Executive Board of the United Nations Development Programme, the United Nations Population Fund and the United Nations Office for Project Services

Distr.: General
30 March 2021

Original: English

Annual session 2021
7 to 13 June 2021, New York
Item 3 of the provisional agenda
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 2020

Addendum

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

Summary

In the opinion of the Director of the Office of Audit and Investigation Services, based on the scope of work undertaken, the adequacy and effectiveness of the UNFPA governance, risk management and internal control processes were rated as *'some improvement needed'* – which means that these processes 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. None of the issues identified was, however, assessed as having the potential to seriously compromise that achievement.

I.   Opinion

1.   The opinion on the adequacy and effectiveness of the UNFPA framework of governance, risk management and control is provided in accordance with Executive Board decision 2015/13 of June 2015.

2.   In the opinion of the Director of the Office of Audit and Investigation Services (OAIS), based on the scope of work undertaken, the adequacy and effectiveness of the UNFPA governance, risk management and internal control processes were *'some improvement needed'* – which means that these processes 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. None of the issues identified was, however, assessed as having the potential to seriously compromise that achievement.

II.   UNFPA management responsibilities

3.   UNFPA management is responsible for designing and maintaining the governance, risk management and internal control processes and ensuring that these operate effectively. The responsibility of OAIS is limited to independently assess the adequacy and effectiveness of these processes.

III.   Criteria used for assessing the adequacy and effectiveness of the governance, risk management and internal control processes

4.   OAIS utilized the versions of the internal control framework and the enterprise risk management integrated framework of the Committee of Sponsoring Organizations of the Treadway Commission – adopted by UNFPA as the basis for its internal control framework and enterprise risk management process, respectively – as the main criteria for assessing the adequacy and effectiveness of the governance, risk management and internal control processes to provide reasonable assurance on the achievement of the UNFPA objectives in the following categories:

(a)   *Strategy*: fulfilment of the UNFPA mandate and achievement of its strategic plan goals;

(b)   *Operations*: effectiveness and efficiency of UNFPA operations, including (i) operational and financial performance goals; (ii) conformity of expenses with the purpose for which funds were allocated; and (iii) safeguarding of assets against loss;

(c)   *Reporting*: reliability of UNFPA internal and external (i) financial reporting, and (ii) non-financial reporting; and

(d)   *Compliance*: adherence to the UNFPA regulatory framework as established in its legislative mandate, rules, regulations, policies and procedures.

IV.   Scope of audit work and additional sources of evidence considered for formulating the opinion

5.   The opinion is based on OAIS audits concluded between 1 January and 31 December 2020, as detailed in the Report of the Office of Audit and Investigation Services on UNFPA internal audit and investigation activities in 2020 (DP/FPA/2021/6, sections IV and VI, and Annex 3). It should be noted that most 2020 audits were centred on field offices or regions with a large humanitarian portfolio, therefore representative of only a portion of the UNFPA overall portfolio.

6.   All OAIS audits were conducted in accordance with the applicable policies by which the office has to abide – the oversight policy, the financial regulations and rules, the staff regulations and rules, and the International Standards for the Professional Practice of Internal Auditing.[1]

---

[1] Promulgated by the Institute of Internal Auditors (IIA).

7. To formulate its opinion, OAIS considered, as appropriate, other sources of evidence, including: (a) cumulative audit knowledge stemming from OAIS audits completed in previous years, as considered relevant; (b) the 2020 audit risk assessment (revised due to the pandemic), as well as the outcome of the 2020/21 audit risk assessment, undertaken to support the development of the 2021 audit plan; (c) the status of implementation of internal audit recommendations, as at 31 December 2020; (d) systemic issues noted in investigations completed in 2020; (e) interim audit findings reported by the United Nations Board of Auditors in its interim audit observation memoranda for the audit of the UNFPA 2020 financial statements, shared in March 2021; (f) results of implementing partner audits commissioned by management and completed in 2020; (g) results of control self-assessments completed by numerous country and regional offices, as well as certain headquarters business units in January 2021; (h) third-party assurance reports obtained regarding investment custodians, outsourced vendor management, and some information technology systems and services (see paragraph 11 below); and (i) results of strategic and fraud risk assessments completed as part of the enterprise risk management process implemented by management, to the extent available when preparing this opinion.

8. The audits and some additional sources of evidence considered for purposes of formulating the opinion refer to activities undertaken by UNFPA in 2019 or previous years. Given the pandemic situation, no field audit covering 2020 was concluded in 2020.

9. Additional matters could have been identified that may have affected the opinion had additional audit work been performed in 2020, a year which was affected by the pandemic, and/or in previous years.

10. In 2020, as in previous years, UNFPA outsourced significant functions 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 enterprise resource planning system; 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 not covered by the OAIS opinion.

11. Also, UNFPA outsourced numerous information and communications technology functions, including the hosting of significant systems (email, storage), to third-party service providers. UNFPA obtained third-party assurance reports and/or certificates on the adequacy and effectiveness of the governance, risk management and internal control processes for its office-type, website hosting services, email services, cloud storage and the services in use by OAIS. At the time of writing this report, UNFPA had not obtained such third-party assurance reports concerning firewall and vulnerability management, technology infrastructure maintenance, and learning-related applications. Therefore, these are not covered by the OAIS opinion.

V.   Process followed for aggregating audit results and assessing issues

12. Results of the audits concluded by OAIS in 2020 and the additional evidence considered to formulate the opinion were aggregated by audit area and process, using the framework previously developed for the audit risk assessment and for reporting key findings of internal audit and investigation activities.

13. The potential impact of the issues identified on the achievement of the relevant UNFPA objectives in the categories detailed in paragraph 4 above was assessed, taking into consideration: (a) the ratings assigned to the entities, processes, programmes and areas covered by the audits, weighted based on the value of audited expenses; (b) the nature and materiality of the issues identified, individually and in the aggregate; (c) the root causes and pervasiveness of the issues identified; (d) the risk profile, as determined, based on the outcome of the OAIS audit risk assessment, and the materiality of the processes affected; (e) the degree to which internal audit recommendations related to these processes were implemented; and (f) the adequacy and effectiveness of compensating controls operating at headquarters or at the regional office level that could contribute to mitigating the impact of the issues found.

VI. Basis for the opinion formulated

14.   OAIS assessed the adequacy and effectiveness of the UNFPA governance, risk management and internal control processes as 'some improvement needed' – which means that these processes were adequately designed and operating effectively but needed some improvement to provide reasonable assurance on the achievement of objectives in the categories detailed in paragraph 4 above.

15.   The key improvement areas leading to this opinion are described below:

A. Governance and risk management

Integrated control framework

16.   Efforts to improve the integrated control framework continued in 2020, building on work done and progress made in 2019 and previous years. Given the focus placed in 2020 on the new enterprise resource planning system, progress was slower than in 2019. Key policies and procedures were revised or introduced during 2020. The electronic payment request process is part of innovations to improve the efficiency and effectiveness of controls; its implementation was accelerated to enable business continuity while working remotely due to the pandemic. Together with the introduction of electronic signatures, the payment process is now paperless and offers an enhanced audit trail of supporting documents and approvals, which can be tested remotely.

17.   The completion of the comprehensive and integrated control framework underway remains a necessity to improve management's awareness of internal control requirements (supplementing the progress already made), and better enforce accountability for internal controls. The framework should also cater to the needs of both development and humanitarian activities. Management's intention to align the integrated control framework with the enterprise risk management framework is acknowledged and encouraged.

18.   The new enterprise resource planning system is foreseen to include a governance, risk and compliance module, and present opportunities to better cover and integrate all relevant governance, programme management and operations processes, thereby contributing to better efficiency, effectiveness and compliance within UNFPA and within the United Nations system.

Enterprise risk management

19.   Further progress was made on maturing the risk management process through a differentiated approach for the 2020 enterprise risk management cycle, with facilitated, focused in-depth risk assessments for 30 high-risk countries. The rationale for this approach was to focus resources on higher risk areas, reduce the administrative burden of lower-risk business units while taking into account pandemic-related restrictions.

20.   Continuous effort is required. The risk ratings assigned should be more thoroughly justified and documented. The timeliness and depth of risk response activities should be strengthened to enable the timely development of response measures and follow-up on their implementation. Further, bridging the skill-set gaps that limit the relevance and effectiveness of risk assessment and risk response activities undertaken by business units should remain under continuous focus.

21.   The development of a comprehensive risk management policy, including a risk appetite statement, continued in 2020 and should be completed in 2021. Risk management should be integrated with strategic planning, and with the comprehensive internal control framework.

Organizational structure and staffing

(i)   Business unit capacity

22.   Delays continued to be noted in the review of organizational structures and personnel for alignment to programme delivery and operational needs. A management-commissioned assessment of the corporate human resources function undertaken in 2020 highlighted functional areas for strengthening, including capability and capacity in organizational design and implementation of

realignments. A planned allocation of dedicated resources in 2022 and temporary resources in the interim should bring improvements in this area. Future audits will monitor these planned developments.

(ii) Vacancies in key positions

23. As in previous years, management continued to take action to lower vacancy rates for key management positions. No specific issues were noted in 2020 concerning vacancies in key positions. However, continued attention to this area is still needed. Additional efficiencies should be realized with the new enterprise resource planning system and finalization of ongoing work on the revision of organizational delegation of authority.

(iii) Staff development and training

24. Staffing retreats, team-building exercises, and coaching sessions were conducted to support and enhance staff skills and competencies in critical areas, including programme, finance and operations management – before the onset of the pandemic. The shift to remote working due to the pandemic necessitated a corresponding shift in developing necessary skills. As a result, flexible arrangements to undertake training and report on performance were adopted.

25. Aligning staff individual annual performance plans to office management plans, programme outputs, milestones, and expected results requires continuous focus. So is achieving better mandatory and recommended training completion rates.

Headquarters and regional office support and oversight

26. Managerial oversight controls (i.e., "second line of defence") at headquarters and regional offices continued to improve in 2020. These include, in particular, ongoing monitoring of material financial transactions in the areas of inventory control, disbursements to implementing partners – in cash or in kind, value-added tax recovery performance, cash disbursements, and investment management. The 'last mile' assurance process, related to the distribution of commodities and piloted in 2019, was rolled out in 2020; it includes, *inter alia,* independent year-end inventory counts (given pervasive logistical challenges impacting commodity distribution along the supply chain). Additional oversight controls were also introduced in response to pandemic-related risks, such as monitoring foreign exchange exposure and the larger than normal volume of staff salary advances (to help cope with the pandemic); and increased monitoring of non-core contributions.

27. The 'second line of defence' should continue to be strengthened, particularly to formalize the processes already in place and expand into new ones, with clear terms of reference and guidelines regarding the nature, scope and frequency of management oversight; to automate and integrate review processes in the new enterprise resources planning system; and to provide appropriate human and financial resources commensurate with an effective management oversight architecture.

28. To minimize the risks arising from gaps in management leadership and management oversight, OAIS continues to encourage headquarters and regional offices to put in place a comprehensive framework to provide coordination of and strategic direction to the various governance and management oversight mechanisms established at country office level, while fostering a culture of effective and efficient programme management and operational delivery.

B.   Internal control

Programme management

(i)   Programme planning and implementation

   a.   Results-based management

29. Measures related to results-based management put in place by management in 2019 continued to yield results in 2020. Yet, the need to formalize workplan quality review processes, with better documentation to support the rationale and assumptions made during workplan preparation and planning, remains. Periodic review of outputs, indicators, and targets could help ensure continued relevance and quality; so would the continuous training of relevant personnel involved in programme planning and monitoring, with clear assignment of responsibilities and accountabilities.

30.   As seen in previous years, comprehensive programme results and resource frameworks, supplementing country, regional and corporate programme documents should continue to be strengthened, in terms of (a) programme outputs; (b) indicators and related baselines and targets; (c) milestones (i.e., intermediate results); and (d) resource estimates, with disaggregated information for all periods within the programme cycle.

31.   These frameworks allow a more effective planning and implementation of UNFPA programme activities and better monitoring of progress towards achieving expected programme results and would also complement the United Nations System development cooperation framework.

b. Workplan management

32.   Workplan management continued to improve in 2020, with remote training delivered to address issues around workplan design, the validity of workplans, and eligibility of workplan costs. To further enhance the effectiveness of the workplan management process in the Global Programming System, the system's user guide was amended, to clarify the procedures for proper management of workplan revisions; a guidance note was issued on budgeting for funding proposals, which was accompanied by a webinar aimed at field offices, to raise awareness and build capacity.

33.   To further improve on the effectiveness of the workplan management process, some areas continue to require significant strengthening, notably (a) improving budgeting tools and enforcing proper budgeting practices; and (b) timely prepare and quality-review country offices' annual results plans and workplans (in collaboration with implementing partners), to ensure the formulation of quality milestones with realistic, measurable and achievable target indicators.

c. Programme financial management controls

34.   In 2020, the development of tools and checklists to guide implementation and monitoring of country programmes and to standardize and streamline management practices in programme planning, implementation and monitoring continued. In some offices, dedicated teams were set up to work closely with implementing partners, to provide support and conduct financial and programmatic monitoring.

35.   Notwithstanding the progress made, the set-up of workplans and budgets continues to require attention and further strengthening, with a rigour similar to that applied to the institutional budget, and personnel involved in the workplan management process should continue being equipped with the necessary training and tools.

36.   The ICT transformation should integrate the points mentioned in (a) to (c) above in the upcoming enterprise resources planning system.

(ii)   Implementing partner management

37.   Implementing partner management was affected by disruptions and restrictions caused by the pandemic. As these took effect, management timely issued guidance on spot-checks and implementing partner audits to adapt these to the changing operating environment, and enabled many implementing partner assurance activities to proceed remotely.

38.   Continuous improvements were noted in the competitive and properly documented selection of implementing partners and in the assessment of their financial management capacity, including fraud risk prevention and detection controls. Further, a comprehensive review of implementing partner assessment methodology and practices was initiated in 2020 (to be completed in 2021) in collaboration with other concerned United Nations organizations, to address the longstanding issue of multiple specific assessments – (financial) micro-assessment, supply-chain management and prevention of sexual exploitation and abuse

39.   The depth, scope, frequency, timeliness and documentation of spot-checks continue to require significant attention to become a fully reliable source of assurance, further to the need for more frequent and rigorous implementing partner programmatic and financial monitoring.

40.   The capacity and skillsets of personnel involved in implementing partner assurance activities, as well as that of implementing partner personnel themselves, continues to require strengthening.

(iii) Supply-chain management

41. Management should continue improving inventory receiving and inspection controls and addressing gaps in partner supply chain management systems that could reduce commodities availability and originate stock-outs, as well as weaknesses in handover controls over programme supplies and proper documentation of the process by country offices and implementing partners.

42. To enhance transparency and assurance in the supply chain up to the 'last mile' (service delivery point), management rolled out, in 2020, the 'last mile' assurance process piloted in 2019, to monitor commodities along the supply chain using various means and tools, including supply-chain maps, implementing partner supply-chain risk assessments, programme supplies reporting, inventory spot-checks and audits.

43. Other significant corporate initiatives rolled out in 2020 were (a) the design and approval of a new country engagement model for the UNFPA Supplies partnership; (b) a dedicated supply chain management unit; (c) the review of the management of programme supplies policy, to clarify control procedures, reflect the latest World Health Organization storage and distribution standards, and fully integrate the 'last mile' assurance process; (d) the development of a new social marketing policy; and (e) regular dissemination of information regarding inventory management.

44. All these initiatives are expected to take root in 2021 and significantly enhance transparency and effectiveness. The full impact of these initiatives will be reviewed in future audits.

(iv) Management of non-core funding

45. Management closely managed the increasing risk of non-collection of contributions receivable (owing to donor challenges or changing priorities in the face of the pandemic) through increased monitoring thereof. Management also proactively managed its currency exchange exposure regarding non-United States dollar-denominated contributions, striving to collect these as early as possible and by actively managing their conversion to United States dollars.

46. To manage legal and reputational risks for UNFPA, controls over co-financing agreements with non-standard clauses, including those on investigation and protection against sexual exploitation and abuse, should continue to be strengthened, where applicable, through inter-agency efforts.

47. Further, the timeliness and quality of donor reporting should continue to be improved. The ICT transformation should help in this regard.

Operations management

(i) Human resources management

48. Progress was noted regarding prolonged vacancies in key management positions through improved monitoring of vacancies, full usage of the leadership pool, and a more effective rotation process.

49. As in previous years, contract awards and consultancy fee calculation and payment continued to be managed manually in 2020, with some deviations from policy regarding the selection, award and management of service and individual consultancy contracts, payment and evaluation of contractors, and filing of contracts. The corporate and regional consultant rosters continue to require attention.

50. The ongoing ICT transformation project, current work on organizational delegation of authority, and the consultancy management framework review – to integrate the process of contract award, fee calculation and performance evaluation – are expected to bring further progress.

(ii) Procurement

51. The use of long-term agreements at the country office level – to increase procurement efficiency and obtain value-for-money – continued to improve in 2020. Yet several instances of non-compliance with procurement policy and procedures at the local level – planning, bidding and contract award – continued to be found. So were instances of inadequate procurement planning and lack of monitoring the execution of procurement plans, especially in the humanitarian delivery context.

52.   Several corporate initiatives were undertaken in 2020 to further strengthen procurement procedures. These included implementation of a procurement checklist system, provision of specialized training opportunities to relevant procurement personnel, development of two dashboards to identify procurement trends and exceptions, and roll-out of global and regional webinars to guide specific procurement actions during the pandemic.

53.   Further, the new enterprise resource planning system is expected to enhance, *inter alia*, corporate monitoring of procurement at the local level.

(iii)   Financial management

54.   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 timelier manner.

55.   Instances of expenses recorded in incorrect account codes (thereby diminishing the overall reliability of programme and financial information) once again increased in 2020. At the same time, much improved 'second line of defence' controls and financial management performance reporting were implemented at headquarters level, to detect and correct the miscoding and mitigate their impact.

56.   The planned new enterprise resource planning system is expected to bring significant improvements, including the design of a new chart of accounts and the use of automated functionality to select the appropriate accounts.

57.   Further, to mitigate the risks posed by a predominantly manual payment process and improve on its efficiency, effectiveness and documentation, the introduction of a new electronic payment requests system was accelerated, to cater to remote working, starting from March 2020, due to the pandemic.

(iv)   Information and communication technology

58.   The ongoing ICT transformation project progressed, in particular, regarding the enterprise resource planning system, yet with some delay following inter-agency discussions on a possible joint introduction of the same system, which proved not suited to the needs of the organization.

59.   Implementing the security assessment outcome, under the umbrella of the ICT transformation, should be a priority.

60.   The full impact of the ICT transformation will be covered in future audits.

Specific programmatic areas

(i)   Humanitarian response

61.   Humanitarian activities have increased over the years. The Humanitarian Office contributed, in a significant way, to scaling up UNFPA ability to lead in and respond to humanitarian situations, thus becoming an increasing proportion of the organization's portfolio.

62.   Adapting rapidly to humanitarian situations continued to prove challenging for country offices, with the need to respond swiftly to the situation on hand, often in the context of heightened security risk, limited availability and capability of implementing partners, and challenges presented by the pandemic.

63.   Funds availability was, at times, unpredictable, leading to frequent changes in results and resources frameworks, including programme planning and operations. Such contexts require conducting differentiated risk assessments, adapting – where necessary – the internal control framework to address these risks, e.g. through the implementation of revised fast-track procedures in 2020. This also requires aligning office structures and human resource capacity.

64.   Actions to ease programme and operational bottlenecks previously identified were either implemented in 2020 or were underway, for instance, regarding more dedicated and coordinated resource mobilization, or the creation of a supply chain management unit to manage and coordinate all UNFPA programme supplies.

65.   The shifting of mindsets, to address and deliver in both development and humanitarian contexts, remains a key challenge to address. The impact of the measures, underway and upcoming, will be reviewed in future audits.

(ii)   Census

66.   Censuses were significantly impacted by the pandemic, with most activities initially planned for 2020 postponed to 2021 or later. The situation presents an opportunity to address the challenges mentioned in past years – timely planning the overall exercise; realistic and accurate budgeting; rigorous management oversight, and operational implementation, e.g. with the choice of appropriate implementing partners, on-time procurement, efficient and safe payment of enumerators, and proper accounting treatment of assets.

67.   In 2020, management provided guidance in light of the challenges posed by the pandemic and issued a guidance note on budgeting for funding proposals.

68.   With many censuses deferred to 2021 and beyond, further strengthening of capacity and support to census operations is required. Future audits will review developments in this regard.

———