

Annex 5

Basis of the 2021 OAI opinion on governance, risk management and internal control processes

Report of the Office of Audit and Investigation Services on UNFPA internal audit and investigation activities in 2021

(DP/FPA/2022/6)

Agenda item 3: UNFPA – Internal audit and investigation

Executive Board of UNDP, UNFPA and UNOPS

Annual session 2022

6 to 10 June 2022

New York

Annex 5: Basis of the 2021 OAIS opinion on governance, risk management and internal control processes

1. In accordance with Executive Board decision 2015/13 of June 2015, OAIS provides an opinion on the adequacy and effectiveness of the governance, risk management, and control processes (GRC) of the organization. This is based on the scope and results of work undertaken by OAIS in 2021 and these are set out in the body of the annual report (DP.FPA.2022.6). The overall opinion of OAIS at the organizational level on the GRC of UNFPA is set out in Section III of the body of the annual report. This annex provides a more detailed basis, scope, and exclusions of the overall opinion.

2. The OAIS overall opinion of OAIS on the adequacy and effectiveness of UNFPA's governance, risk management and control processes is '*partially satisfactory with some improvement needed*'¹ – which means that these processes were designed and operating effectively but needed some improvement to provide reasonable assurance that the objectives of the audited entity/area should be achieved. None of the issues identified were, however, assessed as having the potential to seriously compromise that achievement.

3. The opinion² is based on the following:

- (a) Results of internal audit work in implementing the risk-based audit plan for 2021 by conducting headquarters and business processes audits and adopting a worldwide remote audit modality (RAM) involving countries in the six regional offices;
- (b) Status of implementation of internal audit recommendations;
- (c) Second line of defence as a partial reliance based on reports obtained from management;
- (d) Absence of material deficiencies in the organization's overall framework of governance, risk management and controls that might individually or collectively diminish the achievement of the entity's objectives, as noted in the following:
 - i. the harmonized approach to cash transfers audits;
 - ii. the enterprise risk management process;
 - iii. the control self-assessment process; and

4. In March 2022, OAIS received a letter from management indicating actions/decisions taken to address matters raised in the OAIS 2020 opinion on the GRC and these are reflected in paragraphs 22 to 26.

5. OAIS conducted its internal audit work as well as in rendering its overall opinion on the GRC of UNFPA in conformity with the International Standards for the Professional Practice of Internal Auditing (referred to as ISPPIA or the standards) and the Code of Ethics of the Institute of Internal Auditors, which were adopted for use by the Representatives of the Internal Audit Services of the United Nations system organizations in June 2002.

6. In 2021, as in previous years, UNFPA outsourced significant functions and business processes to other United Nations system organizations, including (a) selected human resources management activities; (b) payroll preparation and payment for staff and service contract holders; (c) payment processing; (d) treasury management; (e) hosting and management of the current enterprise resource planning system (Atlas); and (f) other information technology services. UNFPA management relied on the management and fiduciary oversight activities undertaken by the United Nations organizations to which these functions were outsourced as regards the adequacy and effectiveness of the related governance, risk management and internal control processes. These outsourced functions are subject to the provisions on internal audit provided for in the respective United Nations organizations' policies and procedures and are not covered by the OAIS opinion.

¹ This year's rating of 'partially satisfactory with some improvement needed' is equivalent to last year's rating of 'some improvement needed.' It is labelled as such in conformity with the harmonization of annual reports. The ratings are: satisfactory; partially satisfactory with some improvements needed; partially satisfactory with major improvements needed; and unsatisfactory.

² ISPPIA 2450

7. In addition, UNFPA outsourced numerous information and communications technology functions, including the hosting of significant systems (e.g., email, cloud storage, website hosting), to third-party service providers. These, subject to the provisions of internal audit provided for in the respective third parties' policies and procedures, are not covered by the OAIS opinion.

8. As indicated in the body of the annual report, all audit and advisory services were delivered and/or conducted remotely during the year due to limitations on access to offices at the headquarters and travel restrictions to UNFPA offices away from the headquarters brought about by the COVID-19 global pandemic. The one exception is of a country office audit where an audit mission was conducted and completed in December 2021, but the report is to be issued in 2022.

Results of audit work in implementing the risk-based audit plan for 2021

9. On the basis of results of audit work in implementing the risk-based audit plan for 2021 and in conformance with the standards³, OAIS makes an assessment and provides an opinion at the engagement level (country or regional office, business units or processes) which are reflected in the respective internal audit reports. OAIS provides an opinion at two different levels, the engagement level as indicated in Table 1 below and at the organizational level as indicated in paragraph 2 above. Table 1 shows that in 2021, eighty per cent were assessed at the engagement level as "partially satisfactory with some improvement needed," compared to sixty-seven per cent in 2020. No audit engagement was assessed as "satisfactory" in 2021, while there was one in 2020.

Table 1: Ratings for audits/assessments undertaken in 2021 vs. 2020

Ratings	2021	% of total	2020	% of total
Satisfactory	0	0%	1	11%
Partially satisfactory with some improvement needed	8	80%	1	11%
Partially satisfactory with major improvement needed	0	0%	6	67%
Unsatisfactory	0	0%	0	0%
Different rating scale ⁴	2	20%	1	11%
Total number of report	10		9	

Status of implementation of audit recommendations

10. In 2021, nine of the 10 audit and assessment reports issued (see Table 1) resulted in 68 recommendations (see Table 2) which is about 50 per cent less compared to 137 recommendations in the nine reports issued in 2020. And of the 68 recommendations provided in 2021, 38 were rated as "high priority" compared to 84 "high priority" out of 137 recommendations in 2020.

11. Review of the implementation of outstanding recommendations shows an improvement in addressing and implementing OAIS recommendations. As at December 31, 2021 there were 71 outstanding recommendations compared to 114 at the end of 2020 (see Table 2). Of the 71 outstanding recommendations in 2021, 62 have due dates for implementation in 2022 and beyond. Three, one and five of the remaining 9 are less than 12 months, 12-18 months, more than 18 months outstanding, respectively. Four of the five (one from 2019 and four from 2020) recommendations outstanding for more than 18 months were rated as "high priority" and one as "medium priority". These recommendations related to the need to (a) enhance the scope, frequency and effectiveness of regional offices'

³ ISPPIA 2410.A1 – Opinion at the engagement level

⁴ The assessment of the ERM was rated as "Developing" and the outsourced financial audit of a project in Guatemala had an unqualified audit opinion and no audit recommendation was provided.

oversight over country office programmatic and operational performance⁵; (b) strengthen the value-added tax management process by a country office; (c) perform a more rigorous risk assessment by a country office; (d) clarify the policy on direct budget support; (e) strengthen an Office's resource mobilization efforts; and (f) timely submission of certifications and requests for disposal of assets. One of these long outstanding recommendations was subsequently reported to OAIS as implemented in 2021 but could not be reflected in this report due to an issue in the use of the team central application.

In 2021, no recommendations were closed on the basis of management disagreement or acceptance of risk.

Table 2: Recommendations by audit area and priority rating – 2020 and 2021

	Priority Rating					
	High	Medium	Total	High	Medium	Total
Recommendations issued	2021			2020		
Governance	17	2	19	23	7	30
Programme Management	11	10	21	44	20	64
Operations Management	10	18	28	17	26	43
Sub-total of recommendations issued during the year	38 (56%)	30 (44%)	68 (100%)	84 (61%)	53 (39%)	137 (100%)
Outstanding recommendations	31-Dec-21			31-Dec-20		
Governance	17	3	20	17	4	21
Programme Management	12	8	20	43	15	58
Operations management	12	19	31	12	23	35
Sub-total outstanding recommendations	40 (56%)	31 (44%)	71 (100%)	72 (63%)	42 (37%)	114 (100%)

12. As indicated in paragraphs 3 (c) and (d), OAIS also took into consideration the following processes and control mechanisms that UNFPA management has put in place in implementing its internal control framework and risk management. These relate to the audits of fund transfers to implementing partners, and the control self-assessments by business units, the ERM, as well as reported specific actions and decisions taken to address matters raised in the OAIS 2020 opinion on the GRC. This practice is in conformity with standard 2050 and are described in the following paragraphs.

Audits of fund transfers to implementing partners

13. Management engages external local audit firms to conduct audits of fund transfers under the harmonized approach to cash transfer (HACT)⁶.

14. OAIS uses the results of these audits as additional source of information on how such cash transfers are made and accounted for. For purposes of OAIS' 2021 annual report, results of the 2020 audits were used.

15. Table 3 below indicates the total expenditures audited and the audit opinion in each year over a three-year period. Expenditures increased from US\$ 304 million in 2018 to US\$ 384 million in 2020, an increase of US\$ 80million, a 26 per cent increase. Audit coverage of these expenditures, increased from US\$216 million to US\$ 251 million, an increase of US\$ 35 million or 16 per cent.

⁵ The recommendation from 2016 was reassessed in 2021. It was subsequently closed, and a new recommendation was issued in 2022 to reflect the change in the control environment.

⁶ The Harmonized Approach to Cash Transfers (HACT) framework was first adopted in 2005 by UNDP, UNICEF, UNFPA and WFP, and represents a common operational (harmonized) framework for transferring cash to government and non-governmental IPs.

16. In terms of the audit opinions, unqualified⁷ audit opinions for 2020 financial statements were 92 per cent of total audit reports issued compared to 90 per cent in 2018. There was also a decrease from 43 in 2018 to 25 or a decrease by 41 per cent in 2020 on qualified⁸, adverse⁹, and disclaimer¹⁰ opinions.¹¹

Table 3: Results of audit of expenditures relating to implementing partners 2018-2020

Indicator	2020	2019	2018
Total IP actual expenditures (\$ millions)	384	347	304
Audit coverage			
IP Expenses audited (\$ millions)	251	215	216
Percentage of IP expenses audited compared to total IP expenses	65%	62%	71%
Audit opinions			
Number of issued audit reports	325	282	387
Number of reports with unqualified opinion	300	264	344
Number of reports with qualified opinion	24	17	40
Number of reports with adverse opinion	1	-	3
Number of reports with a disclaimer opinion	-	1	-
Percentage of unqualified opinion	92%	93%	89%
Percentage of other opinions (qualified, adverse & disclaimer)	8%	7%	11%

The Control Self-Assessment

17. A control self-assessment in 2021 was conducted by Management that focused on 60 business units, with other business units having the option to participate. Responses from 66 business units were received, and results are presented in Table 4. The assessment consists of 59 questions covering governance, programme management, and operations management.

18. Overall, the control self-assessment in 2021 showed slight deterioration compared to 2020. Controls assessed as “effective” decreased in all areas including: office governance (5%), programme management (6%), human resources management (5%), procurement, supplies and assets management (13%) travel, accounting, VAT, PCA, facilities (2%) and IT and security (12%). These were marginally offset by increases in controls assessed as “effective but requiring some improvement” in office governance (5%), programme management (5%), human resources management (5%), procurement, supplies and assets management (11%), travel, accounting, VAT, PCA and facilities management (1%), and IT and security (12%).

⁷ An unqualified opinion is expressed when the auditor concludes that the financial statements and notes of the audited entity presents fairly, in all material respects, the financial position and results of its operations for the audited period in conformity with the relevant accounting principles and standards.

⁸ A qualified opinion is expressed when the auditor concludes that an unqualified opinion cannot be expressed but that the effect of any disagreement with management, or limitation on scope is not as material and pervasive as to require an adverse opinion or a disclaimer of opinion. A qualified opinion should be expressed as being ‘except for’ the effects of the matter to which the qualification relates.

⁹ An adverse opinion is expressed by an auditor when the financial statements are significantly misrepresented, misstated and do not accurately reflect the expenditure incurred and reported in the financial statements (statement of expenses, statement of cash, statement of assets and equipment).

¹⁰ A disclaimer opinion is expressed when the possible effect of a limitation on scope is so material and pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence and, accordingly, is unable to express an opinion on the financial statements.

¹¹ At the time of writing of this report, information on audit opinions for the year ending 2021 were not yet available. These data were provided by the Quality Management Unit of the Division for Management Services.

Table 4: Results of the Control Self-Assessment for 2021 and 2020¹²

Area	2021			2020		
	Effective	Effective - but some improvement needed	Not effective - major improvement needed	Effective	Effective - but some improvement needed	Not effective - major improvement needed
Office Governance	75%	24%	1%	80%	19%	1%
Programme Management	69%	29%	2%	75%	24%	1%
Ops Management: HR	74%	25%	1%	79%	20%	1%
Ops Management: procure, supplies and assets management	75%	23%	2%	88%	12%	0%
Operations Management: travel, accounting, VAT, PCA, facilities	84%	15%	1%	86%	14%	0%
Operations Management: IT, security	80%	19%	1%	92%	7%	1%

The Enterprise Risk Management

19. The development of a comprehensive ERM policy continued in 2021 and was completed and issued in April 2022. The policy establishes the methodology, processes, procedures, frameworks, and related roles and responsibilities for an effective ERM at UNFPA and continues to enhance existing or adopt best practices, standards and guidance. It also provides clearer definitions and guidance in incorporating in the current framework key risk management elements including risk identification, risk appetite, risk assessment, risk response, risk escalation, validation, aggregation and reporting, monitoring and review.

20. Management indicated that the new ERM policy is comprehensive and in line with best practice and it addresses most of the recommendations in the OAI report of 2021 on its assessment of ERM framework. They also indicated that it has been aligned to recommendations relevant to UNFPA of the Joint Inspection Unit on their report on the “Enterprise risk management approaches and uses in the United Nations system organizations.”¹³ The policy has a three year period of implementation.

Management letter on actions taken in 2021 on matters raised in the OAI 2020 opinion on the GRC

21. Management provided OAI a letter in March 2021 indicating actions taken to address matters raised in the OAI 2020 opinion on the GRC and on the internal audit reports issued in 2021. While some of the actions indicated were already considered in the audits conducted and in the follow-up of previous years’ audit recommendations, the following statements from management were also considered in the formulation of the overall opinion on the GRC of UNFPA for 2021.

¹² Chart is based on data obtained from the Quality Management Unit, within the Division of Management Services.

¹³ JIU/REP/2020/5

22. Governance and risk management

- a. On integrated control framework – the ICF has been enhanced continuously over the past and further improvements are expected in the implementation of the new ERM policy (refer to paragraphs 20 to 21) and the related harmonization and streamlining of second line mechanisms and controls. The new ERP system is expected to enhance built-in controls that could ensure data reliability and availability that will be the basis for a comprehensive review and integration of the ICF.
- b. On organizational structure and staffing - an independent assessment of the HR function was conducted in 2020 and the relevant functional areas that needed to be strengthened were addressed with the establishment of posts to support realignment exercises in country offices and the launch of the Resource Management Committee.
- c. On headquarters and regional office support and oversight –The “second line of defence,” is being reviewed to incorporating these in the new ERP to leverage on the functionalities of this system that would strengthen controls and monitoring in real time and facilitates reporting. Other initiatives were the establishment of a new supply chain management unit to consolidate all related activities as well as institute better oversight; implementation of the change management stream to improve allocation and monitoring of all funding sources and pooling of back office support services at the headquarters.

23. Programme Management

- a. On workplan management / programme financial management procedures and controls –capacity building continued to improve workplan management through training, certification, webinars and updating of the policy and procedures for management of cash transfers to Implementing Partners and the Policy and Procedures for Preparation, Management and Monitoring of Workplans which were noted during the RAM audits.
- b. On the management of implementing partners – assurance activities continued to be strengthened with the introduction of early audits, improving and monitoring the conduct of spot checks, outsourcing of audit and spot checks activities to professional third parties, and adopting a risk-based support provided to country offices. Management also developed a proposal to amend the existing micro assessment methodology and practice to enhance the oversight over implementing partners including follow up of implementation of recommendations.
- c. On the supply-chain management – In 2021, the institution of the Last Mile Assurance (LMA) process some improvements were done such as: enhanced oversight by introducing quality assurance of supply chain maps, programme supplies reports, and supply change management risk scores; conduct of spot checks and audits, year-end stock counts; evaluation of performance of IPs; development of near expiry analysis of programme supplies; and taking remedial actions to address issues arising in the IP supply chain management.

24. Operations Management

- a. On procurement – instituted monitoring of critical procurement processes at CO level through the SIS results framework and integration of this function with the new supply chain management unit. Improvements are expected to be achieved with the implementation of the new ERP system that could improve procurement planning, monitoring and execution in all levels of the organisation.
- b. On financial management – OAIIS noted in the 2021 audits the continued efforts in strengthening the second line of defence on financial management and observed that functionalities currently not in Atlas are being addressed in the on-going design and configuration of the new ERP system.

25. Specific programmatic areas

- a. On humanitarian response – this is being enhanced to allow a more agile and faster response mechanisms with the stabilization and increase on the availability of centrally managed funds for humanitarian operations, reorganization of the Humanitarian office , introduction of fast track procedures, and integration of the nature of humanitarian operations in the ERM policy and set this up as a stand-alone component of the Integrated Risk Framework.
- b. On Census – Due to the Covid-19 pandemic, census taking activities continued to be limited in 2021. This was remediated by adopting new modes of capacity strengthening in e-Learning, guidelines and remote webinars, and generating extensive guidelines for safely conducting census under conditions of COVID-19.

26. OAS will continue to follow through the completion and implementation of these procedures and actions in follow-up audits, in the validation of implementation of audit recommendations through the Audit Monitoring Committee, on the review of proposed policies and guidance, and in the course of providing advisory services.