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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 2018**

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 2018.

The report presents a review of activities completed in 2018 by OAIS on internal audit and investigation. The report contains information on (a) the resources in OAIS for 2018; (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 2010-2018 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/2019/6/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/2019/6/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/2019/CPR.6).

Elements of a decision

The Executive Board may wish to:

Take note of the present report (DP/FPA/2019/6), 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/2019/6/Add.1), the annual report of the Oversight Advisory Committee (DP/FPA/2019/6/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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(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 2018. It also provides the opinion of OAIS, based on the scope of work undertaken, on the adequacy and effectiveness of the UNFPA framework of governance, risk management and control processes, as per decision 2015/13. This report provides first an overview of assurance, resources and activities undertaken by OAIS, before presenting a synthesis of findings from the work undertaken and of recommendations made and management action.

II. Assurance at UNFPA

A. Mandate, professional standards and independence

2. The OAIS mandate is based in Article XVII of the 2014 UNFPA financial regulations and rules, the oversight policy,¹ and the accountability framework.² OAIS solely performs or manages, or authorizes others to perform or manage, the following oversight functions: (a) independent internal audit services (adequacy and effectiveness of governance, risk management and internal control processes, and economic and efficient use of resources); and (b) investigation services (allegations of wrongdoing). The UNFPA Executive Director last approved the OAIS Charter on 26 January 2018. The Charter is included in Annex 1.

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 2018, 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 2018.

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 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) and the investigation function (2016).

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).

7. The OAIS Director hereby confirms to the Executive Board that OAIS enjoyed organizational independence in 2018. OAIS has been free from interference in determining and performing the scope of its work and in communicating its results.

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/2019/6/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 2018, the sixth year of public disclosure. No request for access to reports issued between September 2008 and November 2012 was received in 2018. 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 2018; however, vacancies and events beyond OAIS control affected its investigation activities and, to a lesser extent, its internal audit activities. Resources were insufficient to address the mounting – and increasingly 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 2018, OAIS had 24 approved posts: 4 at the general-service level and 20 at the professional level. The internal audit complement includes two chiefs, nine auditors and a data analyst, augmented, for field missions, by individual consultants and staff from local audit firms under long-term agreement (representing approximately over two full-time equivalent). On investigation, the complement includes a chief, three staff investigators and two investigation analysts, augmented by investigation consultants (representing over two full-time equivalent staff). At year-end, the Chief and one staff investigator posts were vacant and under recruitment. As in past years, the OAIS directorate, with the Director and two general-service staff (one post being vacant at year-end) covers the general management and administration of OAIS, 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 most of 2018.

13. Difficulties in identifying suitably qualified candidates, compounded by delays in the recruitment processes, remained valid in 2018 as in past years. The overall 2018 vacancy rate in OASIS was better than in 2017, with a different distribution, compared to 2017 (see Table 1). The dependency on consultants for investigation remained high.

Table 1
Resources – 2017 and 2018 by OASIS unit

| Budget | Internal Audit | | Investigation | | Directorate | | OAC | | Total | |
|--|----------------|--------------|---------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 |
| Professional posts – approved | 12 | 12 | 6 | 6 | 2 | 2 | - | - | 20 | 20 |
| Vacancy rate | 23% | 3% | 39% | 20% | 0% | 46% | - | - | 25% | 12% |
| Support posts – approved | 1 | 1 | 1 | 1 | 2 | 2 | - | - | 4 | 4 |
| Vacancy rate | 0% | 0% | 0% | 0% | 50% | 50% | - | - | 25% | 25% |
| <i>(In thousands of United States Dollars)</i> | | | | | | | | | | |
| Staff costs (vacancy-adjusted) | 2,211 | 2,864 | 948 | 1,091 | 670 | 463 | - | - | 3,829 | 4,418 |
| Individual consultants | 252 | 202 | 451 | 410 | - | - | 65 | 65 | 768 | 677 |
| Procured services | 688 | 509 | 111 | 81 | - | - | - | - | 799 | 590 |
| Travel | 330 | 375 | 305 | 290 | 36 | 37 | 161 | 128 | 832 | 830 |
| Operational costs ⁽ⁱ⁾ | 53 | 82 | 26 | 83 | - | 2 | 8 | 3 | 87 | 170 |
| Learning | 44 | 50 | 13 | 20 | 11 | 9 | - | - | 68 | 79 |
| Total | 3,578 | 4,082 | 1,854 | 1,975 | 717 | 511 | 234 | 196 | 6,383 | 6,764 |
| Centrally-computed costs ⁽ⁱⁱ⁾ | <i>n.a.</i> | 449 | <i>n.a.</i> | 189 | <i>n.a.</i> | 82 | <i>n.a.</i> | - | <i>n.a.</i> | 720 |
| Total fully-costed | <i>n.a.</i> | 4,531 | | 2,164 | <i>n.a.</i> | 593 | <i>n.a.</i> | 196 | <i>n.a.</i> | 7,484 |
| Total in percentage of UNFPA revenue ⁽ⁱⁱⁱ⁾ | 0.32% | 0.33% | 0.17% | 0.16% | 0.06% | 0.04% | 0.02% | 0.02% | 0.57% | 0.54% |

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

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

(iii) For comparability between 2017 and 2018, percentage computed on the “Total” line.

14. Since 2014, OASIS has been solely funded from the UNFPA institutional budget. In 2018, as in previous years, OASIS continued to proactively manage its budget. Adjusted for the 2018 actual vacancy rate, the yearly OASIS budget increased, compared to 2017, and represented 0.54 per cent of the UNFPA revenues to fulfil the OASIS four-pronged mandate (see Table 1 above).

IV. Internal audit activities in 2018

A. Audit risk assessment methodology

15. OASIS executes its assurance activities based on a risk-based audit plan, approved by the Executive Director after review by the Oversight Advisory Committee. The audit plan was developed based on a documented audit risk assessment of the audit universe, composed of 141 business units involved in programme delivery activities, 13 core business processes, and 10 information and communications technology (ICT) areas. Risk is measured through a portfolio of indicators representing the potential impact and likelihood of events that might adversely affect the achievement of objectives of the business units, processes and systems assessed.

16. The business unit audit risk assessment uses indicators that measure: (a) programme materiality, complexity, performance and changes; (b) operational complexity and

performance; (c) business unit capacity to manage programme and operational activities; and (d) corruption levels⁴ in the countries where field offices are located.

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

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

19. The audit risk assessment also 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 2018

20. The audit plan for 2018 was based on the 2017/2018 business unit and process audit risk assessment results; and took into account the ICT risk assessment conducted in late 2015.

21. The original 2018 internal audit workplan included 30 audit engagements covering expenses of 2016, 2017 and (partially) 2018; it comprised a mix of: high and medium-risk business units; high-risk processes, programmes, ICT areas; and joint audits, as decided among the internal audit services of the United Nations system organizations (UN-RIAS). In order to maximize resources, audits were deliberately planned to reach varying degrees of completion by year-end. During the year, the plan was amended to reflect emerging high risks requiring immediate attention, shifting environments, the delayed roll-out of an ICT tool, and unforeseeable events. The actual level of implementation is presented in Table 2.

Table 2
Overview of 2018 audits

| Status | Business units | Processes and programmes | ICT | Joint audits ^(a) | Remote audit process ^(b) | Total |
|---|----------------|--------------------------|----------|-----------------------------|-------------------------------------|-----------|
| Original planned audits – by finalization year | | | | | | |
| To be finalized in 2018 | 21 | | | 1 | 3 | 25 |
| To be started in 2018 and finalized in 2019 | 1 | 2 | 1 | | 1 | 5 |
| Total audits | 22 | 2 | 1 | 1 | 4 | 30 |
| Actual audits – by status at year-end | | | | | | |
| Final reports issued ^(c) | 10 | | | | 3 | 13 |
| Draft reports issued ^(d) | 4 | | | 1 | | 5 |
| Subtotal | 14 | - | - | 1 | 3 | 18 |
| Draft reports under preparation or review | 5 | | | | | 5 |
| Planning or fieldwork phase | 1 | 2 | 2 | | 1 | 6 |
| Total | 20 | 2 | 2 | 1 | 4 | 29 |

⁴ Based on indicators published by the World Bank.

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.

22. The final reports issued corresponded to 13 business unit audits (eight country offices; two regional offices; two regions covered under the remote audit modality, one of which covered twice) and covered expenses amounting to \$345.6 million – roughly 37 per cent of 2017 total expenses. None was rated as ‘effective’;⁵ nine audits (69 per cent) were rated as ‘some improvement needed’;⁶ one as ‘major improvement needed’ (8 per cent);⁷ and three as ‘not effective’ (23 per cent respectively).⁸ Ratings by audited area are shown in Table 3.

Table 3
2018 business unit audits – ratings by area

| Rating | Areas ^(a) | | | | | |
|--------------------------|----------------------|-----|----------------------|-----|-----------------------|-----|
| | Office governance | | Programme management | | Operations management | |
| | Offices | % | Offices | % | Offices | % |
| Effective | - | - | 1 | 8% | 2 | 17% |
| Some improvement needed | 5 | 56% | 7 | 58% | 7 | 58% |
| Major improvement needed | 3 | 33% | 2 | 17% | 2 | 17% |
| Not effective | 1 | 11% | 2 | 17% | 1 | 8% |

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

23. Timeliness of report finalization improved slightly in 2018 (18 final or draft reports issued in 2018 versus 16 in 2017). However, reaching the planned level was hindered by limited OAIS senior management capacity, unforeseen developments during audits, and elapsed time in receiving management responses (for some reports).

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

C. Resulting audit coverage

25. 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.

⁵ ‘Effective’ – “The assessed governance arrangements, risk management practices and controls were adequately designed and operating effectively to provide reasonable assurance that the objectives of the audited entity/area should be achieved. The issue(s) and improvement opportunities identified, if any, did not affect the achievement of the audited entity or area’s objectives.”

⁶ ‘Some improvement needed’ – “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 will be achieved. The issues and improvement opportunities identified did not significantly affect the achievement of the audited entity/area objectives. Management action is recommended to ensure that identified risks are adequately mitigated.”

⁷ ‘Major improvement needed’ – “The assessed governance arrangements, risk management practices and controls were generally established and functioning but need major improvement to provide reasonable assurance that the objectives of the audited entity/area should be achieved. The issues identified could significantly affect the achievement of the objectives of the audited entity/area. Prompt management action is required to ensure that identified risks are adequately mitigated.”

⁸ ‘Not effective’ – “The assessed governance arrangements, risk management practices and controls were not adequately established or functioning to provide reasonable assurance that the objectives of the audited entity/area should be achieved. The issues identified could seriously compromise the achievement of the audited entity or area’s objectives. Urgent management action is required to ensure that the identified risks are adequately mitigated.”

Supplementing the coverage provided by business unit audits, high-risk core processes would be covered through cross-cutting reviews over a 10-year period.

26. The average audit cycle for high-risk and medium-risk business units for the period 2016-2018 was 5 and 10 years (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 2018

27. 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
- (c) ‘Third-party’ investigations: OAIS follows investigations of sexual exploitation and abuse involving implementing partner personnel, conducted by those implementing partners having investigation capacity.

28. The investigation process followed by OAIS (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 2018.

A. New cases

29. In 2018, OAIS received 115 new cases – an 8 per cent increase, compared to 2017. Each case, which may include multiple allegations, is registered under the category of the most significant allegation. The detail for 2018 by major category is presented on the left side of Table 4 and the trend by major category and by year in Figure 1. Case growth was absorbed through increasing dependency on investigation consultants, ranging between 30 and 42 per cent of OAIS investigation capacity over 2016-2018.

30. Further, OAIS handled 51 inquiries for advice or for information (compared to 11 in 2017), 30 per cent of which related to some form of harassment or abuse.

31. In 2018, OAIS received complaints reported: by email directly to OAIS (57 per cent); through the OAIS confidential investigation hotline (38 per cent); by referral from internal audit or entities external to OAIS or to UNFPA (3 per cent); or in person (2 per cent).

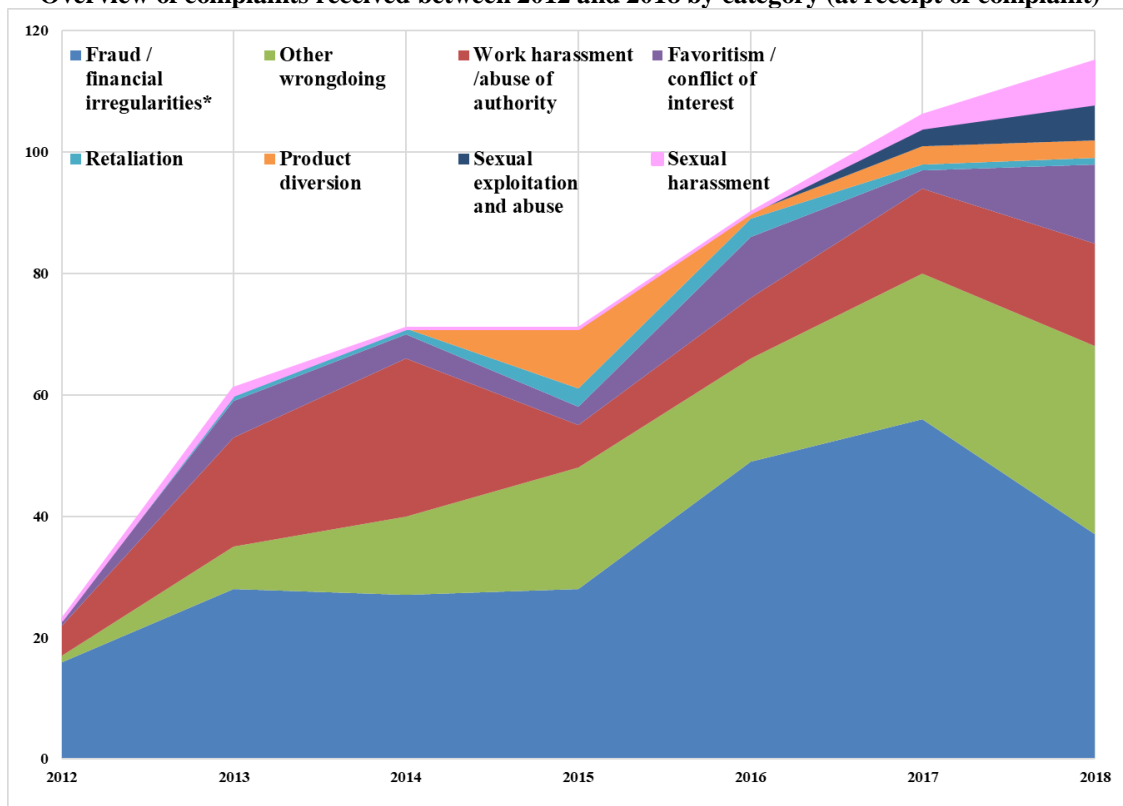
Table 4
Cases received in 2018 and cases carried over to 2019

| Description | Cases received in 2018 | | | | | Cases carried over to 2019 | | | | |
|--|------------------------|-----------|-------------|------------|-------------|----------------------------|-----------|-------------|------------|-------------|
| | Internal | External | Third-party | Total | % | Internal | External | Third-party | Total | % |
| Fraud / financial irregularity (*) | 13 | 24 | | 37 | 32% | 24 | 33 | | 57 | 54% |
| Other wrongdoing | 23 | 8 | | 31 | 27% | 15 | 2 | | 17 | 16% |
| Workplace harassment, abuse of authority | 17 | | | 17 | 15% | 8 | | | 8 | 8% |
| Favoritism | 11 | | | 11 | 10% | 13 | | | 13 | 13% |
| Sexual harassment | 7 | | | 7 | 6% | 5 | | | 5 | 5% |
| Sexual exploitation and abuse (**) | 1 | 3 | 2 | 6 | 5% | | | 2 | 2 | 2% |
| Product diversion | | 3 | | 3 | 2% | | 1 | | 1 | 1% |
| Conflict of interest | 2 | | | 2 | 2% | | | | 0 | 0% |
| Retaliation | 1 | | | 1 | 1% | 1 | | | 1 | 1% |
| Total | 75 | 38 | 2 | 115 | 100% | 66 | 36 | 2 | 104 | 100% |
| % | 65% | 33% | 2% | 100% | | 63% | 35% | 2% | 100% | |

(*) Including theft

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

Figure 1
Overview of complaints received between 2012 and 2018 by category (at receipt of complaint)



(*) Includes theft.

B. Caseload

32. Together with the 65 cases carried over from 2017, OAIS dealt in 2018 with 180 active cases (see Table 5), a 22 per cent increase, compared to 2017, further to the 51 inquiries for advice or information previously mentioned (see paragraph 29).

Table 5
Overview of cases received and closed in 2016-2018

| | 2016 | % | 2017 | % | 2018 | % |
|---|------------|-------------|------------|-------------|------------|-------------|
| Cases carried over | 52 | 37% | 41 | 28% | 65 | 36% |
| - from 2014 | 4 | 3% | | | | |
| - from 2015 | 48 | 34% | 4 | 3% | | |
| - from 2016 | | | 37 | 25% | 4 | 2% |
| - from 2017 | | | | | 61 | 34% |
| Complaints received in current year | 90 | 63% | 106 | 72% | 115 | 64% |
| of which: <i>internal</i> | 58 | 41% | 64 | 44% | 75 | 42% |
| <i>external</i> | 32 | 23% | 42 | 28% | 38 | 21% |
| <i>third-party</i> | - | | - | | 2 | 1% |
| Total caseload | 142 | 100% | 147 | 100% | 180 | 100% |
| Cases closed | | | | | | |
| After preliminary assessment | 75 | 74% | 53 | 65% | 57 | 75% |
| After full investigation | 26 | 26% | 29 | 35% | 19 | 25% |
| of which: <i>substantiated</i> | 19 | 19% | 14 | 17% | 9 | 12% |
| <i>unsubstantiated</i> | 7 | 7% | 15 | 18% | 10 | 13% |
| Total cases closed | 101 | 100% | 82 | 100% | 76 | 100% |
| Cases carried over to the following year | 41 | | 65 | | 104 | |
| of which: <i>internal</i> | 25 | 61% | 38 | 58% | 66 | 63% |
| <i>external</i> | 16 | 39% | 27 | 42% | 36 | 35% |
| <i>third-party</i> | - | | - | | 2 | 2% |
| <i>Annual caseload per investigator⁽ⁱ⁾</i> | 23 | | 23 | | 26 | |

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

C. Disposition of cases

33. Of the overall caseload (180 cases), 76 cases were concluded in 2018: 57 after a preliminary assessment and 19 after a full investigation.

34. Of the 19 cases investigated, 9 cases were substantiated in full or in part (see Table 6 and details in Annex 6), and most did not have financial consequences. The aggregate value of substantiated cases involving fraudulent practices and financial irregularities amounted to \$3,524.97.

Table 6
Overview of cases concluded in 2018^(*) by category

| Description | Substantiated | | | | Unsubstantiated | | | | Total | |
|--|---------------|----------|-------------|----------|-----------------|----------|-------------|-----------|-----------|-------------|
| | Internal | External | Third-party | Total | Internal | External | Third-party | Total | Total | % |
| Fraud / financial irregularity | 2 | 4 | - | 6 | 1 | 3 | - | 4 | 10 | 50% |
| Workplace harassment, abuse of authority | - | - | - | 0 | 4 | - | - | 4 | 4 | 20% |
| Other wrongdoing | 2 | - | - | 2 | 1 | - | - | 1 | 3 | 15% |
| Sexual exploitation and abuse | 1 | - | - | 1 | - | - | 1 | 1 | 2 | 10% |
| Sexual harassment | - | - | - | 0 | 1 | - | - | 1 | 1 | 5% |
| Total | 5 | 4 | 0 | 9 | 7 | 3 | 1 | 11 | 20 | 100% |
| % | 25% | 19% | 0% | 45% | 35% | 15% | 5% | 55% | 100% | |

^(*) One case led to two reports being issued.

35. At year-end 2018, 104 cases, primarily internal fraud matters of medium priority, were carried over to 2019 (see Table 4), a 60 per cent increase over 2017, due to the simultaneous combination of (a) multiple complex cases – some being time-bound; (b) a surge in new cases in the second half of 2018; (c) a new team; (d) staff vacancies; and (d) a high dependency on investigation consultants at a time of scarce availability.

36. From the 104 outstanding cases, 66 per cent were at the preliminary assessment stage and 34 per cent either at the investigation or report-writing stages.

37. The cases concluded in 2018 were closed (in average) slightly below the six-month target (from receipt to closure). The portfolio of outstanding cases at year-end was aged, on average, slightly above eight months; 49 per cent of them were above the six-month target, being on average 14-month old, given the priority on harassment (work/sexual), abuse of authority, and sexual exploitation and abuse cases.

VI. Key findings from internal audits and investigations in 2018

A. 2018 Audit risk assessment

38. Table 7 summarizes the outcome of the 2018 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 2019 audit plan.

Table 7
Outcome of the 2018 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 | 1 | 4 | | 5 |
| Business units | 13 | 58 | 69 | 140 |
| Components of core processes and ICT^(*) | 30 | 90 | | 120 |

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

39. The audit risk assessment reflects the UNFPA risk exposure. The resulting audit risk factors are, in general, consistent with those identified through the enterprise risk management process put in place by management, 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, with a changing organizational set-up;
- (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 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; and
- (g) A large-scale change management exercise.

40. Twenty-eight business processes and five information and communications technology areas remain assessed as higher audit risk while noting some progress in 2018; 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 policies and tools; (ii) change management; (iii) resource mobilization (changes in funding landscape); and (iv) business continuity (testing of plans);
- (b) *Programme management*: (i) programme design; and governance and oversight (gaps in results frameworks); (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 monitoring); (iv) implementing partner capacity assessments; and assurance mechanisms (process and system changes); (v) supply-chain management (control and capacity gaps, with improvement in 'second line of defense'); (vi) development and costing of funding proposals (given the larger proportion of non-core funding) and (vii) non-core and trust-fund management (efficiency and effectiveness of processes);
- (c) *Operations management*: (i) optimizing the management of human resources, including talent management, recruitment, and individual consultant management (process gaps and changes); with improvement in key position vacancy rates and contract personnel management); (ii) field office procurement (operating effectiveness gaps); (iii) humanitarian procurement (risks inherent to using emergency procurement procedures, in a larger number of countries); and (iv) commitment control (control gaps);
- (d) *Information and communication technology*: (i) the ICT transformation project, including its governance and implementation, in particular, the design of the new enterprise resource planning system (control and capacity gaps which are expected to

improve); (ii) business applications (gaps in functionality and controls in the enterprise resource planning and other ICT systems – increasing workload and non-compliance risk, and limiting information available for monitoring and management oversight); (iii) cloud dependency (managing third-party risk); (iv) data protection and privacy; and

- (e) *Sexual exploitation and abuse; sexual and work harassment; abuse of authority:* responding in the UNFPA programmatic context and at system-wide level; and (ii) responding to 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

41. Good practices, and improvement opportunities revealed through internal audit and investigation work in 2018 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 2018 audit observation memorandum. They are presented below, and in a tabular overview included in Annex 3.

Business units

(i) Office governance

42. Improvements in annual planning continued, with more offices preparing clear and relevant annual management plans, completed on time, and in a participative manner. More offices continued the 2017 trend of establishing decentralized structures for better implementation and monitoring of programme activities. Several offices engaged effectively with other United Nations organizations, assuming lead roles in inter-agency coordination clusters and working groups. Performance appraisal and development activities reflected high completion rates within established timelines, helping improve staff accountability and performance across many offices.

43. To continue on the path of improvement, especially on a more comprehensive and integrated monitoring, enhanced planning, clearer documentation and better integration of the global programming system and the strategic information system would help better align all relevant outputs – including their definitions, corresponding indicators, baselines, targets and milestones – to annual management plans, implementing partner workplans and staff performance plans.

44. In the change management context, audits revealed a need to conduct and, in cases where already approved, implement organizational structure and alignment reviews to better align offices' staffing to programme delivery and operational needs. The vacancy rate for senior office positions remained low; yet offices impacted by the comprehensive resources review experienced higher rates than others. The need to prepare annual training plans that include mandatory and, where relevant, recommended training requirements, and for personnel to implement them, was manifest at several offices.

45. Further progress was made on risk management, yet it requires continuous improvement, particularly in (a) identifying and (b) assessing all (relevant) risks impacting an office; then (c) defining and (d) implementing quality-assessed mitigation actions.

(ii) Programme management

a. Programme planning, implementation and monitoring

46. Some offices developed in-house tools and checklists to standardize and streamline management practices in programme planning, implementation and monitoring.

47. As anticipated, the introduction of the “second generation” Global Programming System (GPS II) in late 2017 has generally improved programme financial management controls of funds transferred to implementing partners. Yet a more rigorous workplan management is still needed in terms of: (a) creating workplans encompassing all activities to be implemented; (b) better costing documentation, including rationale and assumptions made; (c) setting up budgets in GPS at monitoring account levels; and (d) promptly reflecting budgetary revisions in the system, further to continuously developing personnel skills in the use of GPS II.

b. National execution

48. The revised harmonized approach to cash transfers (HACT) framework was rolled out organization-wide, with the full use of assurance plans in 2018. Improvements were noted in the quality of implementing partner micro-assessments. Their timeliness should be improved to guide the choice of cash transfer modalities and the extent of assurance activities to be undertaken. The pattern of fund disbursements – primarily in the last two quarters of the year continued (see Annex 5). The depth, scope and documentation of spot-checks (conducted either by, or in combination with, UNFPA staff, outside firms, and other United Nations organizations) need significant attention to become a fully reliable source of assurance. The necessary skills (taking into account staff turnover and training needs) needs to be strengthened. Future audits will provide more insights as the process matures.

49. The improved programme financial management controls brought by GPS II notwithstanding, the need for implementing partners to comply with reporting requirements was a recurring theme in 2018, together with a more thorough and better documented review of periodic financial reports submitted by implementing partners, and enhanced and more comprehensive monitoring. Several cases of non-competitive implementing partner selection emerged, especially with regard to non-governmental organizations, mainly in areas of humanitarian interventions with, typically, few feasible partners, often shared with other United Nations organizations.

c. Inventory management

50. To increase the availability of reproductive health commodities and limit stock-outs, two areas continued to dominate audit findings (and none was new): (a) needs assessment, supporting procurement planning; and (b) in-country supply-chain management – from customs clearance, receiving and inspection controls, warehousing, distribution to service delivery points, and ultimately to beneficiaries. Both areas require increased support to programme countries by all stakeholders involved.

51. The issuance of a new programme supplies management policy in mid-2018 and enhancements in monitoring tools brought about improvement in controls – notably more transparency of in-country distribution and of tracking of commodity expiration timelines. Yet output indicators and targets related to commodity security should be better defined for some offices, for stronger monitoring of results and commodity records. Controls over storage and security conditions at warehouses improved, including securing appropriate insurance for UNFPA-controlled commodities. Regular monitoring of inventory held by implementing partners, as well as tracking the timely distribution and availability of inventory at service delivery points is an area to follow in future audits.

d. Management of non-core resources

52. Several offices proactively undertook intense resource mobilization efforts, engaging with donors through regular communication and visits, as well as conducting joint monitoring with donor representatives.

53. Focus should be on developing strengthened resource mobilization and partnership plans and on stepping up coordinated resource mobilization efforts. The support of regional offices in this regard is necessary. Of particular concern is the increasing number of non-standard agreements and varying pre-funding assessments (see also paragraph 79 (b) and (c)).

(iii) *Operations management*

a. *Human resources*

54. Mixed compliance with the policies and procedures regarding awarding and managing service and individual consultancy contracts continued in 2018. Some areas for improvement were identified in leave management.

b. *Procurement*

55. Improvements in procurement planning continued to be mixed in 2018. Several instances of non-compliance with procurement procedures at the local level – in the areas of needs assessment, planning, bidding, assessment, contract award and receiving and inspection – were found. Improvements in the use of long-term agreements at the local level – to increase procurement efficiency and obtain value-for-money – were noted. Yet more could be done in obtaining the necessary permissions when placing reliance on long-term agreements entered into by other United Nations organizations. The expected introduction of e-procurement as part of the ICT transformation would help strengthen this area.

c. *General administration*

56. Compliance with travel policies, especially in terms of advance fare purchase, at the local level remained a challenge in 2018. The introduction or expansion of the headquarters travel module to field operations would improve transparency. The foreseen inclusion of such module as part of the ICT transformation would help strengthen this area.

d. *Financial management*

57. Instances of expenses recorded in incorrect account codes (thereby diminishing the overall reliability of programme and financial information) increased in 2018, whereas issues related to value-added-tax payments and reimbursements declined.

58. 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.

59. In addition, the processes and controls over disbursements made through payment services providers, including banks, money transfer operators and mobile telephony companies, remain an area needing strengthening.

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

60. Regional offices' monitoring over their country offices' programmatic and operational performance was strengthened, yet it could improve further in areas prone to experiencing issues, and in enforcing the accountability of underperforming offices. More details are provided in paragraphs 66 to 69).

Programmes

61. The West and Central Africa regional signed agreements for the provision of technical assistance with six countries targeted by the Sahel Women’s Empowerment and Demographic Dividend (SWEDD) programme, which was covered during the regional office audit.

62. The need to accelerate implementation of the SWEDD programme – and address issues of delayed disbursement of funds and of recruitment – and to improve budgetary controls over its funding were identified.

VII. Recommendations made and management actions

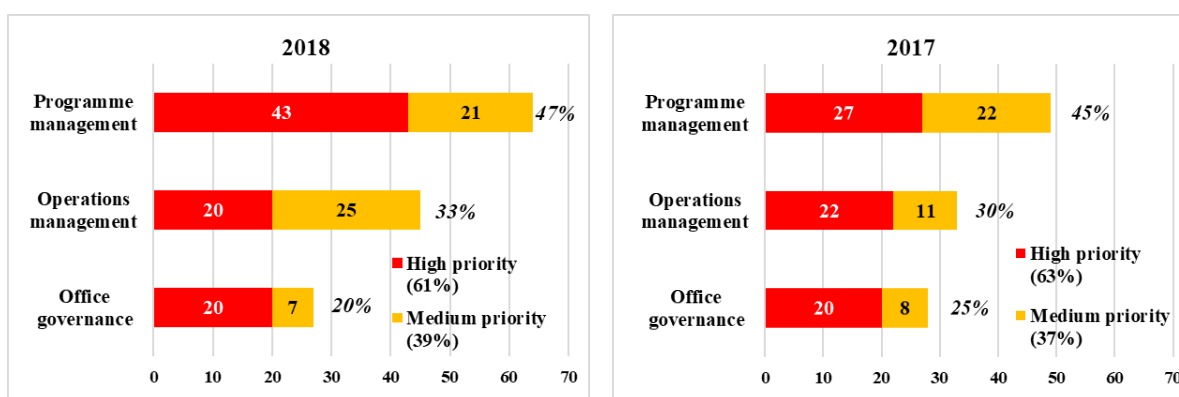
A. Audit recommendations

New recommendations

Country offices

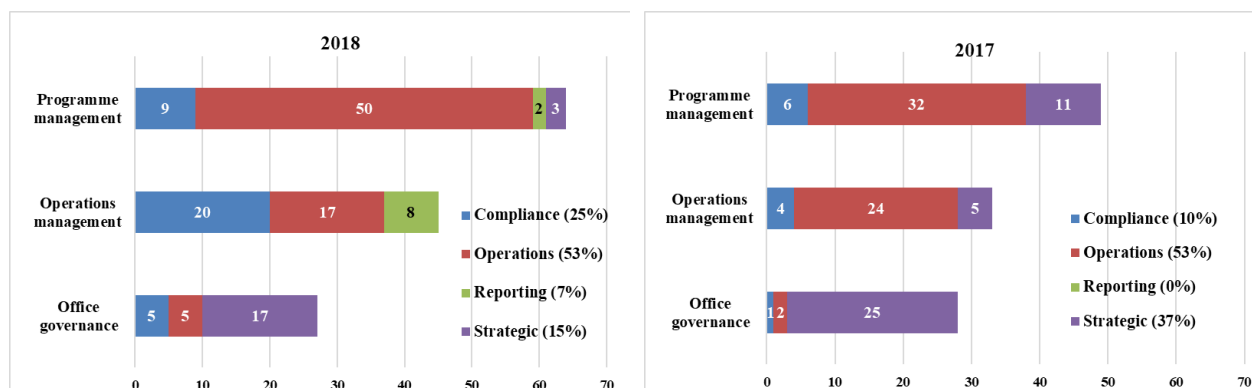
63. Overall, 136 recommendations in relation to country office audits were issued in 2018. The pattern remained similar between 2017 and 2018, with ‘programme management’ accounting for the larger proportion of recommendations, followed by ‘operations management’. Similarly, the distribution between ‘high’ and ‘medium’ priority remained almost identical in 2018, with a slight decrease (in percentage) of ‘high priority’ recommendation (see Figure 2).

Figure 2
Country offices – recommendations by priority level



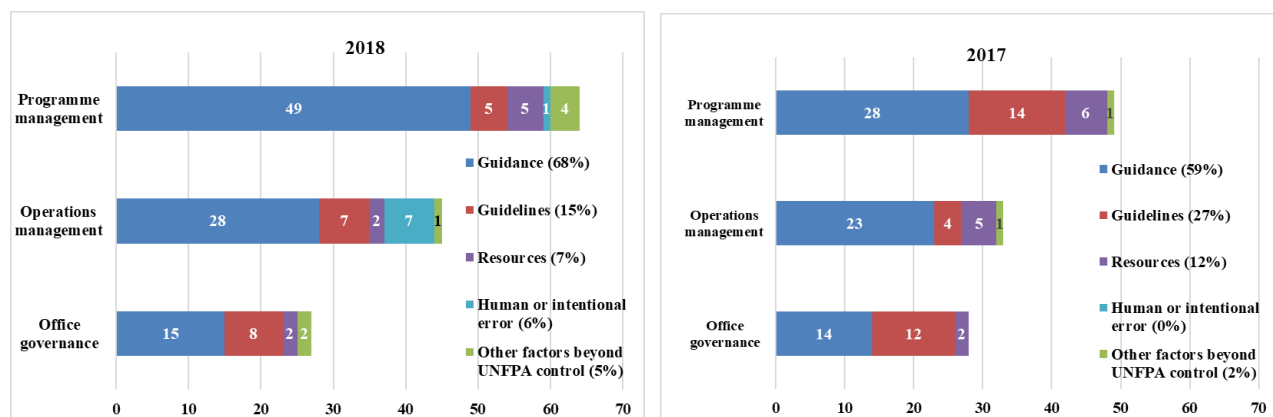
64. The pattern by type changed slightly between 2017 and 2018, although ‘operations’ remained the highest category. In 2018, the proportion of ‘compliance’ issues increased significantly, followed by ‘reporting’ incidences. The ‘strategic’ category (in particular, issues related to office structures) decreased significantly, with the effect of office realignments (see Figure 3).

Figure 3
Country offices – recommendations by type



65. Insufficient ‘guidance’ (inadequate or insufficient supervisory controls) dominated, and increased in proportion in 2018, compared to 2017. Inadequate ‘guidelines’ (lack of or inadequate policies) and ‘resources’ (human or financial), while ranked second and third, respectively, decreased in 2018. ‘Errors’, either human or intentional, is new while ‘other factors beyond UNFPA control’ increased (see Figure 4).

Figure 4
Country offices – recommendations by cause

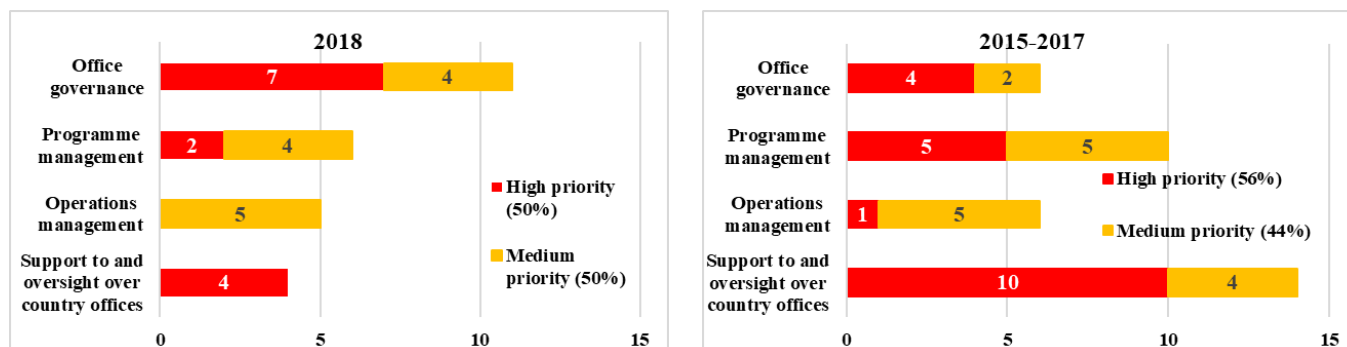


Regional offices

66. The audits of the Asia Pacific and the West and Central Africa regional offices were concluded in 2018, with 26 recommendations issued. These followed the audits of the East and Southern Africa and the Arab States regional offices over 2015-2017, allowing the first overview of regional offices.

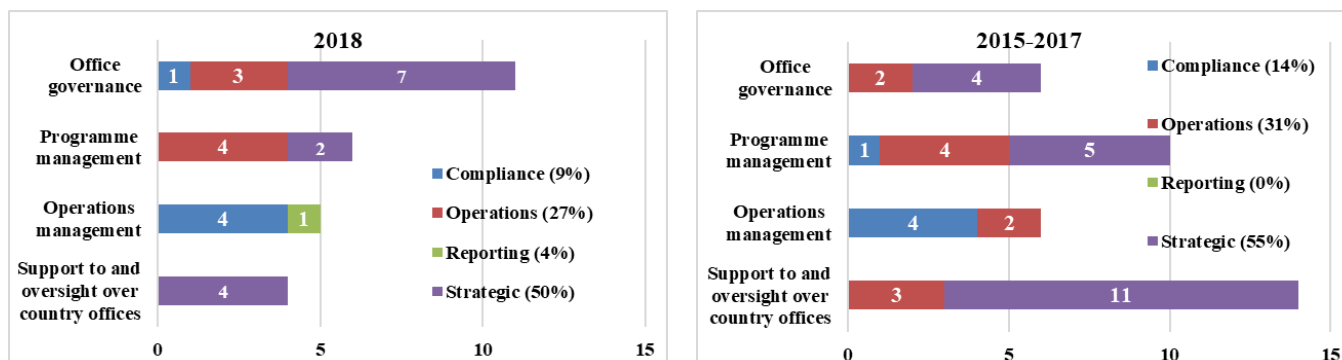
67. The picture emerging in 2018 is almost opposite to that from 2015-2017. ‘Support to and oversight over country offices’ and ‘programme management’ improved significantly while ‘office governance’ issues, related to the regional office structure, increased; the proportion of ‘high’ versus ‘medium’ priority recommendations also improved (see Figure 5).

Figure 5
Regional offices – recommendations by priority level



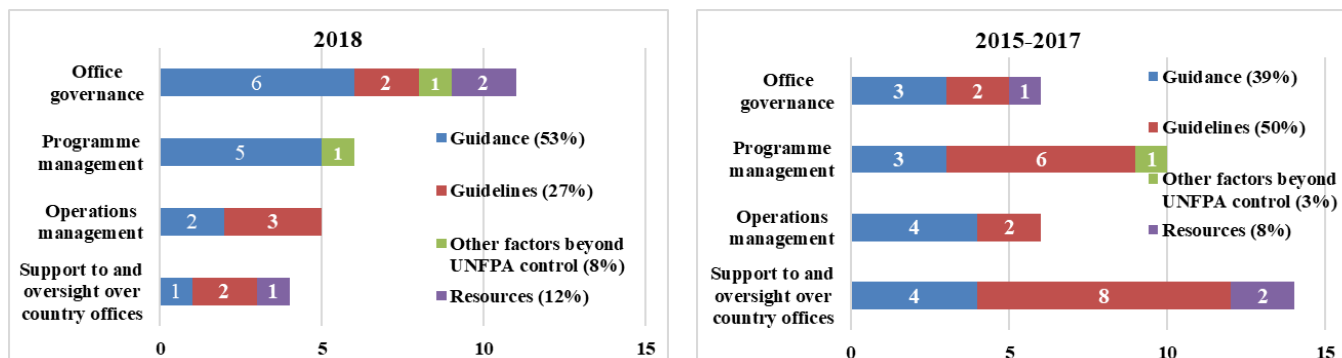
68. Recommendation by type remained relatively similar between 2017 and 2018, with a worsening of ‘compliance’ issues similar to that observed for country offices (see Figure 6).

Figure 6
Regional offices – recommendations by type



69. In terms of cause, ‘guidelines’ related to regional offices improved in 2018 and ‘guidance’ became the most significant issue, impacted by ‘resources’ (financial or human) matters, which increased between 2017 and 2018.

Figure 7
Regional offices – recommendations by cause



Outstanding recommendations

70. As shown in Table 8, 106 recommendations remained outstanding as at 31 December 2018, following the closure of 168 recommendations during the year 2018.

Table 8
Status of implementation of audit recommendations by year

| Year | Number of reports ^(b) | Recommendations issued | Outstanding recommendations ^(b) | |
|---|----------------------------------|------------------------|--|-----------------|
| | | | 2017 | 2018 |
| 2010 ^(a) -2014 | 36 | 565 | 4 (1%) | 2 (1%) |
| 2015 | 11 | 171 | 18 (10%) | 11 (6%) |
| 2016 | 12 | 183 | 44 (24%) | 15 (8%) |
| 2017 | 10 | 122 | 46 (38%) | 7 (6%) |
| Subtotal | 69 | 1,041 | 112 (11%) | 35 (3%) |
| 2018 | 13 | 162 | n.a. | 71 (44%) |
| Total | 82 | 1,203 | n.a. | 106 (9%) |
| <i>Of which: past their implementation deadline</i> | | | 72 (64%) | 47 (44%) |
| <i>Due for implementation after 31 December</i> | | | 40 (36%) | 59 (56%) |

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

(b) Excludes reports and recommendations of joint audits followed by the internal audit service which lead the joint audit.

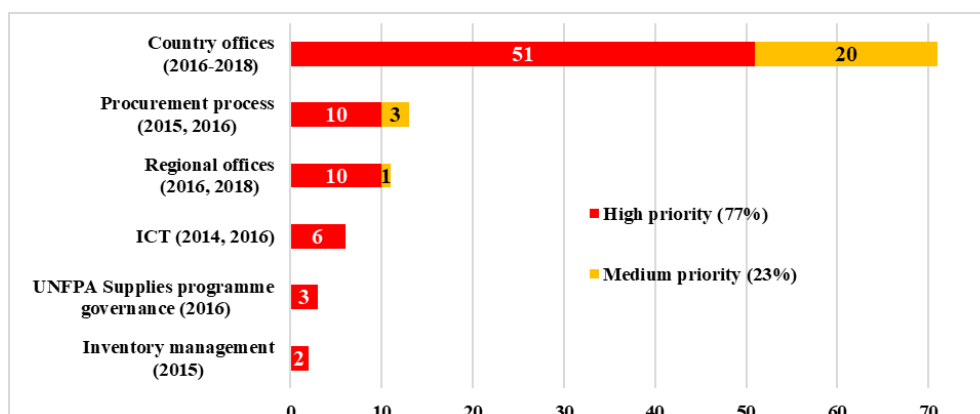
71. Figure 8 provides details on the outstanding recommendations, of which 71 (67 per cent) pertain to country office audits (from 2016 to 2018); 11 (10 per cent) to regional office audits (2016 and 2018), and 24 (23 per cent) to process, programme and ICT audits in various years.

72. Of the 71 outstanding country office recommendations, 35 correspond to ‘programme management’ (including 17 related to ‘inventory management’; 11 to ‘national execution’; 4 to ‘programme planning and implementation’; and 3 to ‘management of non-core funding’); 17 to ‘office governance’ (with 5 related to ‘organizational structure and staffing’; 4 to ‘risk management’ and 8 to ‘office management’); and 19 to ‘operations management’ (of which 5 refer to ‘procurement’; 8 to ‘financial management’; 5 to general administration for travel; and 1 to ‘human resources’).

73. Of the 11 outstanding regional office audit recommendations, 5 pertain to ‘support to and oversight over country offices’; 5 to ‘governance’ and one to ‘programme management’.

74. Out of the 35 outstanding process or programme-related recommendations, 13 are from procurement audits completed in 2015 and 2016; 3 correspond to the 2016 audit of the ‘governance and strategic management of the UNFPA Supplies’ programme; another 6 relate to ICT; 11 recommendations correspond to three regional offices; and 2 remain from the 2015 inventory management audit.

Figure 8
Outstanding recommendations as at 31 December 2018

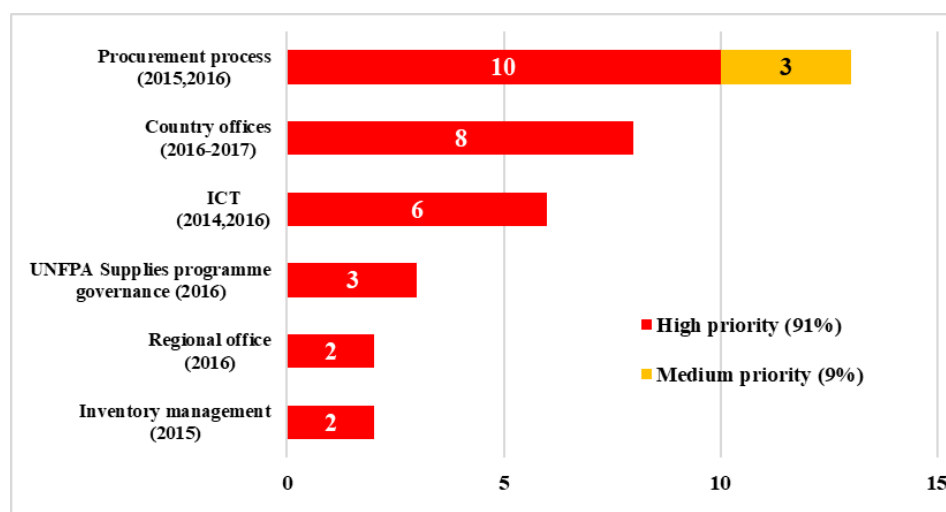


Acceptance of risk by management

75. One medium-priority recommendation from 2015 related to human resources (exception report on rental subsidy payments) was closed in 2018 based on management's acceptance of the risk of not implementing it.

Recommendations unresolved for 18 months or more

Figure 9
Recommendations unresolved for 18 months or more



76. The review of recommendations implementation showed a slight decrease in progress, compared to 2017. Of the 106 outstanding recommendations as at 31 December 2018, 34 remained unresolved for 18 months or more (see Figure 9 and Annex 4), compared to 30 recommendations in 2017. Of the 34 recommendations, 13 concerned procurement processes and 6 referred to various ICT processes requiring a combination of procedure improvements (e.g. the procurement procedures revision; the development of a more robust ICT internal control framework) or the ICT transformation. Further, 8 recommendations concerned six country offices in various areas (e.g. documentation of budgets, risk management assessments, and need for guidelines cash payments transfers made through service providers); 2 were issued through a regional office for the development of corporate-wide guidelines for

management oversight over country offices' programmatic and operational performance; and the remaining 5 relate to organization-wide processes (programme supplies and inventory management, in particular).

B. Disciplinary measures or sanctions taken after investigations

77. By year-end 2018, administrative or disciplinary action had been taken in: all substantiated cases of 2013 and 2014; 12 of the 14 cases substantiated in 2015; 11 of the 19 ones from 2016; 6 of the 14 ones of 2017 and 2 of the 9 ones of 2018; or cumulatively on 67 per cent of all substantiated cases since 2013. Details are provided in Annex 6.

78. Of the cumulative losses identified over 2013-2018 amounting to approximately \$429,000, 48 per cent had been recovered at the time of writing the present report. More details are available in Annex 6.

VIII. Advisory activities

79. The external and internal environment in which UNFPA operates continued to change rapidly, with a high demand for OAIS ad-hoc advisory services. Given its capacity, OAIS could only selectively fulfil some, with several requests requiring significant investment, especially 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 regarding policies, protocols, requests from Member States, internal and inter-agency coordination in these areas – with the Office of the Special Coordinator, the High-level Committee on Management, the Inter-Agency Standing Committee, as well as through the United Nations Representatives of Investigation Services (UN-RIS). OAIS contributed in particular to defining protocols and processes, on reporting mechanisms and information sharing, and on specific investigation guidelines and mechanisms (see further paragraph 82). In 2018, OAIS invested – in aggregate – around two-thirds of a full-time senior-level post, although it scaled back its involvement, following the departure in August 2018 of the Chief, Investigations Branch (who became the UNFPA Coordinator on protection from sexual exploitation and abuse and sexual harassment), to focus primarily on UN-RIS activities and respond to the Coordinator's requests. OAIS will continue its support in 2019, within the limits of its resources;
- (b) *Review of financing agreement clauses.* In the context of the continued funding structure shift and increasing non-standard agreements with complex clauses – especially on investigation and on sexual exploitation and abuse, OAIS provided input on 30 core and non-core financing agreements in 2018 (28 in 2017; 23 in 2016; 16 in 2015). Responses to multiple versions continued to require very short response timeframes;
- (c) *Assessments.* OAIS continued to participate in several reviews conducted by Member States and donors at the local and corporate levels for which its input was sought, while responding to their questions on internal audit and investigation throughout the year;
- (d) *Policies and other activities.* OAIS focussed on two policies only (one in 2017; 18 in 2016; 10 in 2015; 22 in 2014). OAIS drastically limited 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.*

IX. Collaboration within the United Nations system

A. Internal audit

80. In 2018, 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).

81. In 2018, OAIS was re-elected UN-RIAS Chair for 2018-2019, 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

82. In 2018, OAIS continued to collaborate closely with the United Nations Representatives of Investigation Services (UN-RIS). OAIS was active in inter-agency investigation activities, in the meetings of UN-RIS and the Conference of International Investigators. OAIS actively participated in the inter-agency mechanisms on inter-agency activities on sexual exploitation and abuse, as well as sexual harassment (see also paragraph 79 above).

C. Joint Inspection Unit

83. OAIS continued its role as the UNFPA focal point for the Joint Inspection Unit. OAIS liaised on 15 reviews with UNFPA units, the Joint Inspection Unit itself and the secretariat of the Chief Executives Board for Coordination. Further, OAIS 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 its regard.

84. OAIS continued to note the workload required to adequately fulfil the focal point role for UNFPA.

X. Overall conclusion and next steps

85. OAIS wishes to thank the Executive Director, senior management, the Executive Board and the Oversight Advisory Committee for their continuous support, which has enabled OAIS to carry out its mandate as successfully as possible in 2018.

86. Through its various actions in response to OAIS reports and advice, UNFPA management continued to demonstrate in 2018, as in past years, its commitment to increasing the effectiveness of the governance, risk management and control processes at UNFPA.

87. Looking ahead, the main challenge for OAIS remains, more acutely than ever, the alignment of increasing expectations with available resources.

88. While OAIS appreciates the increased funding provided for 2019-2020 for investigation, given the risk appetite at UNFPA, the resources available to the Office (the “supply”) continue to outstrip the “demand” for OAIS services. This demand for services includes: (a) investigation – a main area of concern – with an expectation of prompt handling, while respecting due process and fulfilling reporting and transparency requirements, of a caseload increasing in number and in complexity (from harassment and abuse of authority, sexual exploitation and abuse, to fraud); (b) internal audit, with faster audit cycles and increasing expectation of coverage at the level of donor-funded projects or programmes; (iii) advisory services, especially with the ongoing change management and the wider United Nations reform activities; and (d) a generally higher demand related to system-wide activities. As noted in previous years, this mismatch between

demand for services and available resources continues to make OAIS a high fiduciary and reputation risk for UNFPA.

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