internal control framework

14. Management is committed to fully operationalizing the revised internal control framework policy (issued in September 2016), and to strengthening the integration of all relevant risks and associated controls related to governance, programme and operations management processes – strengthening, in other words, the linkages between the ERM and the internal control framework. Controls identified through policies are being documented in a database, with clear links to the relevant risks and control objectives.

15. UNFPA continues to outsource treasury, payroll, and management of the vendor database to other agencies and third parties. The organization receives annual control attestations from the providers of these services. In 2016, a ‘controls self-assessment’ was received from all business units engaged in programme activities. Also in 2016, UNFPA began limited trials with an automated transaction monitoring system, and is currently considering expanding future utilization.

C. Organizational structure and staffing

Business unit capacity

16. Between 2014 and 2016, 48 structural and human resources realignments have been fully implemented or are being implemented. All remaining realignments are being re-examined to ensure that they are in line with the strategic direction aligned to optimally support programme delivery and operational needs within the context of the 2030 Agenda.

Vacancies in key management positions

17. The vacancy rate for key positions has been reduced from 16 per cent in 2014 to 11 per cent in 2016. This was achieved mainly through the introduction of the Leadership Pool – a group of pre-screened candidates who are available to fill core business positions in a more proactive manner – and strengthened support at the regional level by the human resources strategic partners. Key vacancies are being filled promptly or through the swift designation of officers-in-charge to ensure the continuation of crucial functions during vacancies.

18. UNFPA management will continue to ensure that vacant posts are filled as quickly as possible. The UNFPA Division of Human Resources will consider the matter further and, depending on the outcome of this consideration, take additional actions or increase support to the business units, as required.

Programme planning, implementation, and monitoring

19. Management is pleased to note that the enhancements of the Strategic Information System (SIS) and the Global Programming System (GPS) were both completed in 2016. This has already strengthened programme results planning, monitoring and reporting. Every programme document is accompanied by a five-year results and resources framework, which specifies the programme results in terms of outcomes and outputs as well as the indicators, baselines and targets for tracking achievement of the results. The framework also indicates budget estimates for the outcomes. Each business unit translates the five-year framework into an annual plan using the UNFPA online results planning, monitoring and reporting system, known as *myResults*. This also ensures that each UNFPA unit/programme prepares at the beginning of each year an annual results plan. For each five-year programme output, the business unit sets targets to be achieved during the year as well as quarterly milestones, which are then used to track progress toward the annual target.

20. In 2016, UNFPA developed a new feature for *myResults* that enables visualization of the five-year programme results framework in the system, so that the annual results can be juxtaposed against the five-year framework. With the above features, *myResults* has ensured that UNFPA programmes, including in ‘Delivering as One’ settings, can specify, plan, monitor and report on quarterly milestones, the corresponding annual targets and the five-year results.

Financial management

Incorrect expense account coding

21. UNFPA has already implemented a number of key controls to mitigate risks, including (a) issuance of a comprehensive account dictionary, (b) introduction of system blocks to eliminate accounts that should not be used by UNFPA, (c) automation of a number of indicators for prompt detection of inaccurate use, (d) periodic quality-control reviews performed at the central level, and (e) continued capacity building.

Timely issuance of requisitions and purchase orders

22. Formal directions have been issued by the Procurement Services Branch regarding the use of purchase orders as a primary contacting tool, and a spot-check tool for monitoring is being tested. The Procurement Services Branch is continuing to follow up with country offices on the results of analysis and compliance with procurement rules and regulations.

Disbursements through payment service providers

23. Management is developing a revised policy to provide more specific guidance regarding the project cash advances disbursed through payment to service providers. This

policy will integrate the project cash advances policy issued in 2016, which already contains a section on the engagement of third-party money transfer providers.

Value added tax

24. In addition to comprehensive guidance notes and existing central monitoring and controls on value added tax. An enhanced differentiated support strategy is being developed to support selected business units.

Harmonized approach to cash transfers

Implementing partner capacity assessments

25. Management has conducted quality assurance exercises and used the results to guide business units to further improve the review of assessments. So far, the overall results of the quality assessment were positive. Management will continue to review the quality of the assessments and support further improvements. The 2016 assurance strategy has complemented the risk rating element obtained from implementing partner assessments, with materiality thresholds for a risk-based selection of implementing partners and their expenditures for audits and spot checks. It should be noted that the results of micro-assessments are merely one aspect of the assurance, since UNFPA planned additional assurance activities, covering 73 per cent of national execution expenditure in 2016, through audits and further assurance through spot checks.

Financial monitoring of implementing partners

26. The financial monitoring of implementing partners is important for UNFPA, and receives continuous attention from the organization. The systematic introduction of spot checks introduced in 2016 will yield improvements to the future financial monitoring of implementing partners. An independent sample quality review of the first spot checks found 67 per cent to be ‘good’ or ‘satisfactory’. Management is undertaking measures to further strengthen this area – web-based knowledge-sharing; training exercises; additional quality assurance of spot checks; a review of the guidelines, to further harmonize with UNICEF – and will build on the lessons from the first year of implementation.

Procurement

27. Management is pleased to note that a number of initiatives are being developed or undertaken to address incidents of non-compliance with procurement procedures at the country level. These focus on prevention as well as detection. Prevention includes (a) the review of local tender documents above \$100,000 before they are released; (b) developing country-specific strategies to identify the best procurement approaches for each country office; (c) and the training of staff (since 2011, more than 300 staff members have received training certified by the Chartered Institute of Procurement and Supply). Detection measures include spot checks on local procurement, in particular analysis of financial limits to identify cases that have not been submitted to the contract review committee, potential purchase order splitting, and non-purchase order vouchers issued above \$5,000.

28. A country compliance database was launched by the Procurement Services Branch in mid-March 2017. The database is now being populated with all relevant data, both

manually by the Procurement Services Branch and country offices and, whenever possible, automatically through the various systems.

29. Indicators such as staff capacity, including formal training undertaken by staff involved in the procurement process, procurement compliance of a country office on a number of indicators, including those listed below, are mapped against the local and international procurement spending and risk category of each country office with procurement activities. Examples of procurement compliance indicators include: (a) completion of the annual procurement plan; (b) number of post-facto submissions; and (c) percentage of completed vendor performance evaluations.

30. The Procurement Services Branch will explore the possibility of creating a dashboard to display various data combinations, to highlight key issues such as high-spending country offices with low staff capacity and high non-compliance results.

Inventory and supplies chain management

31. As part of the change management process, a supply chain working group is currently formulating a new corporate supply chain management strategy for the organization. The strategy development process is informed by different reviews and audits, which have highlighted the need for UNFPA to define a supply chain management strategy that encompasses an end-to-end holistic approach that safeguards a conducive environment for the procured reproductive health commodities to reach those who need them most.

32. UNFPA management recognizes the importance of the participation (and leadership) of country offices in developing country coordination mechanisms to monitor the reproductive health supplies and forecast future requirements. Since 2016, UNFPA has been working to ensure that inventory management is positioned as an essential element of the overall supply chain management for reproductive health commodities, and has strengthened the policy and operational guidance for needs assessment and forecasting analysis. The inventory management policies and procedures manual has been expanded, and is being refined into a policy on the provision of programme supplies. Also, UNFPA is currently developing a specific guidance note on receiving and inspection procedures for country offices.

33. In 2017, the UNFPA Supplies programme will conduct quarterly meetings with implementing partners to strengthen coordination and monitor inventory of reproductive health commodities held by implementing partners in its 46 priority countries. UNFPA Supplies conducts facilities surveys to track the availability of commodities at service delivery points in these 46 countries; and it provides quarterly programme management reviews, including follow-up on monitoring of commodity distribution to implementing partners and troubleshooting for potential stock-outs.

Support to and oversight over country offices

34. Management has taken note of the recommendation on the need to enhance the effectiveness of regional offices oversight over country offices, and management is developing corporate guidelines covering the nature, scope and frequency of expected oversight by regional and headquarters units.

Information and communication technology

35. A new UNFPA policy, released in March 2017, overhauls ICT governance and management based on the leading framework for governance and management of enterprise IT (COBIT principles). It clarifies the roles and responsibilities between the UNFPA Executive Committee, the ICT Board, and ICT Management and Operations. Current initiatives include (a) formalizing the systems development life cycle approach to projects; (b) instituting IT service management based on the Information Technology Infrastructure Library (ITIL v2) standards; (c) deploying a unified global support mechanism; and (d) creating a proper project management office function and develop supporting information managers. The direct observation to institute “mandatory sign-off on new business applications for compliance with internal control framework requirements” will be addressed through the new systems development life cycle approach and will be deployed by mid-2017.

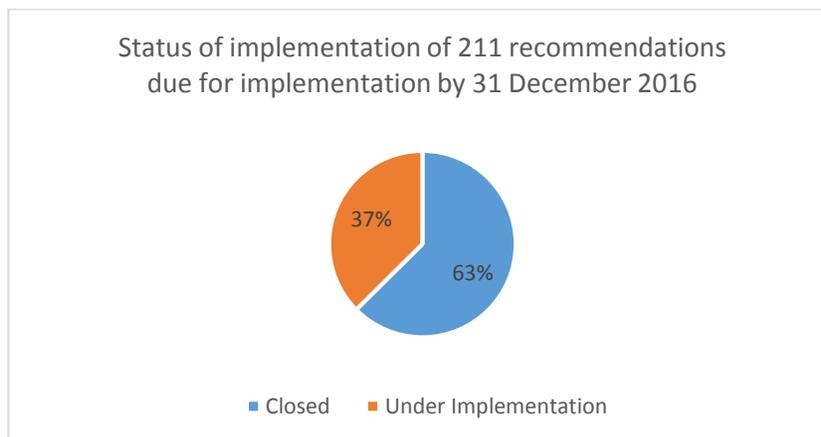
36. UNFPA management is implementing a range of initiatives to address the key risks identified by OAI in workplan development and implementation as well as programme financial management controls, including (a) improved clarity on roles in the Global Programming System; (b) system enhancements to enable operational review of all workplans; (c) financial monitoring and quarterly progress reports of programmatic results to enhance the linkages between workplans and monitoring; (d) system controls ensuring the completion and documentation of the finance review of workplans, as per policy requirements; (e) continued training for operational and programme staff, also reinforcing workplan policy changes and focusing on strengthened programme budgeting and management oversight; and (f) continued focus on implementation of audit recommendations to address the highlighted risks.

V. Follow-up of internal audit recommendations

Outstanding recommendations

37. Management is pleased to note that, in large part due to the regular follow-up in monthly meetings of the Audit Monitoring Committee, the percentage of closed recommendations has increased over previous years. To this end, 132 of 211 outstanding recommendations,² due for implementation in 2016, were successfully closed.

² The number of recommendations actually due for implementation in 2016 following revision of deadlines.



38. A total of 183 new recommendations were issued in 2016; this figure includes 89 recommendations (49 per cent) issued in the last quarter of 2016, which were mostly due for implementation in 2017 and beyond. As mentioned above, of the 211 recommendations due for implementation in 2016, 132 recommendations were closed, compared to 118 in 2015. UNFPA has also made progress in implementing pending recommendations (for 2010-2014) and reduced them from 36 to 12. Efforts are underway to address the remaining 12 outstanding recommendations for the above period. UNFPA remains committed to implementing them fully through regular follow-up with the relevant business units through the Audit Monitoring Committee.

Recommendations unresolved for 18 months and more

39. As at 31 December 2016, 50 recommendations remained pending for 18 months or more, compared to 22 in 2015 and 26 in 2014, respectively. Out of the 50 recommendations, 16 refer to five country offices and 25 to the inventory management audit report. UNFPA management, through the Audit Monitoring Committee, is closely monitoring the implementation of these 50 recommendations.

Acceptance of risk by Management

40. UNFPA management takes all audit observations very seriously. In a few instances, however, management, after careful assessment and consideration, decided to address the residual risk in alternative ways.

VI. Conclusion

41. UNFPA management welcomes the overall conclusion in the OASIS report that in 2016 it continued to demonstrate its commitment to increasing the effectiveness of the governance, risk management, and control processes. UNFPA management takes note of the OASIS concern of the significant increase in the workload to fulfil the Joint Inspection Unit focal point role. Management also appreciates OASIS as a trusted partner and acknowledges its valuable advice.

Section II

Management response to the annual report of the Audit Advisory Committee (DP/FPA/2017/7/Add.2)

42. In accordance with Executive Board decision 2008/37, UNFPA management provides a response to the annual report of the Audit Advisory Committee (the Committee).

43. UNFPA acknowledges and welcomes the 2016 annual report of the Committee. UNFPA benefited from regular consultations with the Committee throughout 2016, and would like to express its gratitude to the Chairman and the members of the Committee; their professional expertise, commitment, and guidance have been invaluable in strengthening UNFPA management practices.

44. Management appreciates the encouragement expressed to UNFPA in the annual report of the Committee, and acknowledges the Committee's advisory role in providing valuable inputs in a number of areas: (a) the review of the draft financial statements and reporting for the year ended 31 December 2015, and appreciation and recognition of the level of professionalism and sound analysis of accounts and controls applied; (b) its understanding and acknowledgement of the austerity measures undertaken by the organization, and its advice on cost realignment and on the need for financing more staff from non-core funding; (c) the review of the various policies and the roll-out of the revised framework for the harmonized approach to cash transfers, and need for continued vigilance on this method of assurance. UNFPA looks forward to receiving similar advice, guidance, and support from the Committee in the coming years.

45. UNFPA appreciates the review of policy on the internal control framework integrating programmatic and operational business processes and control with the elements of "Three Lines of Defense". Management takes note of expanding the vendor review committee with an external member and the recommendation of preparing an annual report summarizing the activities of the year.

46. Management appreciates the acknowledgment of the positive progress made in establishing the enterprise risk management (ERM) system, and has taken note of incorporating the ERM into governance mechanisms, and in integrating other organizational activities that could impact the ERM. Management notes that the annual ERM cycle also incorporates a risk response stage in which subject-specific teams review high-risk items. These teams, besides reviewing country-specific mitigation plans, have developed global mitigation actions and strategies, including by establishing a formal mechanism for the follow-up of the risk mitigation actions through the online ERM application.

47. UNFPA takes note of the Committee's suggestion to conclude updating its 2007 accountability framework to adapt it to current operational environment.

48. UNFPA appreciates the Committee's review and agreement with the findings of the independent assessment undertaken by the organization to enhance the ICT governance structure, and to use ICT as an enabling tool to support UNFPA in the delivery of its programmes in more effective and efficient ways. Management takes note of establishing

a stable and robust governance structure for ICT within UNFPA and the factors to consider while adopting and implementing the programme of change.

49. UNFPA management appreciates the Committee's encouragement regarding the significant role the Audit Monitoring Committee continues to play in managing and follow-up on internal and external audit recommendations. This has yielded the desired positive outcome regarding reducing the number of outstanding recommendations from both Board of Auditors and OAIS. As noted by the Committee, the Audit Monitoring Committee will continue to play a proactive role in identifying the underlying thematic pervasive issues as well as the specific actions to address and resolve these issues. Management takes note of incorporating these thematic issues within the existing ERM.

Advice related to the Evaluation Office

50. UNFPA appreciates the guidance received from the Audit Advisory Committee and its satisfaction with the achievements of the Evaluation Office and the continued improvements in the country programme evaluation reports during 2016, achieved by approving terms of reference, identifying evaluation teams and working closely with regional monitoring and evaluation officers during planning and execution processes. UNFPA management took note of the Committee's recommendation that all project agreements that contain requirements for evaluations should be coordinated and reviewed by the Evaluation Office, to ensure adherence to corporate standards and to avoid duplication of efforts.

Advice related to the Office of Audit and Investigation Services

51. UNFPA appreciates the Committee's review of the 2016 provisional audit plan, addressing outstanding audit work from prior years and providing a realistic assessment regarding timely completion of audit assignments.

52. UNFPA management takes note of the Committee's concerns about the delays in the audit process. Management has taken action in addressing any delays in providing a management response by tracking this through the Audit Monitoring Committee.

53. UNFPA management appreciates the Committee's views on the remote audit and monitoring tool and the interest in monitoring its effectiveness.

54. UNFPA recognizes the guidance provided by the Committee in reviewing the activities and results of the Investigations Branch of the Office of Audit and Investigation Services. UNFPA takes note of the increased caseload and the increase in the number of more complex and resource-sensitive complaints. UNFPA acknowledge the Committee's appreciation of the action taken by the Executive Director in providing his full support and additional resources for the investigation function in 2017.

Advice related to the United Nations Board of Auditors

55. Management appreciates the regular meetings of the Board of Auditors and the Committee, and welcomes the Committee's appreciation of management's continued efforts to resolve recurring issues and implement the agreed recommendations of the Board of Auditors.

Advice related to the Ethics Office

56. Management acknowledges and appreciates the support of the Committee for the importance of the ethics function, and reiterates its continuing commitment to promoting an organization-wide culture of integrity and accountability.

Conclusion

57. UNFPA reaffirms its commitment to promoting greater accountability and transparency, and will continue to launch and improve coordinated management initiatives, in response to the funding landscape and considering the risk appetite of the organization.

58. UNFPA has already made substantial progress in the implementation of the ERM system by launching the risk response and standardized global mitigation actions library and by improving the quality of risk assessment across 137 business units. Management is committed to continuing the work performed by the interdivisional working group to operationalize the new internal control framework policy (issued in September 2016) and to strengthen the integration between ERM and the internal control framework.

59. Management will provide the necessary support to OAIIS in addressing the Committee's concerns regarding the timely completion and issuance of internal audit reports, according to approved plans, and has already taken action in addressing any delays in providing a timely management response to draft audit reports.

60. Management appreciates the advice and counsel provided by the Audit Advisory Committee in 2016. UNFPA would like to convey thanks to all Committee members – Ms. Berlina Mxakwe (South Africa); Ms. Mary Ann Wyrsh (United States of America); Mr. Peter Maertens (the Netherlands); Mr. José Urriza (Argentina); and the Chair, Mr. Verasak Liengsrirawat (Thailand) – for their leadership, guidance and valuable advice throughout the year 2016.
