



30 April 2015

UNFPA Management Response

Report of the Director of the Office of Audit and Investigation Services
on UNFPA internal audit and investigation activities in 2014 (DP/FPA/2015/7)
Annual report of the Audit Advisory Committee (DP/FPA/2015/7/Add.1)

UNFPA management response
to the 2014 report of the Office of Audit and Investigation Services,
including the annual report of the Audit Advisory Committee

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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 on UNFPA internal audit and investigation activities in 2014 (DP/FPA/2015/7). This response should be read in conjunction with the 2014 annual report of the Audit Advisory Committee (AAC), issued as an addendum to the OAS report (DP/FPA/2015/7/Add.1).

This report is organized into two sections. Section I provides management responses to key audit issues identified in the OIAS report. Section II provides management responses to the strategic advice contained in the AAC report.

Section I: Management response to the annual report of the Office of Audit and Investigation Services (DP/2015/7)

I. Introduction

1. UNFPA welcomes the overall conclusion of the OAIS report that Management is continuing to demonstrate commitment to the increasing effectiveness of the governance, risk management and control processes at UNFPA. UNFPA continues to make progress in addressing the 15 high-level internal audit recommendations delineated in an earlier OAIS report (DP/FPA/2011/5).
2. The Audit Monitoring Committee, chaired by the Executive Director, successfully supported efforts in improving the implementation of the audit recommendations aimed at increasing accountability within business units: 87 outstanding recommendations prior to 2014 audit reports were successfully implemented and closed. UNFPA remains committed and affirms its continued efforts to accord the highest priority to strengthening the culture of accountability.
3. To strengthen accountability, Management continued working on UNFPA organizational priorities and projects for 2014. Some of these corporate priorities – (a) Global Programming System; (b) Strategic Information System; (c) strengthened humanitarian response; (d) strengthened human resource management, including formal launching of a new human resources strategy– have placed the organization on a solid footing to address the outstanding audit recommendations, accelerate the implementation of key strategies and achieve results systematically and efficiently.
4. The Chief Executive Boards recently adopted the ‘Three Lines of Defense’ model in effective risk management and control for the UN system. The model is often used to communicate the roles played by management and independent oversight functions of an organization in providing assurance on internal controls. The first line of defense is the internal control framework, policies and procedures. The second line of defense are the centralized business-enabling functions such as Budget management, Risk Management, legal and regulatory compliance, and Quality Assurance. The third line of defense is assurance that is independent of management, including internal audit and evaluation. These three lines of defense together represent how accountability and oversight are mainstreamed in the organization at all levels. UNFPA took the lead in the High-Level Committee on Management, along with other UN agencies, to develop this model, recommended by the Institute of Internal Auditors, Inc, USA. All of its elements are currently in place at UNFPA, including the enterprise risk management currently being piloted.

II. Assurance at UNFPA

5. Management appreciates the mandate of independent internal audit and investigation services on the basis of the revised oversight policy, the 2014 UNFPA financial rules and regulations, and the OAIS charter. Management also appreciates the role performed by Audit Advisory Committee and the advice offered to the Executive Director on various financial, risk management functions and oversight processes, including in promoting the effectiveness of audit and investigation services. Management continue to benefit from the participation of the OAIS Director in Executive Committee meetings, and is committed to ensuring that OAIS continues to enjoy organizational independence in performing its work and communicating its results.

III. Resources

A. Human resources

6. Management acknowledges the challenges in identifying suitably qualified candidates for OAIS, due to the highly competitive nature of the business. Management also takes note of the increase in the OAIS vacancy rate in 2014 by 6 percentage points, compared to 2013, due to ongoing recruitment process of two new posts.

B. Financial resources

7. UNFPA management takes note of the adjusted OAIS budget funding of \$5.2 million, provided solely from the institutional budget funds.

IV. Internal audit

A. Risk-based audit planning

8. Management takes note of OAIS annual risk assessment and resulting audit plan.

Management notes the resulting revised audit coverage over the period 2015-2018, of high-risk business units to six-year cycles, medium-risk ones to 13-year cycles and corporate process to 19-year cycles. Management, taking into account its available financial resources, is in dialogue with OAIS on the optimal resources required to adapt its audit coverage with the appropriate assurance levels required for high-risk and medium-risk business units. UNFPA management will also engage with the Audit Advisory Committee, and present a resource plan at the second regular session of the Executive Board in 2016.

B. 2014 audit risk assessment and 2015 internal audit workplan

9. UNFPA management takes note of the continuation of risks arising from highly decentralized operations conducted in 139 business units. Management appreciates the acknowledgement of a partial mitigation of programme complexities through the focus on

fewer outcomes, outputs and expected further mitigation of programming risk through an automated workplan management in the global programming system, launched in November 2014.

10. UNFPA management is aware of the additional risks stemming from scaling up humanitarian activities; inventory management challenges in commodity security programming; and specific compliance and reporting requirements due to the increasing proportion of non-core funding. Management is addressing them in a phased manner. To strengthen UNFPA capacity to meet increasing donors' expectations and to enhance accountability and transparency in the management of non-core funding, a new Non-Core Funds Management Unit has been established in the office of the Executive Director.
11. UNFPA management appreciates the very rigorous audit risk assessment exercise undertaken by OAIS, which comprehensively covers the audit universe of 139 business units and 41 corporate processes. This assessment also covers different programmatic complexities and associated risks. UNFPA management is also pleased with the movement of some high-risk business units from 'high-risk' to 'medium-risk' categories.

i. Business unit audit risk assessment

12. Management takes note of the limited change in the risk profile, continuation of risks affecting field operations as of last year and some of the higher risks resulting from the increased number and size of humanitarian activities in the Arab States region.

ii. Corporate audit risk assessment

13. Management takes note of the five key corporate audit risk areas and ten high-risk corporate risk processes. In order to decrease the probability and to mitigate the impacts of these risks, management is pleased to report the actions taken in the following paragraphs.

Five key audit risk areas

14. To mitigate the risks associated with the implementation of the Strategic Plan, 2014-2017, management provided pro-active guidance to all UNFPA units, especially regional and country offices, and monitored the process. At the global level, Management provided support to UNFPA offices to facilitate alignment to the new strategic plan through a three-pronged approach: (a) development and rollout of a toolkit for alignment; (b) capacity building through dedicated webinars, sessions, service desk queries and a dedicated microsite; and (c) quality assurance through reviews of strategic plan implementation plans and in providing feedback. As a result, 87 per cent of the country offices completed at least 90 per cent of the alignment plans.
15. In order to address the issues related to the adequacy of governance arrangements, including the roles and responsibilities of different business units, UNFPA is close to finalizing the revision of the organizational handbook, including the terms of reference for regional and country offices and headquarters units.

16. Management acknowledges the initial delays in finalization of the internal control framework and implementation of the enterprise risk management (ERM) process. Management has instituted some changes to the ERM approach it had previously embarked upon, as its complexity was not ideally suited to the UNFPA business environment. The new initiative promises to be more pragmatic and scalable. Risk owners have been appointed at the Executive Committee level. It is currently being piloted, leveraging elements of the 2014 harmonized approach to cash transfers (HACT) and the internal control framework. All of these elements will be integrated within the ERM. The goal is to pilot a risk register in the second quarter of 2015, which will include corporate risks identified in the risk identification process of ERM development as well as fraud risk. Each assigned risk owner will chair a risk treatment working group, in line with the UN Secretariat risk management strategy. UNFPA is working on an internally developed tool to be integrated with the strategic information system to collect risk management data from all business units for the use of risk owners and Management.
17. UNFPA is updating and expanding the UNFPA internal control framework and to make it compliant with the Committee of Sponsoring Organizations of the Treadway Commission (COSO) 2013. The project team is using a revised approach, which aligns the updating of the internal control framework with the ERM initiative, and, at the same time, differentiates the application of internal control framework, in line with business unit risk rating.
18. To mitigate the risk associated with the operationalization of the new human resources strategy, Management has developed an action plan with timelines for achievement of the identified outputs; implementation is periodically reviewed by Management. On the issue of effectiveness, implementation of the leadership pool is managed by dedicated staff, and regular assessments are undertaken. As a result, 32 assessed candidates were already placed into posts. The vacancy rate has decreased from 19.5 per cent in 2013 to 14.5 per cent in 2014, and the total days needed to recruit has also decreased, from 149 days in 2013 to 135 days in 2014. To improve the decentralization of recruitment activities, experienced human resource strategic partners have been embedded in all regional offices and at headquarters to provide strategic advice on human resources and to support field-based offices and headquarters.

High risk corporate processes

19. To address recurring audit issues in programme management, a number of policies and guidance notes have been revised; these include the policy and procedures for preparation and management of workplans; the policy and procedures for programme and financial monitoring and reporting (2015); and guidance notes on implementing partner support costs; and on programme cycles, project IDs and activity IDs creation and closure). Improvements have also been made to other tools, such as the Implementing Partner Agreement. Efforts are being made to provide training, guidance and advice to field offices, to increase their ability to implement these revised policies. Similarly, to minimize the risks related to the introduction of the strategic information system and the global programming system, UNFPA has provided elaborate training prior to the launch of the systems. More than 360 staff members from headquarters, regional offices and country offices completed

the training-of-trainers workshops in the last quarter of 2014 in preparation for the launch of the global programming system. Approximately 100 staff members have been trained so far in the strategic information system, and approximately 140 more will be trained during 2015. UNFPA continues to improve these systems and provides pro-active support and monitoring of their usage.

20. A series of risk mitigation mechanisms, such as adherence to the internal control framework, compulsory procurement levels 1 and 2, Chartered Institute of Procurement and Supply (CIPS) training courses and a performance appraisal system for all procurement staff are being undertaken by Management to mitigate the identified risk areas of procurement, supply-chain and inventory management. The planned introduction of the e-Atlas modules for e-tendering and e-contract management in 2016 will improve visibility over the procurement cycle and create conditions for adherence to rules and policies.
21. In order to improve the implementing partner management, Management has revised the Implementing Partner Capacity Assessment Tool (IPCAT), improving it by making the tool accessible online and partitioning it into two modules: government implementing partners and non-government implementing partners. In order to address the recommendations, UNFPA is also working with other UN organizations to harmonize its assessment tools and integrating IPCAT in the HACT micro assessments. UNICEF and UNFPA have worked on merging their respective implementing partner assessment tools. The integrated, harmonized micro-assessment is expected to be launched in June 2015.
22. UNFPA has intensified measures to mitigate risks of working with national implementing partners during 2014. In piloting the 2014 HACT Framework during 2014-2015, UNFPA is moving towards institutionalizing a risk-based approach to implementing partner management. Nine countries in different regions are piloting assurance activities according to implementing partner risk ratings. Assurance activities include macro- and micro-assessments, regular spot-checks of implementing partner financial transactions and key operations, internal control audits for low-risk and moderate-risk implementing partners, or financial audits of the high-risk and significant-risk implementing partners.
23. UNFPA, in late 2014, tested the quality of a sample of pilot country micro-assessments and spot-check reports; the outcomes will be mainstreamed in updating the micro-assessment and spot-check tools. Further quality testing will take place of additional spot-check reports, internal controls and financial audit reports; their formats will be adjusted accordingly. UNFPA initiated work on adapting the National Execution Audit Management System (NEXAMS) database to enable tracking of business unit compliance with future HACT assurance activities. Additionally, UNFPA is implementing a cost-benefit analysis of HACT from June 2014 to July 2015. The analysis will highlight the advantages and disadvantages of the HACT model in the short-, medium- and longer-term, and will strengthen an effective rollout.
24. To improve the financial monitoring of implementing partners, Management has revised the policy and procedures for programme and financial monitoring and reporting. UNFPA is preparing to expand the global programming system functionality to strengthen the linkages between workplans, workplan progress reports and funding authorization and

certificate of expenditures forms. Similarly, the mandatory financial and operations spot checks of implementing partners, at least once per year, will help to address this issue.

25. Management has elevated strengthening humanitarian preparedness and response as a corporate priority for 2014. Most significantly, a high-level humanitarian steering committee chaired by the Executive Director has been set up, which holds oversight meetings on a monthly basis. More specifically, in 2014, UNFPA further strengthened the focus on (a) surge capacity and rapid response; (b) fast-track procedures, including at regional and country levels; (c) standard operating procedures for Level 3 responses; (d) communicating the results of the organization's work in crises; (e) preparedness and pre-positioning; and (f) timely tracking of implementation and related issues.
26. On the process risk of integrated budget management, resource distribution system and cost recovery policy, Management can report the smooth implementation of integrated budget and associated components (i.e. institutional budget, global and regional interventions, resource allocation system, resource distribution system, emergency fund) in compliance with Executive Board decisions and guidance, as well as UNFPA policies and procedures. UNFPA also issued the new cost recovery policy and associated guidance, effective 1 January 2014, accompanied by learning and support tools such as webinars, knowledge assets that all offices can access.
27. UNFPA also implemented an automated model for apportionment of centrally managed direct post occupancy costs through payroll, thus eliminating possible human errors and manual work for offices. UNFPA continues to advocate with donors and all UNFPA offices to include all direct costs associated with implementing programmes. In addition, through its co-convenor role at the Fiduciary Management Oversight Group of the UNDG, UNFPA is advocating with donors and the United Nations organizations to align the cost recovery for pooled and joint funding mechanisms.
28. In the area of information communication technology (ICT), Management would like to highlight that the 2014-2017 ICT strategy was developed with a risk section summarizing the risks the strategy incurs, the severity of each risk and the proposed approach to mitigating them. Major ICT projects, including the Global Programme System, Strategic Information System, and the Atlas contract management and e-tendering, will have their own project boards and follow the PRINCE2 methodology. As part of their project initiation document, a risk table is identified – again specifying the severity of each risk and the proposed approach to manage the risk throughout the life of project.

C. Internal audit activities in 2014

29. Management takes note of the internal audit activities in 2014, including a comparison of 2014 planned-versus-achieved audit engagements.

D. Key finding of internal audit activities

30. Management takes note of six country office audit reports and one on the Somalia Common Humanitarian Fund. Management takes serious note of (a) the absence of overall

satisfactory ratings; and (b) an increase in the percentage of overall unsatisfactory ratings, from 10 per cent in 2013 to 43 per cent. In terms of the sub-areas, there is a substantial improvement in office governance, rated as satisfactory in 70 per cent of the cases, and in operations management, which did not receive any unsatisfactory rating. Management notes with concern the increase in unsatisfactory ratings for programme management, from 20 per cent to 57 per cent; Management is committed to further strengthening mitigation mechanisms as presented below by area and sub-area.

i. Office governance

31. Management takes note with appreciation the good practices noted by OAIS in the area of office governance. UNFPA would like to report that it is systematically addressing issues related to the organizational structure of country offices and staffing alignment with country programme needs and organizational priorities. Close support is already being provided for restructuring and capacity assessment exercises in numerous country offices and headquarters divisions. To further reduce the time taken to recruit, UNFPA has completed the paperless e-recruit project and a soft launch was rolled out in October 2014, with key hiring units within headquarters and designated offices in Africa. In addition, the compliance review board process has also been automated, to take advantage of the online approvals. As noted by OAIS, human resources strategic partners are now located in each of the regional offices and their operationalization will contribute to enhancing the degree of support and managerial oversight provided by headquarters and regional offices to all business units experiencing extended vacancies.

ii. Programme management

a. Programme planning, implementation and monitoring

32. To address the specific issues related to planning, implementation and monitoring of programmes, both the policy and procedures for preparation and management of workplans and the policy and procedures for programme and financial monitoring and reporting have been revised, and the newly introduced global programming system will address the specific issues related to workplan management. The forthcoming revision of the internal control framework will further address these issues

b. National execution (NEX)

33. Management appreciates OAIS reflecting on good practices of customized templates and application and its potential replication. Management will continue to replicate best practices in this area across the organization.
34. In order to improve the implementing partner management, UNFPA has revised the Implementing Partner Capacity Assessment Tool (IPCAT).
35. Management would like to report that controls over the operating fund account management process have consistently improved over the past years, with more robust monitoring thereof performed by headquarters staff and an effective national execution

audit process. However, a few occurrences of funds transferred to implementing partners outside the operating fund account process have been noticed. Similarly, instances of activities carried out by implementing partners that were recorded as direct execution by UNFPA, instead of national execution, were identified. These situations reduce management assurance on the appropriate utilization of funds provided to implementing partners, as the related expenses are not subjected to national execution audits. Management is working on different alternative solutions to address this issue.

c. *Inventory management*

36. Management appreciates OASIS noting the customs clearance of sexual and reproductive health commodities two months prior to their expected arrival as possible replication across the organization.
37. Management acknowledges the existence of examples of poor inventory management in the field and non-compliance with the inventory management policy. The non-compliance is being discussed among Management to address the issue comprehensively.
38. A new shipment tracker system will be implemented in second quarter of 2015; it will become the ‘go to’ system for reproductive health commodities’ tracking – replacing the current Channel system. It will integrate actual shipping dates and actual delivery dates at the port of entry of the destination country. This development phase will also reconcile the financial and physical data flows, i.e. it will map the shipment information – lot and batch numbers – associated with a given financial receipt entry. This tracker system will greatly improve the user-friendliness of the system and will allow UNFPA to more comprehensively track goods throughout the supply chain. After implementation, UNFPA will be able to generate diagnostic reports for Management on the status of in-transit and warehoused goods and to escalate to the attention of Management situations where metrics indicate protracted criticalities, such as long delivery times, material inventory losses and bottlenecks within the in-country logistic chains. UNFPA aims to build reports upon standard metrics (number of days between expected delivery date and physical receipt; number of days between financial receipt and hand-over to implementing partners) therefore proactively identifying red flags.
39. Management is discussing internally the modalities of monitoring inventory held by implementing partners, as much of the commodities are in-kind and not a cash contributions. UNFPA is also exploring possibility of including assessment of specific implementing partners for their commodity management capacity, with specific terms of reference.

iii. *Operations management*

a. *Procurement*

40. UNFPA appreciates acknowledgement of several good practices and improvement in overall effectiveness of procurement controls. Management is committed to strengthening

procurement compliance and expanding use of long-term agreements to increase procurement efficiency and value-for-money.

b. Human resources

41. Management has placed specific attention on the review of the use and management of the service contracts and the Special Service Agreement (SSA) modality. The SSA policies (currently three different policies) are being reviewed; the current policies will be collapsed into one, providing more clarity. In addition, a one-off scan of country offices will be carried out in 2015 by regional human resources strategic partners to review whether contract modalities are used according to policy guidelines. In addition, the terms of reference of all new service contracts will be reviewed for its consistency with service contracts modality by the human resources strategic partners. Furthermore, a tool will be developed to ease the performance assessments of service contracts prior to extensions or renewals. Lastly, the existing templates for the recruitment of service contracts and SSAs will be reviewed for user-friendliness.
42. UNFPA management has instituted different measures to reinforce compliance with mandatory training. The new human resources strategic partners will hold formal consultations with each regional director to discuss and review regional capabilities and performance, including compliance with training requirements.

c. Financial management

43. Management will issue its final revised account usage list in the second quarter of 2015. This covers every account in the UNFPA chart of accounts and includes narrative description, user identification, among others. Further, information on expense account usage is included in the account closure instructions, and is also part of specific policy and guidance papers.
44. Management issued a value-added tax (VAT) guidance note in 2012 addressing VAT-related issues and requiring bi-annual VAT account reconciliations to enforce compliance. Further, Management has introduced VAT status certification by business units and review of aged or material balances by the Global Monitoring and Advisory Team. UNFPA utilizes a mix of risk mitigation strategies to address business units' handling of VAT, including detailed guidance, regular spot checks and dialogue with business units. In 2015, UNFPA will continue to undertake spot checking of business units with pending VAT reconciliations, to ensure full compliance.

E. Status of implementation of internal audit recommendations

45. Management would like to highlight the substantial decrease in the number of outstanding internal audit recommendations. As of 31 December 2014, 26 recommendations (about 1%) remained unresolved for 18 months or more, compared to 41 recommendations in 2013. There has been substantial progress in addressing these recommendations; these aged recommendations are expected to be closed in the fourth quarter of 2015.

46. A total of 101 new recommendations were issued in 2014; some 78 recommendations are less than six months old. Due to regular follow-up in regular meetings of the Audit Monitoring Committee and the enhanced role of its secretariat, there is a significant drop in the number of pending recommendations; efforts are underway to address these new recommendations. UNFPA remains committed to implement them fully. This affirms the continued efforts of UNFPA to accord the highest priority to strengthening the culture of accountability.

F. Public disclosure of internal audit reports

47. Management appreciates OASIS full compliance to public disclosure of all internal audit reports, within one month of issuance, in the second year of public disclosure, pursuant to the decision of the Executive Board. Management also takes note of the continued efforts to improve clarity and quality in report writing and the simplified disclosure process, which has led to enhanced management attention, with timely actions on audit recommendations that have contributed to organization-wide enhanced transparency and accountability.

V. Investigation

48. Management appreciates the Investigation Branch having successfully concluded 61 cases in 2014, with 20 cases warranting full investigation, including 15 substantiated cases, several of which were complex in nature, with multiple allegations involving fraud and financial irregularities. Management takes note of the Investigation Branch's proactive support and close collaboration with the UNFPA Legal Office, the Ethics Office, the Procurement Service Branch and the Division for Human Resources, and in supporting the integrity initiatives of the Chief Executives Board.

49. Management takes note of the continuous increase in caseload (105 cases in 2014, compared to 81 in 2013 and 42 in 2012), which was primarily due to an expanded mandate, including external investigation and more reporting of proscribed practices situations. UNFPA notes with concern the top three categories of complaints of wrongdoing in 2014: fraud and financial irregularities (38 per cent); harassment and abuse of authority (20 per cent); and other misconduct (28 per cent). Management is committed to its zero tolerance policy towards fraud, corruption, and all types of harassment and abuse of authority.

50. Management would like to highlight that, as a result of fraud investigation reports delivered by OASIS to UNFPA management in 2014, the following disciplinary actions have been taken: one staff member has been separated from service; and one other staff member has been demoted. With regard to six other cases of fraud, action is ongoing.

51. Management appreciates the support of the UNFPA Legal Unit and Division for Human Resources in finalizing substantial financial recoveries.

52. Management appreciates OASIS strengthening of investigative procedures, revisiting its investigation manual and preparing investigation guidelines for educating staff about the investigative process.

53. Management takes note of the investigation capacity challenges due to an increase in caseload and the increase in the number of complaints of fraud and harassment, which are not only complex and resource-sensitive, but also require a particular skill set. To address this, Management, taking into account its available financial resources, will engage with OAIS and the Executive Board to explore the best possible solution.

VI. Advisory activities

54. UNFPA management would like to express its appreciation to OAIS for providing advisory services in supporting the review of donor agreements; reviews conducted by donors, revision of Board-level policies; review of draft internal policies and procedures; commenting on strategic documents; and participating as an observer in various steering and working committees. Management takes note of the significant investment of OAIS management time due to this and consequent disruption in other activities. UNFPA will discuss with OAIS how to achieve an optimum balance.

VII. Coordination within the United Nations system

55. UNFPA appreciates the proactive involvement of OAIS in the activities of the Representatives of Internal Audit Services of the United Nations system organizations, (UN-RIAS). UNFPA Management congratulates OAIS on becoming vice-chair of UN-RIAS for joint audits and the focal point for UNDG interactions. Management also takes note of active OAIS participation in two joint audits, and joint leadership facilitating adoption of a framework for joint internal audits of joint United Nations activities. The active engagement of OAIS in inter-agency investigation activities as well as its role as the focal point for the Joint Inspection Unit is well appreciated.

VIII. Conclusion

56. Management welcomes the overall conclusion on actions taken by Management to address the issues raised by OAIS. Management acknowledges the need for a constructive dialogue with Executive Board and OAIS to address internal audit coverage; appropriate handling of complaints; and OAIS support to Management by providing advisory services. Management has full confidence in the OAIS leadership in having a constructive dialogue to explore mutually acceptable solutions of these challenges, and to support management in ensuring accountability of the organization. UNFPA management appreciates OAIS role as a trusted partner and acknowledges its valuable advice in maintaining an unqualified audit opinion from the United Nations Board of Auditors for its financial statements for the year that ended on 31 December 2013.

Section II: Management response to the annual report of the Audit Advisory Committee

1. In accordance with Executive Board decision 2008/37, UNFPA management provides a response to the annual report of the Audit Advisory Committee.
2. UNFPA acknowledges and welcomes the 2014 annual report of the Audit Advisory Committee. Throughout 2014, UNFPA benefited from regular consultations with the Committee. UNFPA would like to express its gratitude to the Chairman and the members of the Committee; their commitment and guidance have been invaluable in strengthening UNFPA management practices.

Advice related to UNFPA management

3. Management appreciates the encouragement expressed to UNFPA in the annual report of the Audit Advisory Committee and acknowledges the Committee's advisory role in providing valuable inputs in the revisions to UNFPA Financial Regulations and Rules, which were approved by UNFPA Executive Board in 2014. UNFPA also acknowledges the Committee's recommendations to improve the clarity and quality of financial statements and reporting and its notes and disclosures. This has helped UNFPA to improve the presentation of its IPSAS-compliant financial statements to enhance their clarity and quality. UNFPA looks forward to receiving similar advice, guidance and support from the Committee in the coming years.
4. UNFPA also appreciates the review of the revised oversight policy and advice on the rollout of the revised framework for the harmonized approach to cash transfers. UNFPA welcomes the continued guidance of the Committee on the development of the internal control framework, including the expansion into programmatic areas, its concurrent development with enterprise risk management, using it as an identification and planning tool, and completing this within specific timeframes. UNFPA also appreciates the progress outlined by the Audit Advisory Committee in the area of enterprise risk management, in developing a risk identification methodology and identification of top risks with Executive Committee members as risk owners. UNFPA is committed to accelerating the development of a formal enterprise risk management strategy in 2015. UNFPA appreciates the guidance of the Audit Advisory Committee in developing a robust enterprise risk management framework.
5. UNFPA appreciates the encouragement expressed in the annual report of the Audit Advisory Committee with regard to Management's proactive approach in strengthening accountability by establishing an Audit Monitoring Committee in 2011. As noted by the Committee, this has yielded the desired positive outcome and, with expanded terms of reference, will continue to do so.

6. UNFPA acknowledges as valuable the OAIS recommendations on number of audits on information and communication technology (ICT); the successful implementation of these critical and high-risk recommendations has enhanced the security of the ICT infrastructure and strengthened the ICT applications of UNFPA.

Advice related to the Evaluation Office

7. UNFPA appreciates the guidance and inputs received from the Audit Advisory Committee and its acknowledgement of measures taken by the Evaluation Office to improve the quality of programme evaluations. UNFPA is committed to strengthening the evaluation follow-up system by clarifying arrangements and reporting on the follow-up of evaluation results and lessons learned. To that extent, UNFPA has put in place measures to make the management response tracking system more proactive, to ensure responses are prepared and prepared in a timely manner. Management also takes note of establishing clear guidelines regarding funding, management and justification for evaluation of specific donor programmes.

Advice related to the Office of Audit and Investigation Services

8. UNFPA appreciates the review undertaken by the Audit Advisory Committee of the internal audit plan for 2014, which is based on an updated audit risk assessment and consistent with its rolling audit strategy, 2014-2017.

9. UNFPA shares the opinion of the Audit Advisory Committee regarding the significant and continuous improvements in the following areas: (a) quality of internal audit performance; and (b) extensive audit risk assessment undertaken for the preparation of the audit plan, and (c) timely issuance of reports. UNFPA acknowledges the positive feedback received from auditees, who appreciate the value and professionalism in the audit process and the approach taken by Management and auditors in the Office of Audit and Investigation Services. UNFPA takes note of the comment on the trade-off between risk appetite and fulfilling management advisory ad-hoc demands and its effect on the number of assurance engagements.

10. UNFPA is in dialogue with OAIS to address the Board of Auditors' recommendations on adapting its audit cycles for high-risk and medium-risk business units to the chosen assurance level.

11. UNFPA appreciates the guidance provided by the Audit Advisory Committee in reviewing the activities and results of the Investigation Branch of the Office of Audit and Investigation Services. UNFPA takes note of the increased caseload and complexity of cases.

12. UNFPA acknowledges the important role played by O AIS in providing advice on key UNFPA business initiatives, reviewing various policies and O AIS-related clauses in agreements. Management takes note of the trade-off between risk appetite; audit coverage; investigation workload, and the demand for ad-hoc advisory services. Management will continue to maintain a collaborative relationship with the Office of Audit and Investigation Services.

13. UNFPA appreciates the contribution of the Audit Advisory Committee in reviewing the 2014 report of the Office of Audit and Investigation Services.

Advice related to the United Nations Board of Auditors

14. Management appreciates the regular meetings between the Board of Auditors and the Audit Advisory Committee. UNFPA is committed to addressing all long outstanding recommendations, including recommendations 2 and 5, of 2008-2009 and 2010-2011, respectively.

Advice related to the Ethics Office

15. Management acknowledges and appreciates the support of the Audit Advisory Committee on the importance of the ethics function and reiterates its continuing commitment to promote an organization-wide culture of ethics, integrity and accountability.

Conclusion

16. UNFPA would like to reiterate its commitment to promote greater accountability and transparency, with proper checks and balances for the donor funds that are entrusted to it. UNFPA is pleased to note the acknowledgement by the Audit Advisory Committee of the issuance of new or revised policies and procedures in 2014, including the adoption of the revised Financial Rules and Regulation by Executive Board, development of the revised oversight policy, and further alignment of reporting systems.

17. UNFPA is pleased to note the acknowledgment by the Audit Advisory Committee of its trust in the UNFPA internal audit system, investigation function and organizational transparency and accountability. UNFPA is committed to further developing the enterprise risk management system, addressing risks related to ICT governance and cybersecurity, addressing audit coverage and its investigative capacity, as mentioned in section A of this management response.

18. Management appreciates the advice and counsel provided by the Audit Advisory Committee in 2014. UNFPA would like to convey special thanks to Chairman of the Committee, Mr. Verasak Liengsrirawat (Thailand) for the leadership, guidance and valuable advice throughout the year 2014. UNFPA looks

forward to continuing to work with Ms. Berlina Mxakwe (South Africa), Ms. Mary Ann Wyrsh (United States of America), Mr. Peter Maertens (Netherlands) and Mr. Jose Urriza (Argentina).
