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United Nations Development
Programme, the United Nations
Population Fund and the United
Nations Office for Project Services**

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UNFPA – Internal audit and investigation**United Nations Population Fund****Report of the Office of Audit and Investigation Services
on UNFPA internal audit and investigation activities in 2019***Summary*

In response to Executive Board decisions 2015/2 and 2015/13 and earlier pertinent Board decisions, the Director of the Office of Audit and Investigation Services (OAIS) of UNFPA presents herewith the report on the internal audit and investigation activities for the year ending 31 December 2019.

The report presents a review of activities completed in 2019 by OAIS on internal audit and investigation. The report contains information on (a) the resources in OAIS for 2019; (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 2010-2019 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/2020/6/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 Oversight Advisory Committee (DP/FPA/2020/6/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/2020/CRP.6).

Elements of a decision

The Executive Board may wish to:

Take note of the present report (DP/FPA/2020/6), 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/2020/6/Add.1), the annual report of the Oversight Advisory Committee (DP/FPA/2020/6/Add.2), and the management response 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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Annex 7: Key performance indicators of OAIS

(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 2019. 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. It 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 26 January 2018. The Charter is included in Annex I.

3. The Oversight Advisory Committee (OAC) and the United Nations Board of Auditors regularly monitor the quality of OAIS work. The OAC continues to offer advice to promote the effectiveness of audit and investigation services provided by OAIS; in 2019, 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 2019.

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; the harassment, sexual harassment and abuse of authority policy, the Secretary General’s Bulletin on sexual exploitation and abuse, 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. OAIS is implementing, to the extent of its resources, the recommendations from the external quality assessments of the internal audit function (2015), which OAIS plans to undergo again in 2020, and of the investigation function (2016).

7. The OAIS Director hereby confirms to the Executive Board that OAIS enjoyed organizational independence in 2019. Within the boundaries of its resources, OAIS has been free from interference in determining and performing the scope of its work and in communicating its results.

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).

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

8. In the opinion of the Director, OAIS, based on the scope of work undertaken, the adequacy and effectiveness of the UNFPA governance, risk management and internal control processes was ‘some improvement needed’ – which means that 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 UNFPA area objectives. Management action was recommended to ensure that identified risks are adequately mitigated.

9. The reasons for the opinion formulated, the information on the criteria used as a basis therefor, the scope of work undertaken and the 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 DP/FPA/2020/6/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 2019, the seventh year of public disclosure. All reports issued after 1 December 2012 have been made public, within – on 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 2019; however, vacancies and events beyond OAIS control affected significantly its investigation activities and, to a lesser extent, its internal audit activities. Resources were insufficient to address the continuously expanding and complex investigation caseload, or for supporting management other than through sporadic advisory services (see sections III, IV, V, VIII and IX, and the overview of key performance indicators in Annex 7).

III. Resources

12. As at 31 December 2019, OAIS had 26 approved posts: 4 at the general-service level and 22 at the professional level, of which two were time-bound for 2019-2020.

13. The internal audit complement includes two chiefs, nine auditors (one vacant at year-end) and a data analyst, augmented, for field missions, by individual consultants and staff from local audit firms under long-term agreement, adding the equivalent of three and a half full-time posts.

14. On investigation, the complement includes a chief, five investigators – two being time-bound for 2019-2020 and two vacant at year-end – and two investigation analysts, augmented by investigation consultants, adding an equivalent of one full-time post. At year-end, the Chief was vacant and under recruitment.

15. As in past years, the OAIS directorate, with the Director and two general-service staff (one vacant at year-end) covers the general management and administration of OAIS, as well as the following functions: issuance of all reports; relations with Member States and donors; most advisory services; serving as the UNFPA focal point for the Joint Inspection Unit; and serving as the Oversight Advisory Committee secretariat. The internal audit quality assurance and improvement function has been included since 2016 in the directorate, with a dedicated professional staff; the post was vacant for 2019.

16. Continuous difficulties in identifying suitably qualified candidates, compounded by delays in the recruitment processes, remained valid in 2019 as in past years. The overall 2019 vacancy rate in OAIS worsened compared to 2018 (see Table 1), in particular for investigation with vacancies compounded by the lack of suitable consultants.

Table 1
Resources – 2018 and 2019, by OAIS unit

Budget	Internal Audit		Investigation		Directorate		OAC		Total	
	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019
Professional posts – approved	12	12	6	8	2	2	-	-	20	22
<i>Vacancy rate</i>	3%	8%	20%	53%	46%	50%	-	-	12%	28%
Support posts – approved	1	1	1	1	2	2	-	-	4	4
<i>Vacancy rate</i>	0%	0%	0%	0%	50%	50%	-	-	25%	25%
Consultant capacity added - full-time equivalent	2.7	3.5	3.1	1.1	-	-	-	-	5.8	4.6
<i>(In thousands of United States Dollars)</i>										
Staff costs (partially vacancy-adjusted)	2,864	2,749	1,091	1,399 ⁽ⁱ⁾	463	466	-	-	4,418	4,614
Individual consultants	202	562	410	580	-	-	65	65	677	1,207
Procured services	509	278	81	89	-	-	-	-	590	367
Travel	375	384	290	338	37	34	128	128	830	884
Operational costs ⁽ⁱⁱ⁾	82	65	83	45	2	1	3	3	170	114
Learning	50	50	20	20	9	9	-	-	79	79
Total	4,082	4,088	1,975	2,471	511	510	196	196	6,764	7,265
<i>Centrally-computed costs ⁽ⁱⁱⁱ⁾</i>	<i>449</i>	<i>499</i>	<i>189</i>	<i>285</i>	<i>82</i>	<i>72</i>	<i>-</i>	<i>-</i>	<i>720</i>	<i>856</i>
Total fully-costed	4,531	4,587	2,164	2,756	593	582	196	196	7,484	8,121
Total in percentage of UNFPA revenue ^(iv)	0.35%	0.33%	0.17%	0.20%	0.05%	0.04%	0.02%	0.01%	0.58%	0.58%

(i) Investigation not vacancy-adjusted in 2019.

(ii) Mainly information technology (IT) systems.

(iii) Starting in 2018, centrally computed costs directly charged to business units, leading to “full-costed” totals.

(iv) Percentage computed on “total fully-costed”.

17. Since 2014, OAIS has been solely funded from the UNFPA institutional budget, and continues to proactively manage its budget. Adjusted for the 2019 actual vacancy rate – except for investigation, the yearly OAIS fully-costed budget increased, compared to 2018, and represented 0.58 per cent of the UNFPA 2019 revenues to fulfil the OAIS four-pronged mandate (see Table 1 above).

IV. Internal audit activities in 2019

A. Audit risk assessment methodology

18. OAIS executes its assurance activities based on a risk-based audit plan, approved by the Executive Director after review by the Oversight Advisory Committee. The audit plan was developed based on a documented audit risk assessment of the audit universe, composed of 140 business units involved in programme delivery activities, 13 core business processes, and 10 information and communications technology (ICT) areas (see DP/FPA/2019/6). 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.

19. The business unit audit risk assessment uses indicators that measure: (a) programme materiality, complexity, performance and changes; (b) operational complexity and performance; (c) anticipated programmatic changes (e.g. census); (d) business unit capacity to manage current and future programme and operational activities; and (e) corruption levels in the countries where field offices are located.

20. 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.

21. 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.

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

B. Audit plan for 2019

23. The audit plan for 2019 was based on the 2018/2019 business unit and process audit risk assessment results; and took into account, where still relevant, the ICT risk assessment conducted in late 2015.

24. The original 2019 internal audit workplan included 30 audit engagements covering expenses of 2017, 2018 and the beginning of 2019; it comprised a mix of: high-risk business units; high-risk processes, programmes, ICT areas; and one joint audit, 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. During the year, the plan was amended to reflect emerging high risks requiring immediate attention, shifting environments, a different approach to an ICT review, and unforeseeable events. The actual level of implementation is presented in Table 2.

Table 2
Overview of 2019 audits

Status	Business units	Processes and programmes	ICT	Joint audits (a)	Remote audit process ^(b)	Advisory	Total
Original planned audits – by finalization year							
To be finalized in 2018	16	4	1	1	1		23
To be started in 2018 and finalized in 2019	5				2		7
Total audits	21	4	1	1	3	-	30
Actual audits – by status at year-end							
Final reports issued ^(c)	12			1	1		14
Draft reports issued	4						4
Advisory work						1	1
Subtotal	16	-	-	1	1	1	19
Draft reports under preparation or review	2	1					3
Planning or fieldwork phase	2	3			2		7
Total	20	4	-	1	3	1	29

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.

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

25. The 13 business unit audits (11 country offices; one regional office; one region covered under the remote audit modality) and the delivery as one joint audit covered expenses amounting to \$365 million – roughly 34 per cent of 2018 total expenses. One audit was rated⁴ as ‘effective’ (8 per cent); five audits (38 per cent) were rated as ‘some improvement needed’; four as ‘major improvement needed’ (31 per cent); and three as ‘not effective’ (23 per cent). Ratings by audited area are shown in Table 3. Further, the ‘delivery as one’ joint audit was rated ‘partially satisfactory’.⁵

Table 3
2019 business unit audits – ratings by area

Rating	Areas ^(a)					
	Office governance		Programme management		Operations management	
	Offices	%	Offices	%	Offices	%
Effective	3	25%	2	15%	4	31%
Some improvement needed	3	25%	4	31%	9	69%
Major improvement needed	6	50%	4	31%	-	-
Not effective	-	-	3	23%	-	-

(a) Scope and depth of review varies by audit, commensurate with the results of the audit risk assessment undertaken during planning. Excludes delivery as one joint audit.

26. Timeliness of report finalization remained identical between 2019 and 2018 with 18 final or draft reports issued by year-end. However, reaching the planned level continued to be hindered by limited OAIS senior management capacity, unforeseen developments during audits, staff turnover, and elapsed time in receiving management responses (for some reports).

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

C. Resulting audit coverage

28. 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.

29. The average audit cycle for high-risk and medium-risk business units for the period 2017-2019 remained 5 and 10 years as for 2016-2018 (versus 5 and 11 years for 2015-2017 and 6 and 11 years for 2014-2016, respectively); and over 12 years for the higher-risk core processes.

V. Investigation activities in 2019

30. 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 harassment, sexual harassment, abuse of authority, retaliation against whistle-blowers, sexual exploitation and abuse, and other violations of applicable regulations, rules and administrative or policy issuances;
- (b) ‘External’ investigations: proscribed practices by independent contractors, implementing partners, suppliers and other third parties, including corrupt, fraudulent and other unethical practices committed to the detriment of UNFPA; and

⁴ See definitions of ‘effective’; ‘some improvement needed’; ‘major improvement needed’; and ‘not effective’ at <https://www.unfpa.org/admin-resource/standard-definition-audit-terms>.

⁵ Using the pre-2016 three-level rating.

- (c) ‘Third-party’-led investigations: OASIS follows investigations of sexual exploitation and abuse involving implementing partner personnel, conducted by those implementing partners having internal investigation capacity.

31. The investigation process followed by OASIS (from receipt of a complaint to closing the matter after a preliminary review documented in a closure note or, where warranted, after a full investigation documented in a report) was previously described (see [DP/FPA/2018/6](#) paragraph 29) and has hardly changed in 2019.

A. New cases

32. In 2019, OASIS received 112 new cases – almost the same level as in 2018. Each case, which may include multiple allegations, is registered under the category of the most significant allegation. The detail for 2019 by major category is presented on the left side of Table 4 and the trend by major category and by year in Figure 1.

33. The 2019 increased caseload and vacancy rate could not be absorbed through investigation consultants. When introduced in 2013, the use of consultants was meant to add flexibility and additional capacity to OASIS, to absorb peaks in caseload and bring in specific skills. Over the years, although requiring more managerial support, the use of consultants became the way to address the constant increase in new cases while compensating partly for higher vacancy rates – due to the scarcity of investigators at the professional level. Over the period 2016-2018, consultants represented between 30 and 42 per cent of total OASIS investigation capacity. This over-dependency became a major liability from 2018 onwards, given the scarce market for qualified consultants. The two time-bound posts for 2019 and 2020, approved by the Board in September 2018, could only be filled early 2020 given the competitiveness of recruiting (competent) investigators, compounded by the length of the recruitment process.

Table 4
Cases received in 2019 and cases carried over to 2020

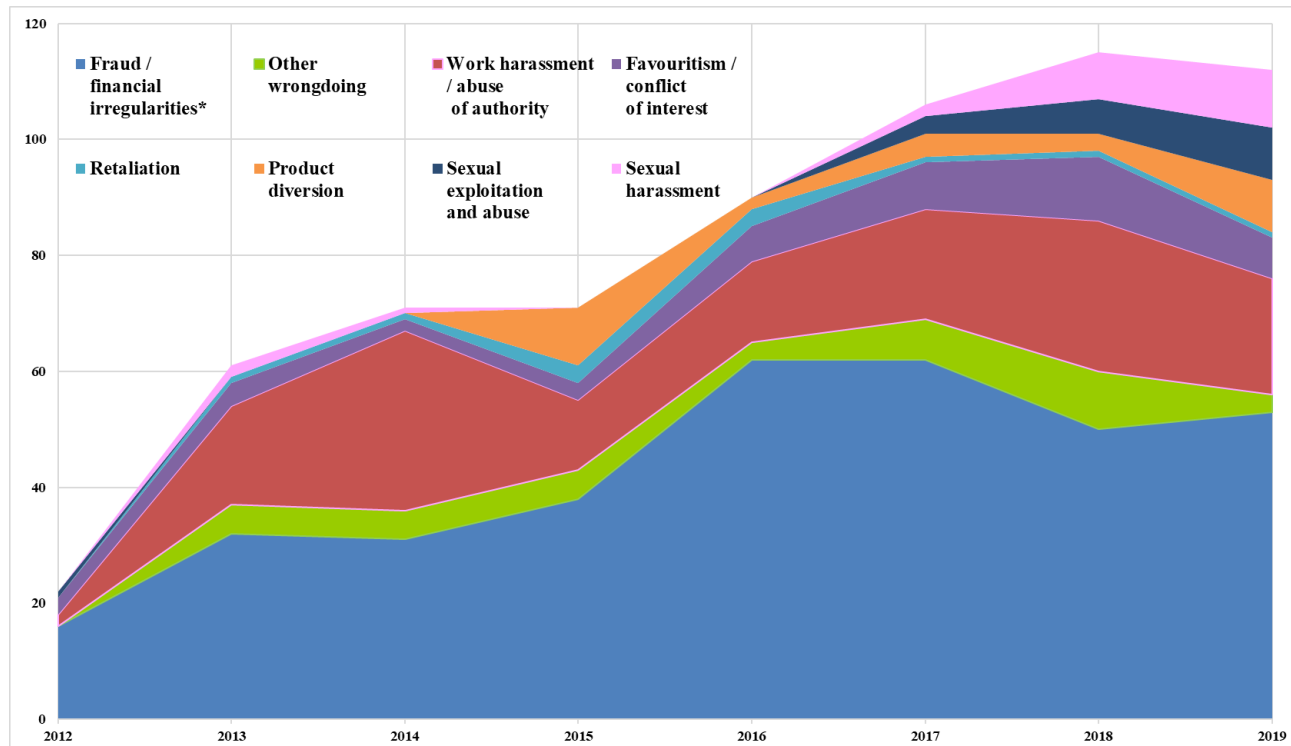
Description ^(*)	Cases received in 2019					Cases carried over to 2020				
	Internal	External	Third-party-led	Total	%	Internal	External	Third-party-led	Total	%
Fraud / financial irregularity ^(**)	34	11	8	53	47%	58	34	11	103	56%
Workplace harassment / abuse of authority	20			20	18%	28			28	16%
Sexual harassment	9	1		10	9%	10			10	6%
Sexual exploitation and abuse ^(***)	1		8	9	8%	1		8	9	5%
Product diversion	3	6		9	8%	3	8		11	6%
Favouritism / conflict of interest	7			7	6%	14	1		15	8%
Other wrongdoing		3		3	3%	1	2		3	2%
Retaliation	1			1	1%	1			1	1%
Total	75	21	16	112	100%	116	45	19	180	100%
%	67%	19%	14%	100%		64%	25%	11%	100%	

(*) Statistics restated in 2019.

(**) Including theft.

(***) Including matters not meeting the reporting threshold to the United Nations.

Figure 1
Overview of complaints received between 2012 and 2019 by category (at receipt of complaint)



(*) Includes theft.

34. In addition, OASIS handled 34 inquiries for advice or for information (51 in 2018 and 11 in 2017), less than 10 per cent of which related to some form of harassment or abuse.

35. In 2019, OASIS received complaints reported: by email or physical mail directly to OASIS (54 per cent); through the OASIS confidential investigation hotline or dedicated email address (34 per cent); by referral from internal audit or entities external to OASIS or to UNFPA (8 per cent); or in person (4 per cent).

B. Caseload

36. Together with the 103 cases carried over from 2018, OASIS dealt in 2019 with 215 active cases (see Table 5), a 20 per cent increase compared to 2018, further to the 34 inquiries for advice or information previously mentioned (see paragraph 34).

Table 5
Overview of cases received and closed in 2017-2019

	2017	%	2018	%	2019	%
Cases carried over	41	28%	65	36%	103	48%
- from 2015	4	3%				
- from 2016	37	25%	4	2%	1	0%
- from 2017			61	34%	33	15%
- from 2018					69	33%
Complaints received in current year	106	72%	115	64%	112	52%
of which: internal	64	44%	75	42%	75	35%
external	42	28%	38	21%	21	10%
third-party	-		2	1%	16	7%
Total caseload	147	100%	180	100%	215	100%
Cases closed						
After preliminary assessment	53	65%	58	75%	26	74%
After full investigation	29	35%	19	25%	9	26%
of which: substantiated	14	17%	9	12%	7	20%
unsubstantiated	15	18%	10	13%	2	6%
Total cases closed	82	100%	77	100%	35	100%
Cases carried over to the following year	65		103		180	
of which: internal	38	58%	66	63%	116	64%
external	27	42%	36	35%	45	25%
third-party	-		2	2%	19	11%
Annual caseload per investigator ⁽ⁱ⁾	22		23		44	

⁽ⁱ⁾ Based on all investigation personnel, irrespective of level.

C. Disposition of cases

37. Of the overall caseload (215 cases), 35 cases were concluded in 2019: 26 after a preliminary assessment and 9 after a full investigation.

38. Of the nine cases investigated, seven cases were substantiated in full or in part (see Table 6 and details in Annex 6), and four had financial consequences. The aggregate value of substantiated cases involving a loss for UNFPA, either through fraudulent practices or financial irregularities, amounted to \$106,379.44.

Table 6
Overview of cases concluded in 2019 by category

Description	Substantiated				Unsubstantiated				Total	
	Internal	External	Third-party-led	Total	Internal	External	Third-party-led	Total	Total	%
Fraud / financial irregularity	1	3	-	4	-	-	-	-	4	44%
Sexual exploitation and abuse	1	1	-	2	-	-	-	-	2	22%
Sexual harassment	1	-	-	1	1	-	-	1	2	22%
Retaliation	-	-	-	-	1	-	-	1	1	11%
Total	3	4	0	7	2	-	-	2	9	100%
%	33%	43%	0%	78%	22%	0%	0%	22%	100%	

39. At year-end 2019, 180 cases, primarily internal fraud matters of medium priority, were carried over to 2020 (see Table 4), almost doubling over 2018, due to the simultaneous combination of (a) multiple complex cases – some being time-bound, and a surge in new cases in the second half of 2019 compounded by (b) a precarious staffing situation: with multiple staff vacancies, including that of the Chief; a team new to UNFPA; the complete loss of consultant capacity in the second half of 2019.

40. From the 180 outstanding cases at year-end, 76 per cent were at the preliminary assessment stage and the remaining either at the investigation or report-writing stages (12 per cent each).

41. The situation described in paragraph 33 above led to a worsened timeliness, with cases either concluded or aged well above the target of six months on average. The cases concluded in 2019 were closed (in average from receipt to closure) in nine months. The portfolio of outstanding cases at year-end was aged, on average, close to a year; 59 per cent of them were above the six-month target, being on average 17-months old, given the priority on time-bound cases, and those of harassment (work/sexual), abuse of authority, and sexual exploitation and abuse.

VI. Key findings from internal audits and investigations in 2019

A. 2019 Audit risk assessment

42. Table 7 summarizes the outcome of the 2019 audit risk assessments of business units in view of the risk assessment of (a) business units and (b) of the components of core processes and ICT – which supports the 2020 audit plan.

Table 7
Outcome of the 2019 audit risk assessment

Entities	Risk			Total
	High	Medium	Lower	
Country offices	12	50	59	121
Regional offices	-	4	2	6
Liaison offices	-	-	8	8
Headquarters units involved in programme delivery	3	2	-	5
Business units	15	56	69	140
Components of core processes and ICT ^(*)	34	86		120

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

43. The audit risk assessment reflects the UNFPA risk exposure. The resulting audit risk factors are, in general, consistent with those identified through the enterprise risk management process put in place by management, and remain similar and arise primarily from:

- (a) 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;
- (b) Increasingly complex and multiple humanitarian response activities, in more countries than in past years, under the leadership of the Humanitarian Office, operational since mid-2019;
- (c) A large reproductive health commodity security programme ('UNFPA Supplies') supplying a high volume of contraceptives – creating multiple supply-chain management and transparency challenges;
- (d) Continued dependency on a small, yet growing, number of key donors, and exposure to currency fluctuations;
- (e) An increasing proportion of other resources (non-core funding) – reducing programming flexibility, generating a high workload – e.g. for negotiating agreements (locally) and

fulfilling financial and non-financial reporting requirements – with the cost of core management functions partially covered;

- (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;
- (g) A large-scale change management exercise, including the new enterprise resource planning; and
- (h) The unknown impact – at this stage – of the coronavirus pandemic on the ability of UNFPA to deliver on the strategic plan and on its business model.

44. Twenty-four business processes and five information and communications technology areas remain assessed as higher audit risk while continuing to note varying progress levels in 2019; key causes therefor are included in brackets.

- (a) *Governance*: (i) integrated control framework; management oversight ('i.e., 'second line of defense' controls); ERM, including fraud risk management (control and capacity gaps) – with significant progress made in developing 'second line of defense' policies and tools; (ii) change management, including culture initiative; (iii) resource mobilization (changes in funding landscape); and (iv) business continuity;
- (b) *Programme management*: (i) programme design, governance and oversight (primarily in humanitarian contexts); (ii) workplan, programme financial management, and monitoring (control gaps, with improvements noted in available tools yet uneven usage); (iii) humanitarian response (control and capacity gaps; increase in humanitarian interventions, and challenges affecting them; while noting improvements in non-humanitarian monitoring); (iv) assurance process related to implementing partners, from capacity assessments to assurance mechanisms (gaps and capacity issues); (v) supply-chain management (control and capacity gaps, with significant improvement in 'second line of defense'); (vi) development and costing of funding proposals (given the increasing proportion of non-core funding) and (vii) remaining non-core and trust-fund management issues;
- (c) *Operations management*: (i) optimizing the management of human resources, including recruitment and talent management (process gaps; with improvement in key position vacancy rates and contract personnel management); (ii) field office procurement (operating effectiveness gaps); and (iii) humanitarian procurement (risks inherent to using emergency procurement procedures, in a larger number of countries);
- (d) *Information and communication technology*: (i) the ICT transformation project, including its governance and implementation, in particular, that of the new enterprise resource planning system (capacity gaps); (ii) business applications (migration of functionality to the new enterprise resource planning system); (iii) cloud and outside provider dependency for key operations (managing third-party risk); (iv) security; and
- (e) *Sexual exploitation and abuse; sexual and work harassment; abuse of authority*: (i) on sexual exploitation and abuse, responding in the UNFPA programmatic context and at system-wide level, especially regarding implementing partners; and (ii) responding to numerous situations of harassment (work and sexual), and of abuse of authority; with the necessary due process, competency, swiftness and transparency.

B. Key internal audit and investigation findings

45. Good practices, and improvement opportunities revealed through internal audit and investigation work in 2019 – although heavily focussed on fragile and humanitarian contexts – are consistent with those identified and reported in previous years, as well as those included by the United Nations Board of Auditors in its interim 2019 audit observation memoranda. They are presented below, and in a tabular overview included in Annex 3.

Business units*(i) Office governance*

46. Improvements in annual planning continued, with more offices employing strong planning processes with programme outcomes and outputs clearly aligned to those in the UNFPA Strategic Plan, and clear execution plans in place. Annual planning and reporting activities were also timely completed, in a participative manner. More offices continued the previous years' trend of establishing decentralized structures for better implementation and monitoring of programme activities. Several offices continued to engage effectively with other United Nations organizations, assuming lead roles in inter-agency coordination clusters and working groups. Performance appraisal and development activities continued to reflect high completion rates within established timelines, helping improve staff accountability and performance across many offices. Similarly, the introduction and effective use of new monitoring tools for mandatory training and learning activities led to high completion rates.

47. Enhanced planning, clearer documentation of all relevant outputs – including their definitions, corresponding indicators, baselines, targets and milestones, timely reviews of organizational structure would help: timely adaptation of office structures to programme delivery and operational needs; better align annual management plans, implementing partner workplans and staff performance plans; and improve more comprehensive and integrated monitoring (see also paragraph 50).

48. Further progress was made on maturing the risk management process. It requires continuous improvement, particularly identifying and assessing all (relevant) risks impacting an office and developing quality-assessed mitigation actions. The development and implementation of a comprehensive enterprise risk management policy and bridging of skill-set gaps that limit the relevance and effectiveness of assessments completed by offices is expected to bring more improvements to this area.

*(ii) Programme management**a. Programme planning, implementation and monitoring*

49. Some offices set up dedicated teams to work closely with implementing partners to provide support and ensure robust programmatic and financial monitoring.

50. The continuous enhancements to the Global Programming System (GPS) and strengthened 'second line of defence' controls introduced by headquarters, such as mandatory periodic reviews of expense transactions, helped improve programme financial management controls of funds transferred to implementing partners. The need for more rigorous workplan management - in terms of proper set-up of workplans and budgets in GPS – remains, with stronger narratives, more comprehensive costing documentation (including rationale and assumptions made), and setting up of budgets at monitoring account levels. Further, there is a need to set up comprehensive monitoring frameworks to cover and track all programme output indicators, with sufficient tools to support monitoring activities and identify, log, and track monitoring findings. Additional training, tools and resources to build country office monitoring capacity are required.

b. Implementing partner management

51. Improvements were noted in the use of competitive and properly documented processes for selecting implementing partners. The pattern of fund disbursements – primarily in the last two quarters of the year continued (see Annex 5), albeit at a slightly higher level in 2019.

52. The depth, scope, frequency, timeliness and documentation of spot-checks (conducted either by, or in combination with, UNFPA staff, outside firms, and other United Nations organizations) continue to require significant attention to become a fully reliable source of assurance. The necessary skills (taking into account staff turnover and training needs) require strengthening. The need to perform more rigorous assessments of implementing partner capacities – to identify capacity-building needs and to determine the extent of assurance activities to be undertaken – persists; so does the proactive tracking of execution of capacity-building activities. Further, the assessment of implementing partner fraud risk prevention and detection controls should be aligned to the UNFPA enterprise risk management framework.

53. In addition, implementing partners are subject to multiple distinct assessments: micro-assessment, supply-chain management assessment (see next section) and, prevention of sexual exploitation and abuse assessments. It would appear beneficial to introduce a comprehensive yet flexible approach to assessment of implementing partners, as necessary in collaboration with other United Nations organizations.

c. Supply-chain management

54. In-country areas of improvement remained similar to past years: (a) delays in customs clearance; (b) inconsistent performance and documentation of receiving and inspection controls for incoming goods; (c) deficiencies in warehouse management controls and facilities; and (d) lack of or insufficient tracking, monitoring and reporting on commodity inventory levels, distribution and availability.

55. To bring more transparency in the supply chain, management put in place a ‘last mile’ assurance process to monitor commodities along the supply-chain using various means, including inventory reporting, spot-checks, supply-chain maps, implementing partner assessments, and audits – providing much better visibility of inventory distribution by country offices and implementing partners. Further, management also designed and provided training on a tool to assist country offices in quantification as a mechanism to allow both country offices and implementing partners to understand the weakest links in the supply chain and to determine where to focus resources. The impact of these initiatives will be followed in future audits.

d. Management of non-core resources

56. In 2019, several offices continued their intense resource mobilization efforts, enhancing their resource mobilization practices and tools, engaging with donors through regular communication and visits, including conducting joint monitoring with donor representatives.

57. Focus should continue on strengthening resource mobilization and partnership plans, and on more coordinated resource mobilization efforts. The support of regional offices in this regard is necessary. The number of non-standard agreements and pre-funding assessments (see also paragraph 82 (b) and (c)) remains a matter of concern.

(iii) Operations management

a. Human resources

58. Progress was noted in the area of leave management, through the automation of all leave applications and approvals in the existing enterprise resource planning system and monthly dissemination of notifications for leave requests.

59. Contract award and consultancy fee calculation and payment continued to be managed manually in 2019, with some deviations regarding the selection, award and management of service and individual consultancy contracts. The corporate and regional consultant rosters require further attention. The long recruitment process needs to be streamlined, while addressing risks with relevant controls points. Improvements are expected as part of the ICT transformation.

b. Procurement

60. Continuous improvements in the use of long-term agreements at the local level – to increase procurement efficiency and obtain value-for-money – were noted in 2019. Several instances of non-compliance with procurement policies and procedures at the local level – planning, bidding and contract award – were found. Instances of inadequate procurement planning and lack of monitoring the execution of procurement plans, especially in the humanitarian delivery context, were also noted.

c. Financial management

61. Instances of expenses recorded in incorrect account codes (thereby diminishing the overall reliability of programme and financial information) increased again in 2019, albeit with much improved ‘second line of defence’ controls, implemented at headquarters level, to detect and correct the miscoding and mitigate their impact.

62. As mentioned in past years, 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 reflected and approved in Atlas in a more timely manner.

63. The planned new enterprise resource planning system is expected to bring significant improvements in points a. to c. above.

d. General administration

64. Compliance with travel policies, especially in terms of advance fare purchase, at the local level remained a challenge in 2019. The foreseen inclusion of a travel management module as part of the ICT transformation would help strengthen this area. Audits also revealed a need to implement controls to ensure compliance with asset management policies and procedures and monitor the accuracy of recorded asset information. ‘Second line of defense’ controls continued to improve in 2019.

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

65. Regional offices’ monitoring over their country offices’ programmatic and operational performance continued to strengthen. It could improve further in areas of risk, and in enforcing the accountability of underperforming offices. More details are provided in paragraphs 69 to 72.

VII. Recommendations made and management actions

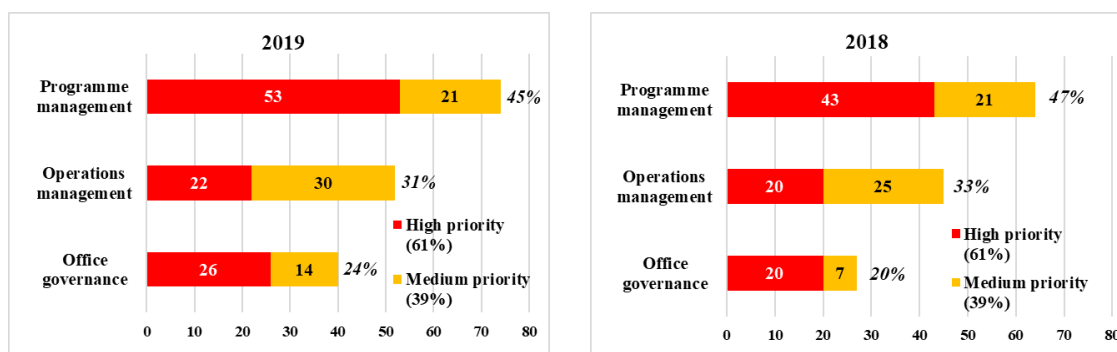
A. Audit recommendations

New recommendations

Country offices

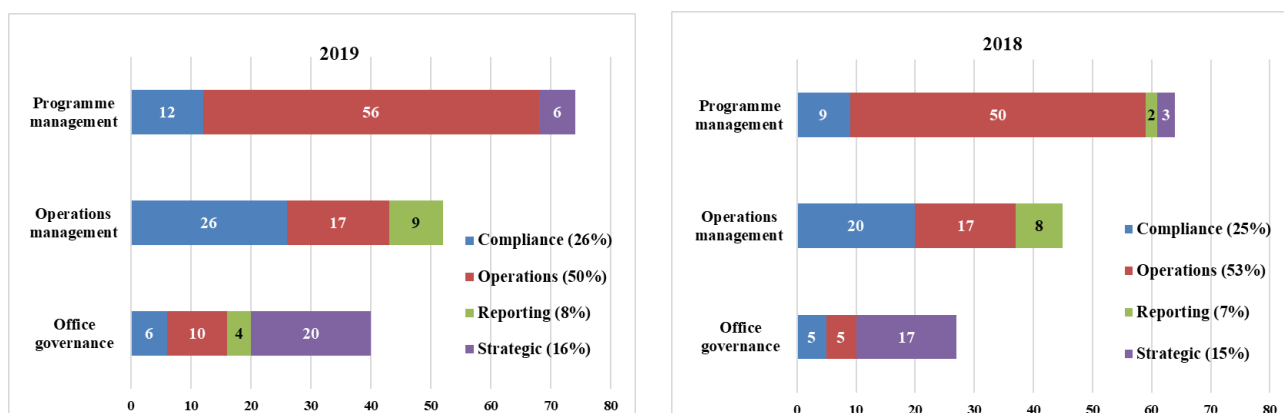
66. Overall, 166 recommendations in relation to country office audits were issued in 2019. The pattern remained similar between 2018 and 2019, with ‘programme management’ accounting for the larger proportion of recommendations, followed by ‘operations management’. Similarly, the proportion of ‘high’ and ‘medium’ priority recommendations remained identical in 2019, with an increase in numbers (from 83 to 101) (see Figure 2).

Figure 2
Country offices – recommendations by priority level



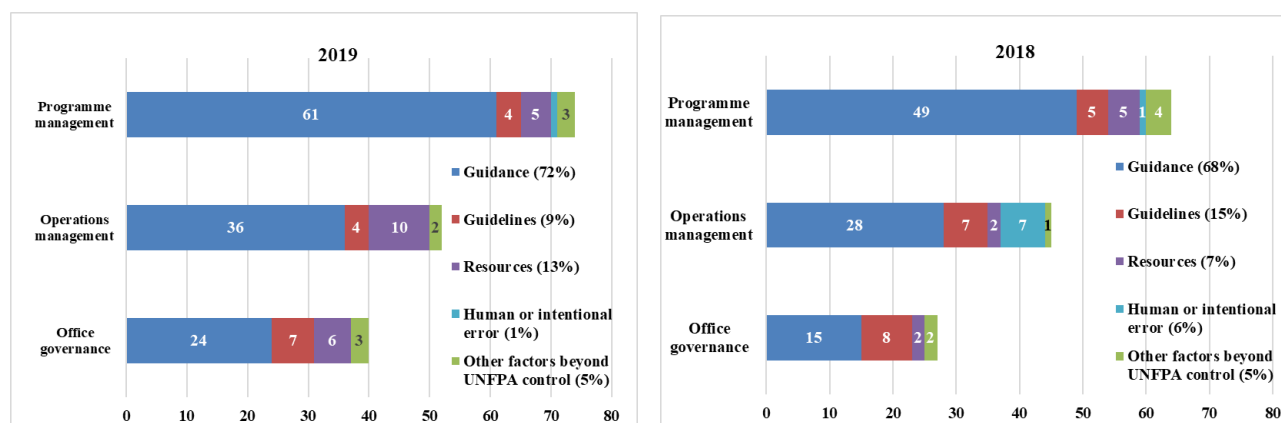
67. The pattern by type remained similar (in proportion) between 2018 and 2019, with ‘operations’ remaining as the highest category (see Figure 3).

Figure 3
Country offices – recommendations by type



68. Insufficient ‘guidance’ (inadequate or insufficient supervisory controls) dominated more in 2019 compared to 2018. Inadequate ‘resources’ (human or financial) ranked second, a change from 2018 when it was third. ‘Guidelines’ (lack of or inadequate policies) ranked third in 2019, decreased from 2018, reflecting the more comprehensive policies and procedures manual. ‘Errors’, either human or intentional, decreased while ‘other factors beyond UNFPA control’ remained the same (see Figure 4).

Figure 4
Country offices – recommendations by cause



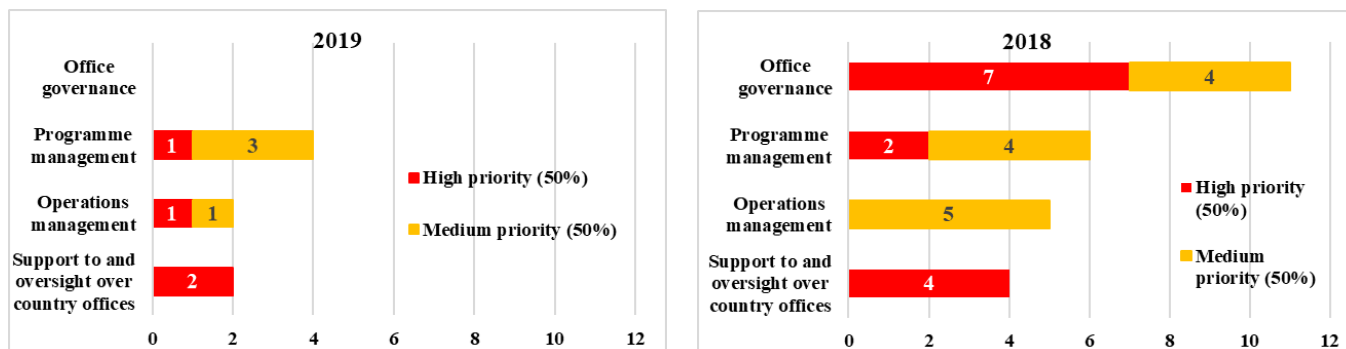
Regional offices

69. The audit of the Eastern Europe and Central Asia regional office was concluded in 2019, with eight recommendations issued. This followed the audits of the Asia Pacific and the West and Central Africa regional offices in 2018.⁶

70. The picture emerging in 2019 revealed no structural issue (‘office governance’) but development needs in ‘programme management’, ‘operations’ and ‘support to and oversight over country offices’. The proportion of ‘high’ versus ‘medium’ priority recommendations remained the same (see Figure 5).

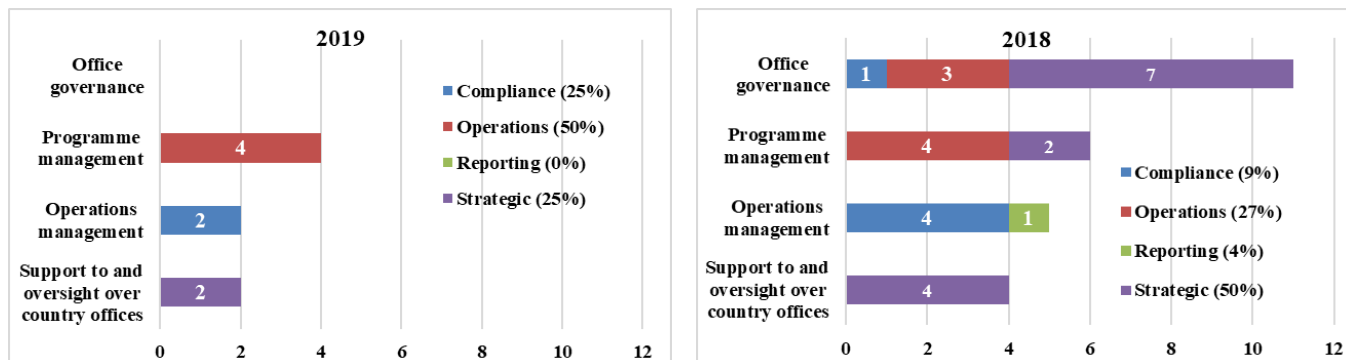
⁶ Following the audits of the East and Southern Africa and the Arab States regional offices (2015-2017).

Figure 5
Regional offices – recommendations by priority level



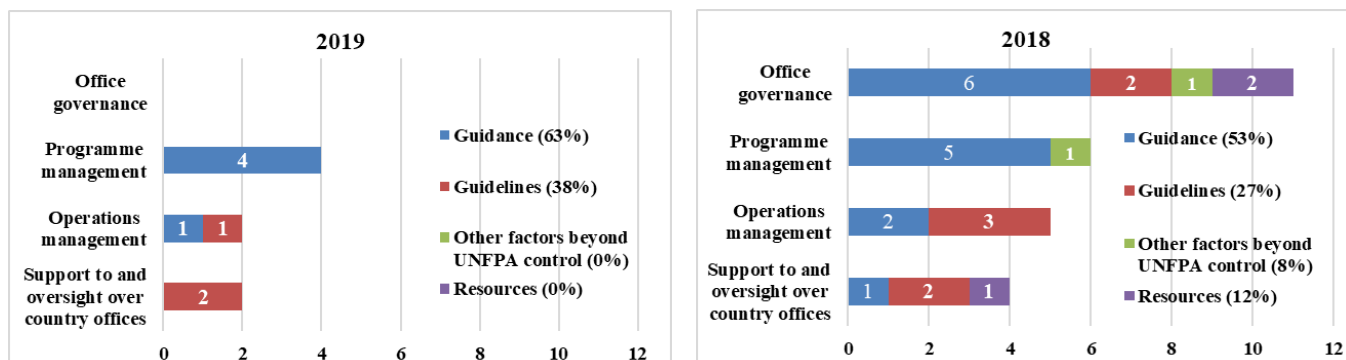
71. Recommendation by type saw a decline in ‘strategic’ issues in 2019, with a rise in ‘compliance’ and ‘operations’ issues (see Figure 6).

Figure 6
Regional offices – recommendations by type



72. In terms of cause, ‘guidance’ continued to be the most significant issue followed by ‘guidelines’ which increased slightly. ‘Resources’ (financial or human) and ‘other factors beyond UNFPA control’ matters were not noted in 2019.

Figure 7
Regional offices – recommendations by cause



Outstanding recommendations

73. As shown in Table 8, 165 recommendations remained outstanding as at 31 December 2019, following the closure of 115 recommendations during the year 2019.

Table 8
Status of implementation of audit recommendations by year

Year	Number of reports ^(b)	Recommendations issued	Outstanding recommendations ^(b)	
			2018	2019
2010 ^(a) -2014	36	565	2 (1%)	1 (1%)
2015	11	171	11 (6%)	2 (1%)
2016	12	183	15 (8%)	3 (2%)
2017	10	122	7 (6%)	1 (1%)
2018	13	162	71 (44%)	28 (17%)
Subtotal	82	1,203	106 (9%)	35 (3%)
2019	14	174	n.a.	130 (75%)
Total	96	1,377	n.a.	165 (12%)
<i>Of which: past their implementation deadline</i>			47 (44%)	69 (42%)
<i>Due for implementation after 31 December</i>			59 (56%)	96 (58%)

(a) For 2010, including the number of reports with outstanding recommendations in 2018 (for comparison).

(b) Reports and recommendations of joint audits followed by the corresponding lead internal audit service.

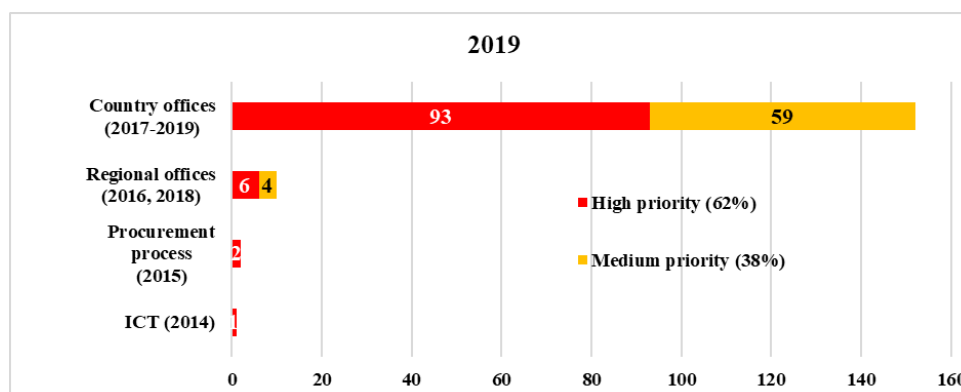
74. Figure 8 provides details on the outstanding recommendations, of which 152 (92 per cent) pertain to country office audits (from 2017 to 2019); 10 (6 per cent) to regional office audits (2016 and 2019), and 3 (2 per cent) to process, programme and ICT audits in various years.

75. Of the 152 outstanding country office recommendations, 70 correspond to ‘programme management’ (including 29 related to ‘supply-chain management’; 24 to ‘implementing partner management’; 13 to ‘programme planning and implementation’; and 4 to ‘management of non-core funding’); 36 to ‘office governance’ (with 19 related to ‘organizational structure and staffing’; 8 to ‘risk management’ and 9 to ‘office management’); and 46 to ‘operations management’ (of which 15 to ‘financial management’; 12 refer to ‘procurement’; 11 to ‘general administration’ for travel and assets; 5 to ‘human resources’; 2 to ‘security’ and one to ‘information and communication technology’).

76. Of the 10 outstanding regional office audit recommendations, four to ‘programme management’; two each pertain to ‘support to and oversight over country offices’; ‘governance’; and ‘operations management’.

77. Out of three outstanding process recommendations, one corresponds to the 2014 audit of the ‘user provisioning and portal access authentication process’ and two from a procurement audit completed in 2016.

Figure 8
Outstanding recommendations as at 31 December 2019

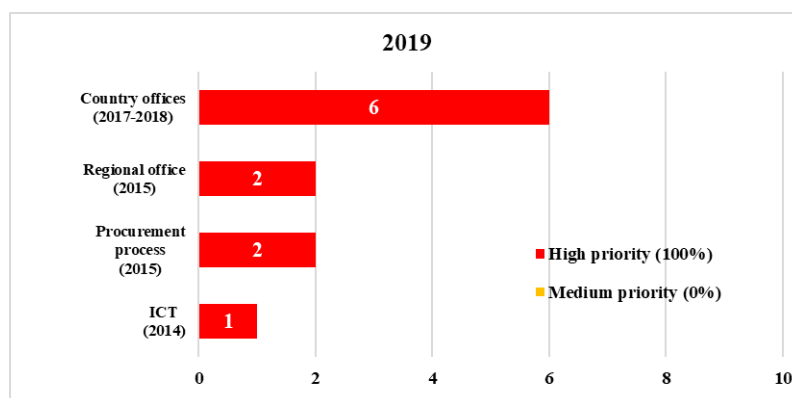


Acceptance of risk by management

78. One high-priority recommendation from 2015 related to procurement (implementation of e-procurement in the to-be-retired enterprise resource planning system for countries with large local procurement) was closed in 2019 based on management's acceptance of the risk of not implementing it at this juncture, but to incorporate it in the new system.

Recommendations unresolved for 18 months or more

Figure 9
Recommendations unresolved for 18 months or more



79. The review of recommendations implementation showed significant progress, compared to 2018. Of the 165 outstanding recommendations as at 31 December 2019, 11 remained unresolved for 18 months or more (see Figure 9 and Annex 4), versus 34 recommendations in 2018. Of the 11 recommendations, 6 concerned five country offices in various areas (e.g. office structures and staffing, risk management assessments, supply chain management, and recovery of ineligible expenses and long outstanding Operating Fund Account balances from implementing partners); 2 were issued through a regional office, for the development of corporate-wide guidelines for management oversight over country offices' programmatic and operational performance; 2 concerned procurement processes; and one referred to ICT processes affected by the ICT transformation.

B. Disciplinary measures or sanctions taken after investigations

80. The coronavirus situation, with the remote working modality put in place while key personnel were absent – thus making it impossible for them to access (mainly) paper-based documentation – has adversely impacted upon updating the status of disciplinary measures and sanctions taken after investigation.

81. As a consequence, no up-to-date information is available at the time of finalizing this report. Any further information becoming available between the present time and the annual session of the Executive Board will be posted in an updated Annex 6 available on the UNFPA website.

VIII. Advisory activities

82. The external and internal environment in which UNFPA operates continued to change rapidly, with continuous demand for OAIS ad-hoc advisory services. Given its capacity, OAIS could only selectively fulfil some, with significant investment by OAIS management. This continued to have a disruptive ‘domino-effect’ on other OAIS activities.

- (a) *Sexual exploitation and abuse and sexual harassment.* OAIS provided considerable support to management in these areas, in particular training, donor agreement (see paragraph (b) below), and internal and inter-agency coordination, with the Inter-Agency Standing Committee, the High-level Committee on Management; as well as through the United Nations Representatives of Investigation Services (UN-RIS). Notably, OAIS contributed to refining reporting mechanisms and improving information sharing. OAIS will continue its support in 2019, within the limits of its resources;
- (b) *Review of funding agreement clauses.* In the context of the continued funding structure shift and increasingly complex non-standard agreements – in particular, with clauses on sexual exploitation and abuse, sexual harassment, and on investigation generally, OAIS was involved in 22 complex core and non-core financing agreements in 2019 (30 in 2018; 28 in 2017; 23 in 2016). Short response timeframes to answer multiple versions, and for framework agreements, increasingly the request for a coordinated and single approach for funds and programmes approach – while welcomed, added to workload and complexity;
- (c) *Assessments.* OAIS continued to participate in multiple reviews conducted by Member States and donors at the local and corporate levels for which its input was sought;
- (d) *Policies and other activities.* OAIS provided input on six policies (2 in 2018; one in 2017; 18 in 2016). OAIS continued to drastically limit its involvement in the UNFPA internal change efforts, including the ICT transformation;
- (e) *Support to UNFPA senior management.* This included OAIS participation as an observer in various committees and the provision of ad-hoc advice; and
- (f) *General support to UNFPA personnel and management.*

IX. Collaboration within the United Nations system

A. Internal audit

83. In 2019, OAIS continued its active involvement in inter-agency activities and meetings on internal audit and in 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).

84. In 2019, OAIS completed its second mandate as UN-RIAS Chair, a voluntary role fulfilled further to existing responsibilities. OAIS also participated in various fora of exchange of information with other multilateral actors, e.g. on audit and fraud.

B. Investigation

85. In 2019, OAS continued to collaborate closely with the United Nations Representatives of Investigation Services (UN-RIS). OAS was active in inter-agency investigation activities, in the meetings of UN-RIS and the Conference of International Investigators. OAS continued to actively participate in the inter-agency mechanisms on inter-agency activities on sexual exploitation and abuse, as well as sexual harassment (see also paragraph 82 above).

C. Joint Inspection Unit

86. OAS continued its role as the UNFPA focal point for the Joint Inspection Unit. OAS liaised on 19 reviews with UNFPA units, the Joint Inspection Unit itself and the secretariat of the Chief Executives Board for Coordination. Further, OAS reviewed and validated, as appropriate, answers to the recommendations made by the Joint Inspection Unit in its past reports and prepared the UNFPA reporting to the Executive Board in this regard.

87. OAS continued to note the workload required to adequately fulfil the focal point role for UNFPA. More generally, OAS notes the 'review fatigue' throughout the organization.

X. Overall conclusion and next steps

88. OAS wishes to thank the Executive Director, senior management, the Executive Board and the Oversight Advisory Committee for their continuous support, which has enabled OAS to carry out its mandate as successfully as possible in 2019.

89. Through its response to OAS reports and advice, UNFPA management continued to demonstrate in 2019 again, its commitment to increasing the effectiveness of the governance, risk management and control processes at UNFPA.

90. In 2019 and looking ahead, investigation is a main area of concern, given the very high caseload. The expectation of prompt handling of increasingly complex cases, while respecting due process and fulfilling reporting and transparency requirements, remained valid in 2019, and is intensifying, including with the increasing level of UNFPA activities. OAS appreciates the two additional posts provided for 2019-2020. Due to the funding approval date (September 2018), the difficulty to attract qualified candidates, and the recruitment process length, the two posts were filled early 2020. As part of the midterm review of the budget 2018-2021 to be presented in June 2020, OAS included in its proposal to management, inter alia, that the two time-bound investigation positions be considered regular posts and a forensic auditor be added, given the high proportion of fraud-type cases.

91. Although below the expected coverage level, internal audit cycles should be reconsidered once the combined effects of the ongoing change management, ICT transformation and the United Nations reform activities are better assessed.

92. Aligning expectations from OAS, within the organization's fiduciary and reputation risk appetite, to resources in a fast changing environment – as the Covid19 pandemic demonstrates – remains, more acutely than ever, the challenge.

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