



23 April 2018

## **UNFPA management response**

**Report of the Director of the Office of Audit and Investigation Services  
on UNFPA internal audit and investigation activities in 2017,  
including the annual report of the Audit Advisory Committee  
(DP/FPA/2018/6; Add.1 and Add.2)**

Agenda item 15: Internal audit and investigation

Pursuant to decision 2006/13, UNFPA is pleased to present its management response to the report of the Director of the Office of Audit and Investigation Services (OAIS) on UNFPA internal audit and investigation activities in 2017 (DP/FPA/2018/6 and Add.1).

This management response should be read in conjunction with the 2017 annual report of the Audit Advisory Committee (AAC), issued as an addendum to the OAIS report (DP/FPA/2018/6/Add.2).

This report is organized into two sections. Section I provides the management response to the issues and improvement areas identified in the OAIS report. Section II provides the management response to the strategic advice contained in the AAC report.

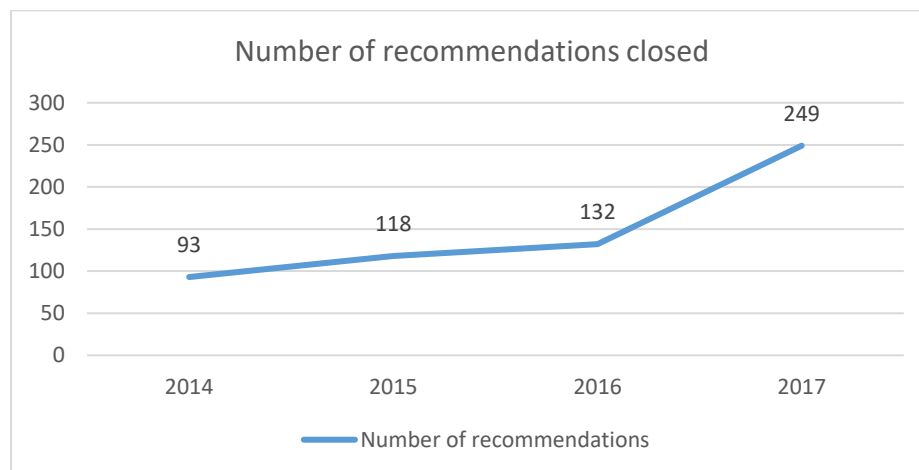
Executive Board of UNDP, UNFPA, and UNOPS  
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4-8 June 2018  
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## Section I

### Management response to the report of the Director of the Office of Audit and Investigation Services on UNFPA internal audit and investigation activities in 2017 (DP/FPA/2018/6 and Add.1)

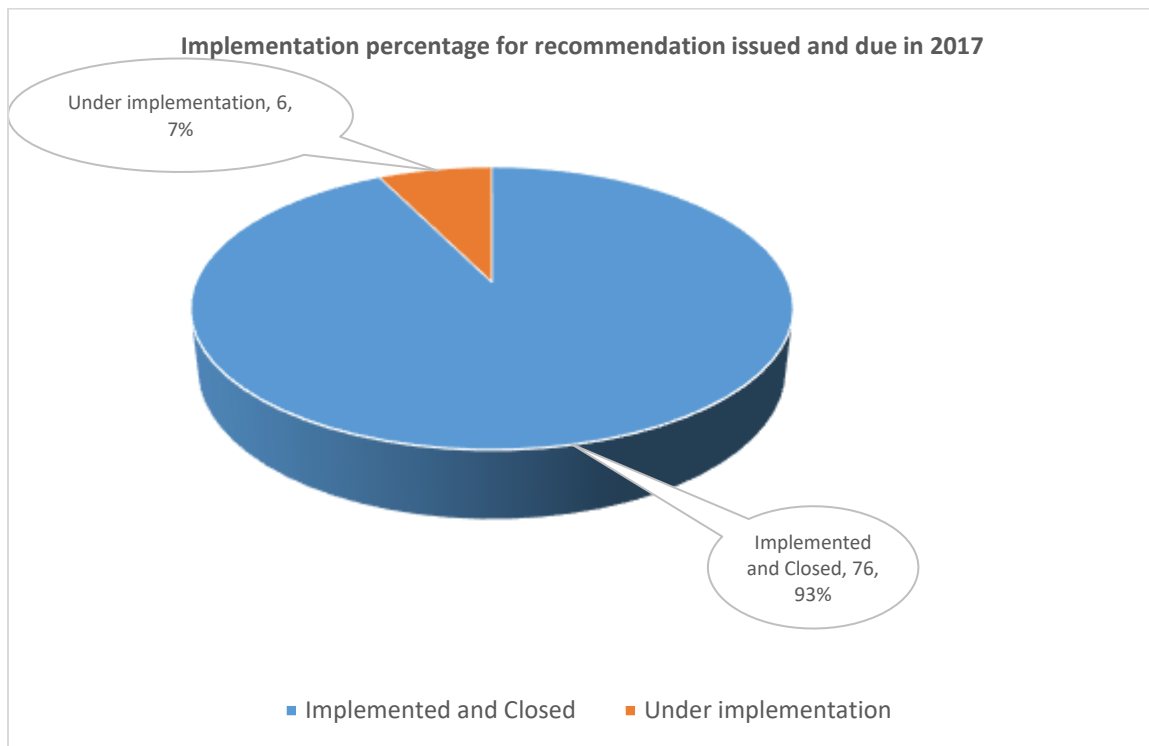
#### I. Introduction and assurance at UNFPA

1. UNFPA acknowledges the annual report of the Director of the Office of Audit and Investigation Services (OAIS) on UNFPA internal audit and investigation activities in 2017 (DP/FPA/2018/6). Management also acknowledges OAIS positive opinion on the adequacy and effectiveness of the UNFPA framework of governance, risk management and control processes as ‘*some improvement needed*’ – which means that these control processes in UNFPA were adequately designed and operating effectively but needed some improvement to provide reasonable assurance that the objectives would be achieved. However, none of the issues identified were assessed as having the potential to seriously compromise that achievement. UNFPA management welcomes OAIS overall conclusion that as in previous years, through its various actions in response to OAIS reports and advice, UNFPA management continued to demonstrate in 2017 its commitment to improving the effectiveness of the governance, risk management, and control processes.
2. The UNFPA Audit Monitoring Committee (AMC), chaired by the Executive Director, monitored business units’ efforts in improving the implementation of the audit recommendations. UNFPA management with support from AMC Secretariat in its follow-up/implementation and review by OAIS successfully closed 249 recommendations (78 per cent) out of 321 outstanding recommendations that were due for implementation by 31 December 2017.<sup>1</sup> This is a huge improvement from the previous years. UNFPA remains committed – and accords the highest priority – to strengthening the culture of accountability.



<sup>1</sup> The number of recommendations actually due for implementation in 2017.

3. Similarly, in 2017, UNFPA management achieved 93 per cent implementation of the recommendations that were issued and due in the same year compared to 38 per cent in 2016.



4. UNFPA management appreciates the highest professional standards with which OAIIS fulfills its mandate and performs/manages the whole range of oversight functions. The senior management also appreciates OAIIS Director's advice on governance, accountability and control aspects as well as emerging potential risks to UNFPA.
5. Notwithstanding the reduction in core funding and subsequent austerity measures that have influenced UNFPA programmes and operations across the organization, OAIIS has not itself been subject to any austerity measures, indeed the vacancy-adjusted budget of OAIIS saw a twenty per cent increase over 2016.
6. As acknowledged in various external (and internal) assessments, UNFPA has an effective and wide-ranging system of governance, risk management and internal control processes that compares favorably with other United Nations organizations. UNFPA has made considerable progress with its internal control framework (ICF) and its corporate enterprise risk management (ERM) system. UNFPA continues to further develop, expand and strengthen its ERM and its linkages with the ICF as well its strategic information management initiatives by adopting best practices proposed by professional bodies.

## **II. Internal audit activities in 2017**

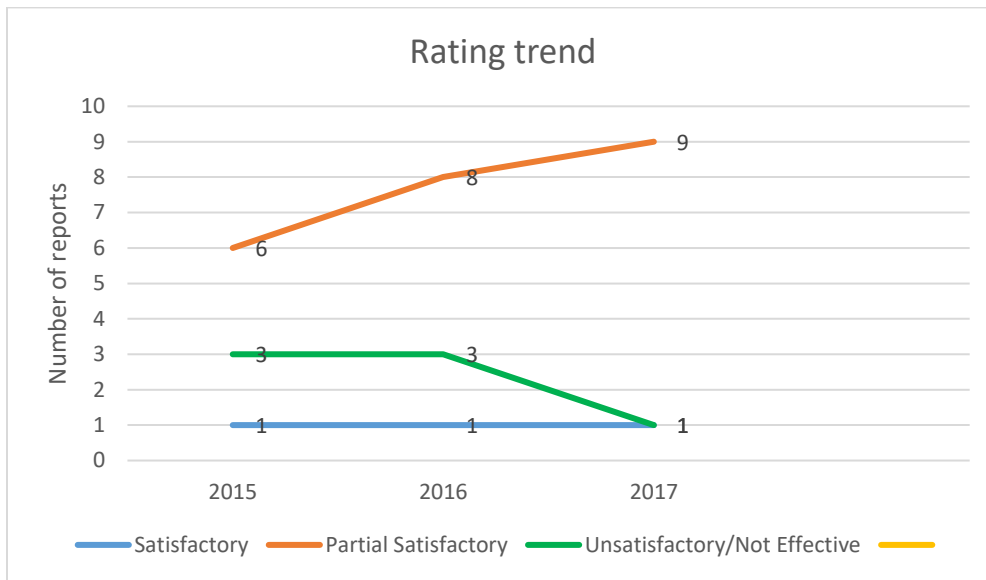
7. Management takes note of the following internal audit activities in 2017, including a comparison of 2016 planned versus achieved audit engagements.

### **A. 2017 Audit risk assessment & methodology**

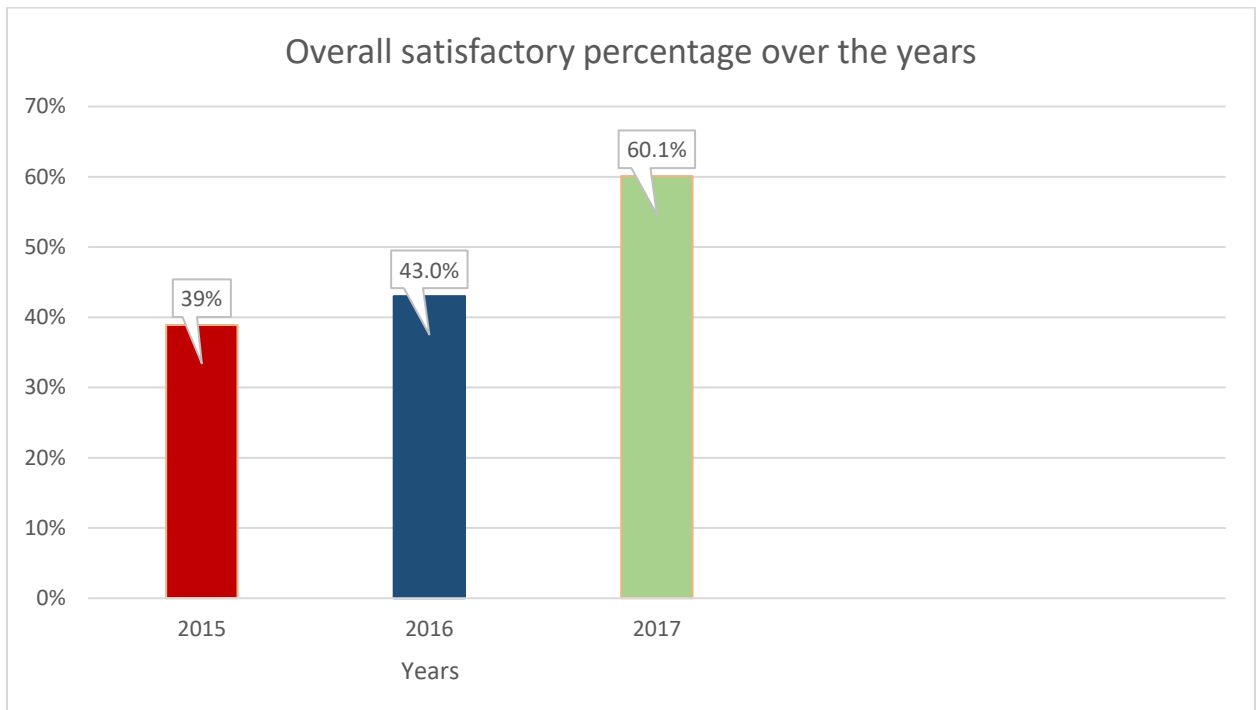
8. UNFPA management takes note of the audit risk assessment methodology for the audit universe of 138 business units, 15 core business processes and ten information and communication technology (ICT) areas. Management also takes note of separate indicators for business units, core processes and ICT areas and the consideration of the outcomes of ERM; control self-assessment, etc. Management is pleased to note the decline in (a) the number of 'high-risk' business units, and (b) the component of core process and ICT.
9. Management takes note of the OASIS assessment of UNFPA risk exposure and related risk factors that are consistent with the corporate ERM management process.
10. Management is aware of the new risk area of Prevention of Sexual Exploitation and Abuse (PSEA) and is committed to responding transparently, swiftly and competently by following necessary due process to the situations of harassments of PSEA and abuse of authority in the UNFPA programmatic context and at a system-wide level. Two new risk factors related to PSEA were included in UNFPA's corporate risk register at the time of launching the 2018 ERM cycle for appropriate risk assessment and mitigation across all business units.
11. UNFPA Executive Director in her message to staff has mentioned that UNFPA as the lead agency coordinating the prevention of and response to gender-based violence, is determined to ensure that UNFPA sets an example in addressing sexual exploitation and abuse and it is UNFPA's collective priority to support all those affected and to ensure that the principle of zero tolerance, enshrined in the UNFPA oversight policy since 2008, is applied. UNFPA is committed to nurturing a safe and trusted environment, which safeguards anyone UNFPA has contact with, including beneficiaries, staff, and volunteers. To this end, every staff member in UNFPA is expected to do its utmost to prevent and address sexual exploitation and abuse.

### **B. Audit plan for 2017**

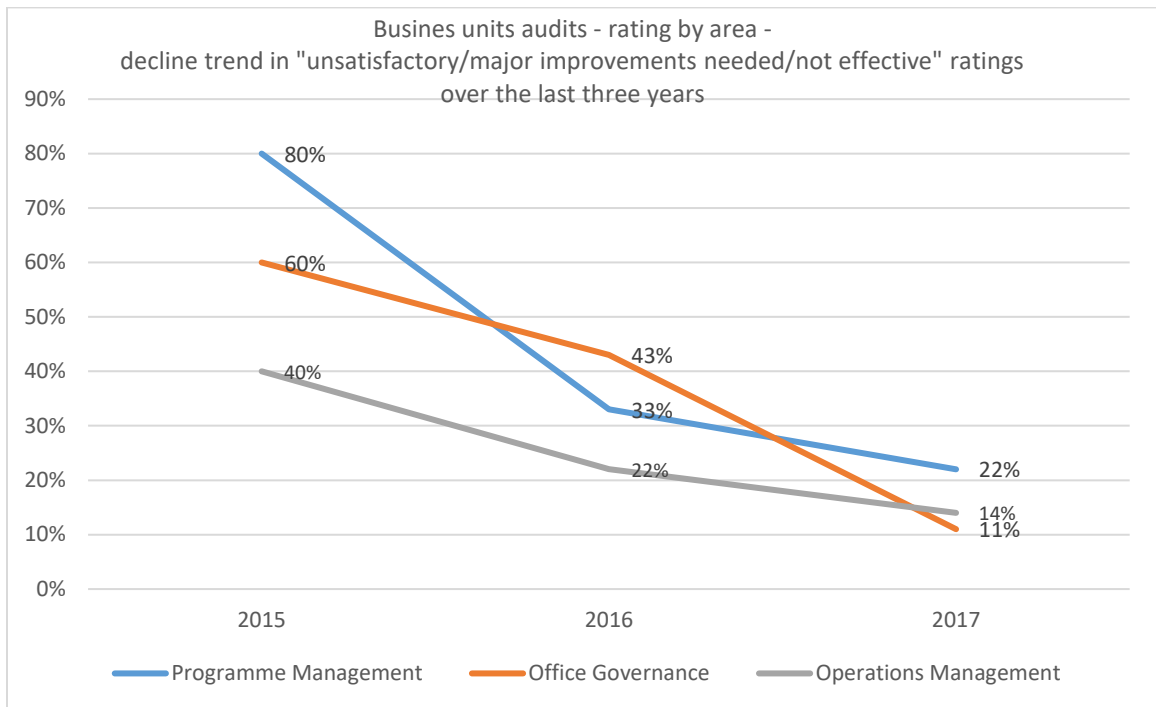
12. Management appreciates the OASIS risk-based audit plan, the status of implementation, and the improvements in the timeliness of the report finalization. Management is pleased to observe a decrease in the "unsatisfactory/ not effective" reports and a corresponding increase in the partially satisfactory report.



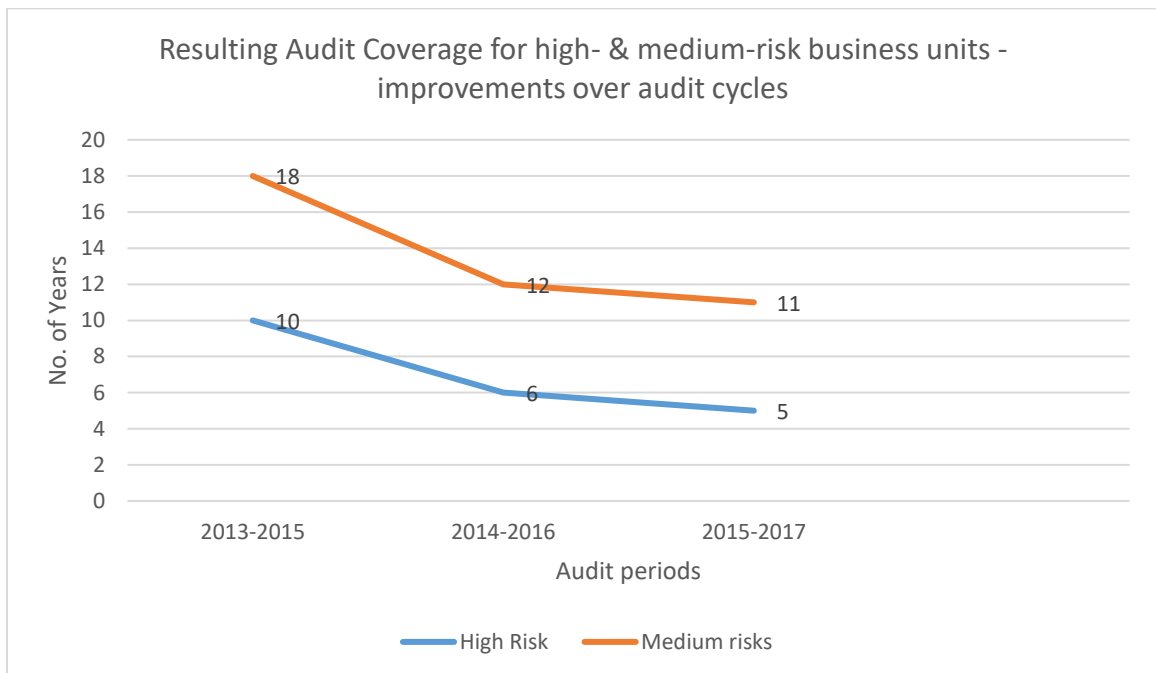
13. Management is also pleased to observe the increased overall satisfactory percentage trend over the years in the normalized (by assigning proportionate weights to all types of ratings received for audit reports in last three years) rating as depicted below.



14. Management is pleased to observe the continuous decline in ‘unsatisfactory/major improvement needed/not effective’ ratings in 2017 in the areas of (a) office governance, (b) programme management, and (c) operations management.



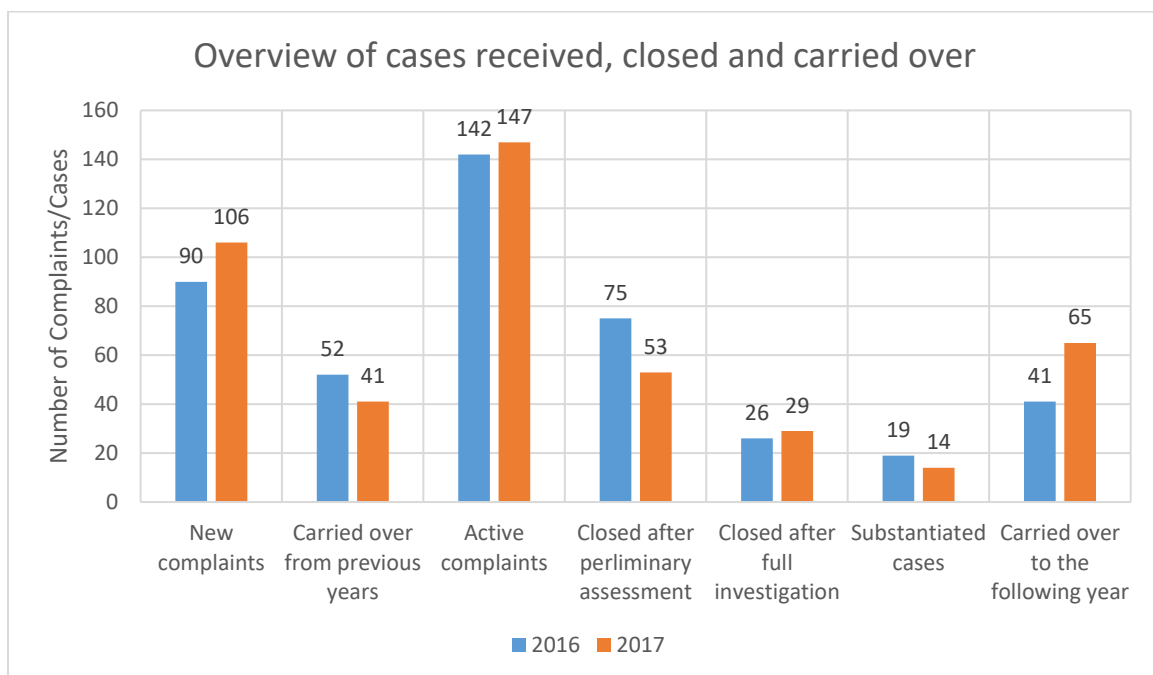
15. Management appreciates the improvements in the average audit cycle for high- and medium-risk business units for the 2015-2017; 2014-2016 and 2013-2015 audit periods as depicted in the figure below. Management will support OAIS in achieving a projected audit coverage of three years for the high-risk business units and ten years for medium-risk business units in the audit plan for 2017-2020.



### III. Investigation activities in 2017

#### A. Caseload analysis

16. UNFPA management notes that OAIS received 106 new cases in 2017. That number reflected an 18 per cent increase compared to 2016. UNFPA management appreciates that OAIS closed 82 cases in 2017. Fifty-three of these were closed after a preliminary investigation, and a further 15 cases were closed as unsubstantiated following a full investigation. Fourteen cases were found to be substantiated.
17. Finally, UNFPA management takes note, with appreciation, that OAIS dealt with 11 cases of staff members seeking advice from OAIS related to its investigation mandate.



#### B. Types of complaints and disposition of cases

18. UNFPA management takes note of the three most prevalent categories of allegations received by OAIS in 2017: fraudulent practices, both internal and external (50 per cent); other forms of wrongdoing without financial implications (23 per cent); and workplace harassment/abuse of authority (15 per cent). Management notes that the top three categories of allegations received by OAIS mirror those received by OAIS in the previous year (these having been 40 per cent, 19 per cent and 11 per cent in 2016 respectively). Management reaffirms its commitment to a zero tolerance for wrongdoing, including fraudulent and other proscribed practices, as well as all types of harassment, abuse of authority and retaliation
19. With regard to the 14 cases substantiated in 2017, as of the drafting of this management response, three cases have been disposed of and closed. All three pertained to staff members (see below for details).

### **C. Disciplinary measures and sanctions taken after investigation**

20. Of the 14 cases that were substantiated in 2017, six cases pertained to allegations of misconduct by UNFPA staff members. As of the date of drafting of this management response, in three of these six cases management has imposed disciplinary measures: specifically, two staff members were separated from service and one staff member received a loss of two steps in grade. In the three remaining cases concerning staff members, management action is ongoing as of the drafting of this management response.
21. UNFPA management also takes this opportunity to provide an update, as of the preparation of this management response, on past years' substantiated cases concerning staff members that have been concluded:
- *For 2016:* All cases relating to alleged misconduct by staff members have been disposed of. The various disciplinary measures imposed on the staff members concerned are included in Annex 7 to the OAIS annual report;
  - *For 2015:* The one remaining case concerning alleged misconduct by a staff member has also been disposed of. The disciplinary measure imposed is included in Annex 7 to the OAIS annual report.

Cases not pertaining to staff members that have been disposed of are also included in Annex 7 to the OAIS annual report.

## **IV. Progress on key issues and improvement areas identified in 2017 audit reports and GRC opinion**

### **A. Governance and Risk Management**

#### ***Internal Control Framework***

22. Management acknowledges the need to continue enhancing the Internal Control Framework (ICF). During 2017, management efforts focused on the inclusion of detailed risk-control matrices (that outline the controls required to minimize the risks identified and the responsibility for operating them) in all new policies and procedures finalized or under development (a) implementing partner cash transfers; (b) management of programme supplies; (c) management of humanitarian funding; (d) management and monitoring of workplans and (e) management of project cash advances including those made through payment services providers.
23. Management has also taken action to enhance the second line of defense controls leveraging ATLAS data, to provide visibility on the performance of processes and controls and accountability thereon. Management reports are now available for several other areas, including inventory performance control reports, value added tax (VAT) management, staff advances, project cash advances, and balances and commitments on expired or soon to expire fund balances. With this development, management has concentrated on addressing the pervasive or recurring audit issues.



24. Work is ongoing on other ICF related initiatives, including efforts to increase awareness, strengthen, and promote a culture of zero-tolerance for fraud and corruption. In June 2017, the UNFPA anti-fraud policy was revised and issued. Policies under development are taking into account anti-fraud controls to address potential fraud risk factors. An anti-fraud awareness video was issued by the Deputy Executive Director (Management) in November 2017 highlighting a collective responsibility to respond to fraud. A mandatory anti-fraud e-course, developed in partnership with UNDP, UN-Women and UNCDF, is nearing finalization and will be available in English, French and Spanish. This course will be supplemented with an anti-fraud training package, which includes material on how to train and increase awareness among staff and implementing partners on fraud prevention, detection, and response. Fraud scenarios building on this training will be developed to provide better structure and guidance to the fraud risk assessments.
25. The annual control self-assessment survey was also conducted for 2017 with a detailed analysis completed comparing trends over 2016 responses. Overall, country offices reported an improvement in the six key business areas assessed. Analysis revealed some new areas that require attention but in general, there is improvement in how country offices perceive controls to be functioning in their offices. Management will take steps to address the need identified by OASIS.

#### ***Enterprise risk management***

26. UNFPA management is pleased with OASIS acknowledgment of the positive progress made in the area of enterprise risk management (ERM) in 2017. UNFPA launched a risk response phase to enable each business unit to prepare action plans for mitigating all high and critical risks. The subject-specific risk treatment teams, working under the risk owner of each strategic and fraud risk area, reviewed the assessments and developed a library of global mitigation actions and strategies that were then applied by each business unit depending upon their specific circumstances to mitigate their risks. The United Nations Board of Auditors also reviewed the country offices risk assessments and risk response stage and acknowledged positive progress with recommendations for further improvements. UNFPA has launched the 2018 annual ERM cycle with an enhanced system, and guidance incorporating feedback and suggestions received from the the United Nations Board of Auditors and OASIS. In 2018 the ERM cycle has moved to a calendar year basis and risk management is embedded as a cross-cutting consideration in the new strategic plan 2018-2021.
27. In 2018, with the new improved system, management will focus on a robust quality assurance process and use of a differentiated risk management approach for specific contexts and programmes. UNFPA is also in the process of developing a comprehensive ERM policy.

#### ***Organizational structure and staffing***

##### ***Business unit capacity***

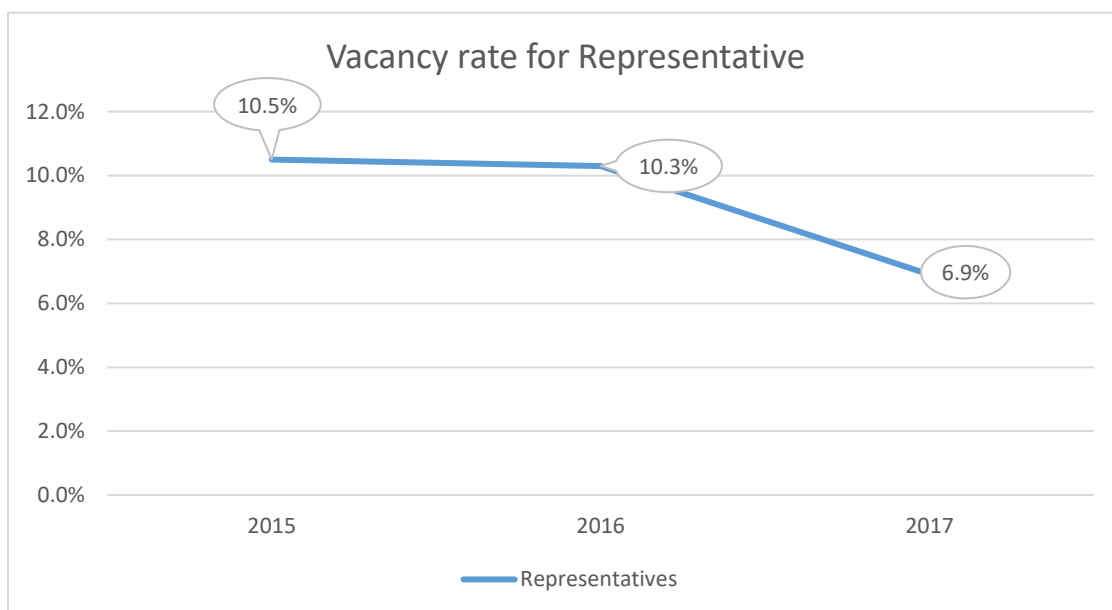
28. As reported in the Executive Briefs to the Board, to ensure that UNFPA units at all levels are fit for purpose, adapted to the new funding reality (core vs. non-core) and

equipped to deliver on both the previous and new strategic plan, 58 country offices and two regional office realignments have been approved since 2015, and another 10 are currently being reviewed at HQ.

29. UNFPA is making significant investments in country office presence and into national capacity by increasing 357 posts and service contracts over the last three years. Of the 357 additional posts in country offices since 2015, 92 per cent are national positions. This is almost an 11 per cent increase in the country offices; at the same time, there has been a virtually zero per cent increase in the total number of posts at HQ. UNFPA has the highest ratio of national professional to the international professional officers in the United Nations; this shows our commitment to empower, build and benefit from national capacity

*Vacancies in key management positions*

30. The overall higher vacancy rate is partly attributed to country offices’ realignment with significant numbers of new positions approved (mostly under other resources), as well as the conversion of service contract positions to fixed term contracts. It is important to see that there has been a decrease in the vacancy rate of Representatives, which is the only post requiring agreement of the country government.
31. To lower the vacancy rate, the leadership pool process continues to decrease the time needed to fill critical posts as well as finding suitable candidates for country office leadership positions. To date, 2018 candidates are in the pool, with over 93 successfully placed in leadership roles and over 95 per cent of vacant posts have been filled through the pool process. The time to fill vacancies has been reduced from 120 days to 91 days.



### *Headquarters and regional offices support and oversight*

32. Management has taken note of the need to enhance the effectiveness of headquarters oversight over country offices and has taken action to enhance the ‘second line of defense’ controls leveraging ERP system data, to provide visibility on the performance of processes and controls and accountability thereon. Management reports are now available for several other areas, including inventory performance control reports, value added tax management, staff advances, project cash advances, and balances and commitments on expired or soon to expire fund balance. Management will also develop corporate guidelines covering the nature, scope, and frequency to enhance the effectiveness of headquarters and regional offices support and oversight over country offices.

## **B. Internal Control**

### *Programme Management*

#### *Programme planning, implementation, and monitoring*

##### *i. Result based management*

33. In 2017 UNFPA made significant progress in further refining of key results based management (RBM) systems (GPS, SIS, programmatic tools, policy framework and users capacity), for results planning, monitoring and reporting. It allowed the streamlining of previously existing systems, which had limited functionality and allowed reporting only on strategic plan indicators; created linking of the unit’s outputs to strategic plan outputs, and more efficient reporting. Further development of the Strategic Information System (SIS) allowed the planning of a five-year results and resources framework, which also indicates budget estimates for the outcomes. Each business unit translates the five-year framework into an annual plan using the UNFPA online results planning, monitoring and reporting system (in myResults). This ensures that each UNFPA unit/programme prepares an annual results plan at the beginning of each year. For each five-year programme output, the business unit sets indicators to be achieved during the year, with baselines and targets, as well as quarterly milestones that allow to monitor achievement towards the target, and specify assigned teams of staff responsible for those milestones. The system allows units to define critical assumptions for the plan. Annual reports also capture narrative information regarding results achieved, lessons learned and challenges; and are quality assured by regional offices. Given that SIS is an in-house developed system, its roll-out was supplemented by the capacity-building sessions provided for all UNFPA units, including key RBM concepts that are part of the system and quality assurance criteria.

34. Further, in support of the Agenda 2030, and as part of the operationalization of the 2018-2021 strategic plan, UNFPA has begun the revision of the set of RBM policies, guidelines and relevant strategies in order to align them to the requirements of the plan and the choices and opportunities it creates. These include the new RBM policy (2018), to be accompanied by an RBM strategy which will inform the development of result frameworks and the monitoring, evaluation and reporting on results. Programme

Review Committee (PRC) guidance provides tools for a mandatory quality assurance of this “compact” of commitment, which must be signed and submitted by the head of the UNFPA country office, along with the draft country programme document package, to the PRC. The PRC assessment also looks at the extent to which the evaluation evidence is used for the development of new country programmes. The UNFPA Policies and Procedures for Preparation and Management of Work plans describes the process of monitoring of shared results at two levels: (a) each agency’s contribution to development progress and collective UNCT accountability towards outcome-level results; and (b) UNFPA accountability towards output-level results. Additionally, the Common Chapter of the 2018-2021 strategic plan describes the UNFPA contribution to the development of the RBM common methodology. Lastly, the revised Internal Control Framework policy and the UNFPA programme accountability framework provide clear guidance to UNFPA on how to use the ‘three line of defense’ architecture for results accountability; and applies a cohesive and coordinated approach by deploying UNFPA risk and control resources

*ii. Workplan management and programme financial management control*

35. UNFPA management has implemented a range of initiatives to address the key risks identified by OAI in workplan development and implementation as well as programme financial management controls, including (a) improved clarity on roles in the Global Programming System; (b) system enhancements to enable operational review of all workplans; (c) financial monitoring and quarterly progress reports of programmatic results to enhance the linkages between workplans and monitoring; (d) system controls ensuring the completion and documentation of the finance review of workplans, as per policy requirements; (e) continued training for operational and programme staff, also reinforcing workplan policy changes and focusing on strengthened programme budgeting and management oversight
36. Management of cash transfers to implementing partners has been automated in the Global Programming System (GPS) as of 2017. The system has now been rolled out to five of the six regions; system roll-out for the remaining region is scheduled to take place on 1 July 2018. Several relevant control functions have been automated; for example, no payments can be made to partners without an approved workplan and cash advance request or expense report, or in excess of the amounts reported by the partners. Further automated controls are being built into the system, for roll-out in 2018.
37. To ensure further accountability and consistency, all processing steps and controls, including additional Regional Office and HQ approvals, are now clearly outlined in the new policy on cash transfers to implementing partners. The system and policy roll-out was supported by a significant global training effort, to ensure all UNFPA personnel can manage workplans and cash transfers in an effective and controlled manner.
38. Management is pleased to confirm that with the successful launch of the Global Programming System phase II functionality, the following functionality applies to all implementing partners:

- (a) All workplans include mandatory indicators, baselines, and targets (grouped by output). This functionality has been mandatory since 2016.
- (b) The GPS is used to process programmatic (workplan progress report) and financial (funding authorization and certification of expenditure forms) monitoring.
- (c) All implementing partners complete their quarterly workplan progress reports in the GPS, and have to report back on the implementation of agreed activities, as well as on progress towards the workplan indicators
- (d) Payments to implementing partners are subject to the presence of workplan progress reports.

### *National Execution*

#### *iii. Implementing partner capacity*

39. UNFPA has a valid, independent assessment of the internal controls and management capacity in place for the vast majority of IPs (76 per cent) and a risk assumption for those IPs with budgets too low to warrant assessment and for those IPs that are not yet assessed. The assessments, which are fully harmonised and undertaken jointly with UNICEF and UNDP establish a risk rating and identify capacity. Based on the finding in these assessments, auditors and staff test the functioning of the assessed internal controls in their audits and spot checks, respectively

#### Status of IP assessments during 2017

IPs during 2017	1 430	100%
IPs that are assessed	1 081	76%
IPs not subject to assessment (low risk)	136	10%
IPs not yet assessed (assumed high risk)	213	14%

#### Results of IP assessments during 2017

All assessments	1 081	100%
High risk	10	1%
Significant risk	72	7%
Moderate risk	354	32%
Low risk	645	60%

As can be seen from above tables the vast majority of IPs classified by default to “high risk” prior to their actual assessment are assessed ultimately at a much lower rating

40. UNFPA is issuing new guidance for micro assessments. A checklist for the quality assurance of draft micro-assessment reports by staff aims to enhance the quality of these reports, in particular to ensure ratings are well substantiated. Similarly, guidance for the follow up to micro assessment report by offices aims to support the systematic follow up to micro assessment recommendations, especially on the identified key controls and beyond the checks done during spot checks and audits.

*iv. Financial monitoring of implementing partners*

41. UNFPA continues to further strengthen the capacity of staff involved in conducting spot checks. Regular webinars are held to guide staff on how to improve areas of weakness identified by the internal quality review of spot checks as well as findings and recommendations by the Board of Auditors. UNFPA is issuing a model of a spot check as a learning tool for staff aiming to further improve the quality of spot check reports. The model includes a whole set of completed documents, steps and forms with guiding comments and explanation of the most frequent shortcomings in each step as well as a checklist to review the quality of a draft spot check by the office.

42. UNFPA has perhaps the most stringent assurance process in the United Nations system for its IPs. For 2017, UNFPA is obtaining assurance over funds implemented by partners with a planned audit coverage of 74 per cent (or 371 audits) and additional, mandatory spot-checks for 24 per cent (or 641 spot checks) of total IP expenditures.

Planned 2017 assurance over funds implemented by government and NGO partners

Total number/ expenditure of active IPs	\$262m	100%	1 422
Planned audits (1 per IP)	\$194m	74%	371
Planned (mandatory) spot checks (1 per IP)	\$62m	24%	641

*v. Supply-chain management*

43. UNFPA management recognizes the importance of increased support to programme countries, together with other relevant programme stakeholders, to address gaps in supply-chain management systems that may reduce availability of reproductive health commodities and originate stock-outs. UNFPA is also committed to the implementation of effective and integrated supply-chain management organizational arrangements and is undertaking significant efforts to make progress in both areas. Over the course of 2016 into 2017, UNFPA worked to ensure that inventory management was positioned as an essential element of the overall supply chain management for reproductive health commodities, and strengthened the policy and operational guidance for needs assessment and forecasting analysis. This work was folded into the corporate Supply Chain Management Strategy and resulted in the Inventory Management Policies and Procedures manual being expanded and refined into a more comprehensive policy on the provision of programme supplies.

44. The corporate Supply Chain Management Strategy was developed in full alignment with the strategic plan and depicts a clear vision of the organization's leadership role in contributing to eliminating unmet need for family planning by ensuring equitable access to quality contraceptive and maternal health commodities. The strategy specifies the roles and responsibilities, including the synergies between involved units, to ensure implementation of strengthened supply-chain management organizational arrangements, processes and systems – from procurement to the 'last mile.'
45. The new policy on the management of programme supplies introduces checks and balances to ensure that receiving and inspection controls of incoming goods are consistently performed and documented. The policy also calls for regular monitoring of inventory of reproductive health commodities held by implementing partners, as well as tracking its timely distribution and availability at service delivery points. This is done through regular implementation of inventory audits to assess the extent to which country office programmes and implementing partners are demonstrating sound supply chain and inventory management practices.

### ***Operations Management***

#### *Human Resource Management*

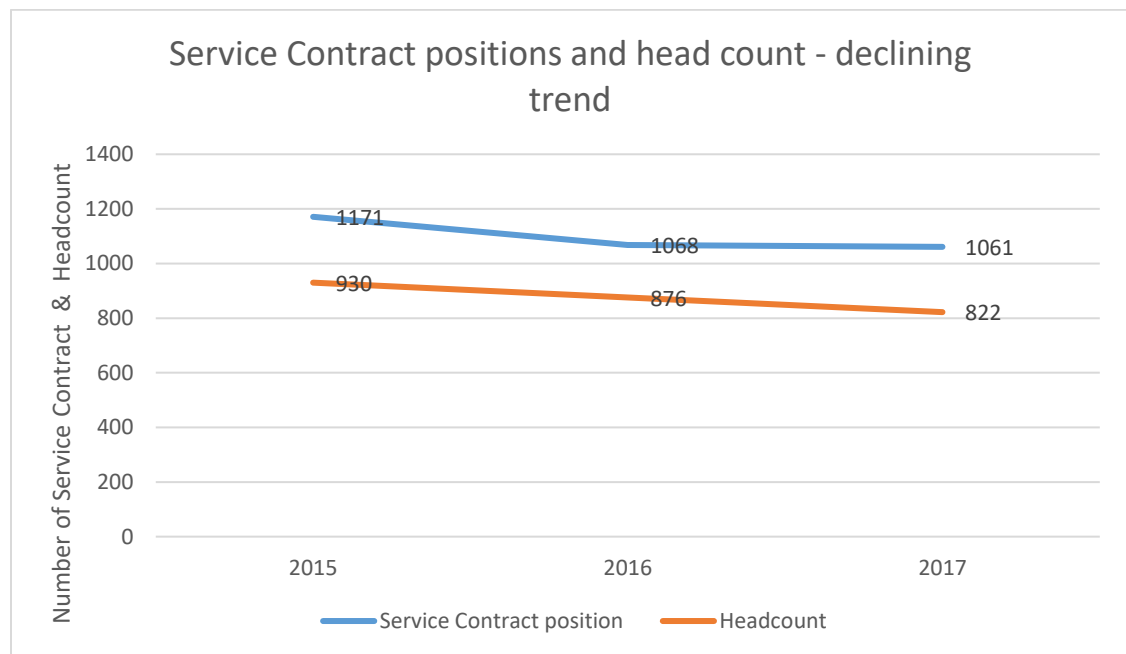
##### *i. Individual consultants*

46. UNFPA management launched the Consultant Monitoring Tool in 2017 to monitor the use of Individual Consultants globally. It provides an up-to-date online checklist and centralized depository for consultant hiring documents and enables the consolidation of data on consultants, facilitating centralized monitoring and data analysis. The launch of the tool was supported by webinars and online resources for staff. It has become clear that compliance with the tool needs to be further improved. Management is looking into options to achieve this, including further training opportunities, target outreach, and user feedback.
47. UNFPA issued the revised policy on individual consultants in 2017 to set out how hiring offices can contract the temporary services of individuals as consultants; further outlining the conditions and procedures for contracting individual consultants and identifying control actions to mitigate potential risks related to the process.

##### *ii. Service contracts:*

48. In the area of service contracts management, UNFPA management is pleased to inform that all service contract holders have been migrated into Atlas since August 2016. Some 137 service contract (SC) holders' posts have been converted to fixed-term positions during 2015-2017 thereby reducing the number of SC holders performing core functions. A systematic performance appraisal review is also completed before the extension of service contract holders.
49. Human resources requirement plans are a mandatory part of the country programme document (CPD) at the time of its development and country offices are advised to fill

the service contract position in the new CPD following a selection process with the required terms of reference to match the timeline.



*iii. Financial management*

- 50. UNFPA management takes note of some instances of miscoded expenses and improving commitment control. Improvements as regards the proper coding of expenses were achieved through the inclusion of additional account validations in Atlas; periodic review of expenses for proper coding; and webinars to raise awareness of field office staff on the issue, the tools available to ensure more accurate coding (such as the accounts dictionary), and the roles and responsibilities of staff responsible for the approval of Atlas transactions.
- 51. Efforts are also being undertaken to raise the awareness of country office staff about the need to ensure more effective operation of commitment controls, including the timely creation and recording of Atlas transactions.

*iv. Procurement*

- 52. Management has taken note of the findings and areas of improvements in procurement. To monitor country offices' compliance and reduce the risk of fraud, regular and relevant spot checks on specific procurement indicators are being conducted. Pre-screening of solicitation documents and review of submitted procurement plans is also undertaken on a regular basis.
- 53. Also, an analysis of selected country offices' spending patterns is being undertaken to ensure that products are procured from joint United Nations Long Term Agreements/



piggybacking arrangements whenever available. To further build country offices staff capacity in the area of procurement, country-specific missions by procurement experts and detailed assignments to the procurement branch are encouraged.

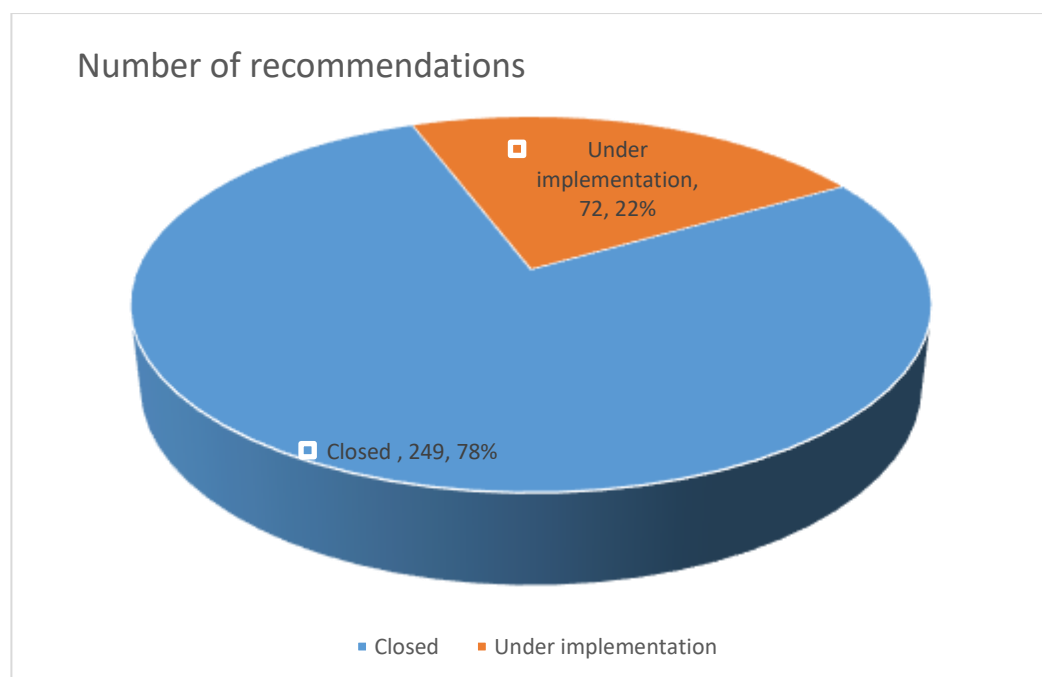
v. *Information and communication technology*

54. UNFPA management has taken note of the five high audit risk areas about information and communication technology (ICT). These risks will be fully addressed during the ICT Transformation (ICTX) project, that will create a more robust and reliable ICT delivery organization and operations model. In the interim, specific temporary mitigation strategies will be implemented. The internal control framework for ICT operations and related policies is also being reviewed, and immediate, intermediate actions will be taken. The ICTX, besides strengthening governance and execution of the ICT project, will also enable to resolve the integration between the Strategic Information System (SIS) and Global Programming System (GPS) as well as the deployment of the eProcurement solution at the country level. UNFPA has taken actions to enforce controls in the GPS system.

## V. Follow-up of internal audit recommendations

### *Outstanding recommendations*

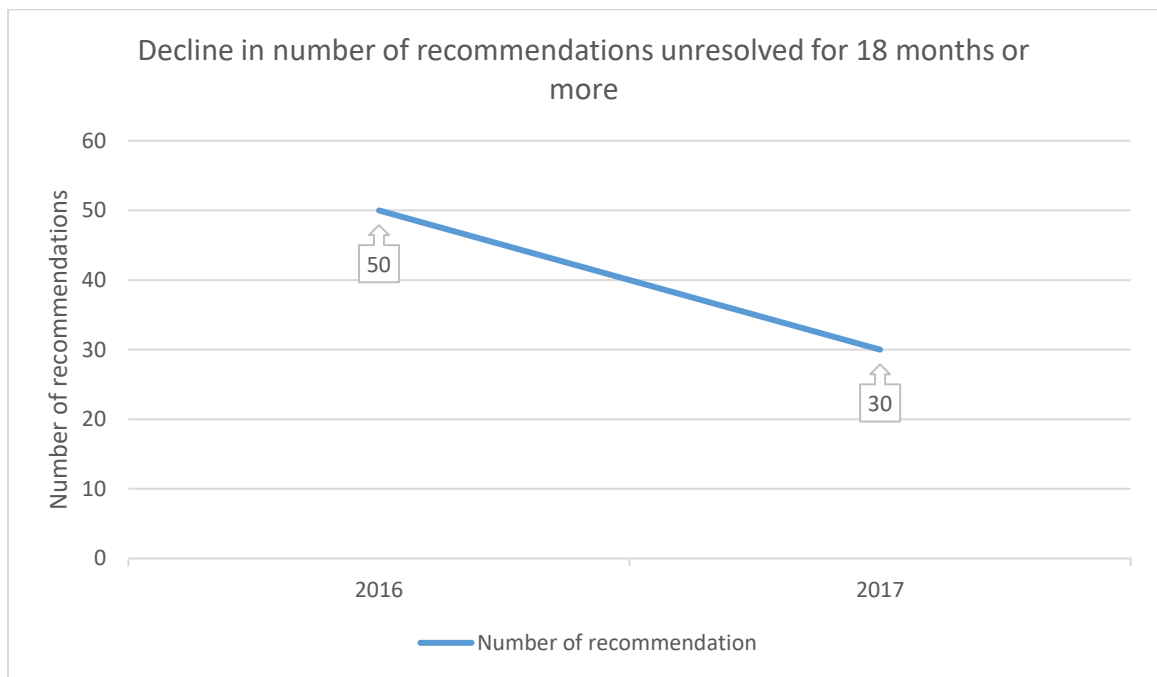
55. Management is pleased to note that, in large part due to the regular follow-up by the AMC Secretariat and timely pre-assessment of the business unit responses the percentage of closed recommendations has increased over previous years. To this end, 249 of 321 outstanding recommendations, due for implementation in 2017, were successfully implemented and closed.



56. Overall, 122 new recommendations were issued in 2017, out of which 40 recommendations were due for implementation in 2018. Out of a total of 321 recommendations due for implementation in 2017, 249 recommendations were closed, compared to 132 in 2016 and 118 in 2015. UNFPA has also made progress in implementing pending recommendations (for 2010-2014) and reduced them from 12 to 4 recommendations. Efforts are underway to address the remaining four outstanding recommendations for the above period. UNFPA remains committed to implementing them fully through regular follow-up with the relevant business units through the AMC.

*Recommendations unresolved for 18 months and more*

57. As of 31 December 2017, 30 recommendations remained pending for 18 months or more, compared to 50 in 2016. Out of the 30 recommendations, 13 refer to the procurement processes, 6 pertain to ICT processes (including GPS related), 5 pertain to two country offices, and the remaining to organization-wide processes. UNFPA management, through the Audit Monitoring Committee, is closely monitoring the implementation of these 30 recommendations.



## **VI. Conclusion**

58. UNFPA management welcomes the positive overall conclusion in the OAI report that in 2017 it continued to demonstrate its commitment to increasing the effectiveness of the governance, risk management, and control processes. UNFPA management continued to note with concern the increased workload requirements necessary to fulfill the Joint Inspection Unit focal point role, and will engage with all stakeholders to address this. UNFPA has full confidence in the OAI leadership and in its work to support management in ensuring accountability of the organization. Management also appreciates OAI as a trusted partner and acknowledges its valuable advice.

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## **Section II**

### **Management response to the annual report of the Audit Advisory Committee (DP/FPA/2018/6/Add.2)**

1. In accordance with Executive Board decision 2008/37, UNFPA management provides a response to the annual report of the Audit Advisory Committee (the Committee).
2. UNFPA management would like to convey thanks to all outgoing Committee members – Ms. Berlina Mxakwe (South Africa); Ms. Mary Ann Wyrsh (United States of America); Mr. Peter Maertens (the Netherlands); Mr. José Urriza (Argentina); and the Chair, Mr. Verasak Liengsrirawat (Thailand) – for their leadership, guidance and valuable advice throughout the year 2016 and welcomes all the new members of the Committee who joined in 2017 i.e Mr. Ariel Fiszbein (Argentina), Mr. Edward Ouko (Kenya), Ms. Eneyr Quinones (United Kingdom) and Mr. Louis Wong (Australia). UNFPA also welcome Ms. Quinones as the elected Chairperson of the Committee.
3. UNFPA acknowledges and welcomes the 2017 annual report of the Committee. The organization benefited from regular consultations with the Committee throughout 2017, and would like to express its gratitude to the Chairman and the members of the Committee; their professional expertise, commitment, and guidance have been invaluable in strengthening UNFPA management practices.
4. Management also takes note of the revision in the terms of reference and name change to “Oversight Advisory Committee” to reflect its wide-ranging mandate and its interactions with the Ethics Office, the Evaluation Office, and the Vendor Review Committee (VRC). These changes are duly reflected in the revised terms of reference duly approved by the Executive Director.
5. Management takes note of the Committee’s attention to the issues concerning sexual exploitation in international aid organizations and wishes to assure members that, when addressing staff, the Executive Director mentioned that UNFPA, as the lead agency coordinating the prevention of and response to gender-based violence, is determined to set an example in addressing sexual exploitation and abuse. Management believes it is UNFPA’s collective priority to support all those affected and to ensure that the principle of zero tolerance, enshrined in the UNFPA oversight policy since 2008, is applied. UNFPA is committed to nurturing a safe and trusted environment, which safeguards anyone UNFPA has contact with, including beneficiaries, staff, and volunteers. To this end, every staff member in UNFPA is expected to do its utmost to prevent and address sexual exploitation and abuse.
6. Management appreciates the encouragement expressed to UNFPA in the annual report of the Committee and acknowledges the advisory role in providing valuable inputs in a number of areas: (a) the review of the draft financial statements and appreciation and recognition of the level of professionalism and sound analysis of accounts and controls applied; (b) approval of the strategic plan and integrated budget; (c) addressing the overall funding situation; (d) a comprehensive ICT transformation project and inclusion of necessary funds in the integrated budget 2018-2021 for its implementation. UNFPA looks

forward to receiving similar advice, guidance, and support from the Committee in the coming years.

7. Management values the Committee interest in closely reviewing and following on the change management process and looks forward to discussing the ongoing change management process including the outcome of the comprehensive resources review (CRR) process and its inter-linkages with the Secretary-General reform initiatives.

8. Management appreciates the acknowledgment of the positive progress made in establishing the enterprise risk management (ERM) system, i.e. development of corporate risk registers, incorporation of risk response phase in which subject-specific teams review high-risk items. These teams, besides reviewing country-specific mitigation plans, have also developed global mitigation actions and strategies, including by establishing a formal mechanism for the follow-up of the risk mitigation actions through the online ERM application. Management will continue to further develop the linkages between enterprise risk management, the internal control framework, and the controls self-assessment.

9. UNFPA takes note of the Committee's earlier suggestion to conclude the updating of its 2007 accountability framework to adapt it to the current operational environment.

10. UNFPA management appreciates that the Committee welcomes the harmonized approach to cash transfers (HACT) implementation at UNFPA, with its combination of spot checks and audits to ensure proper risk management and oversight of implementing partnerships. UNFPA also welcomes the Committee's continued attention and advice on HACT during 2018, including on the cost-effectiveness of the approach. UNFPA continues to focus on the delivery and quality of spot checks during 2018, as recommended by the Board of Auditors and implements a combination of training webinars and detailed, hands-on guidance material to support staff capacity for spot-checking.

11. Management appreciates the Committee's comments about the Vendor Review Committee (VRC) and will explore the possibilities of implementation of its earlier recommendations to expand the VRC with an external member and to prepare an annual report summarizing the year's activities.

12. UNFPA management appreciates the Committee's appreciation regarding the significant role the Audit Monitoring Committee continues to play in managing and follow-up on internal and external audit recommendations. This has yielded the desired positive outcome regarding reducing the number of outstanding recommendations from both the Board of Auditors and the Office of Audit and Investigation Services (OAIS). As noted by the Committee, the Audit Monitoring Committee will continue to address high-risk recommendations.

#### ***Advice related to the Evaluation Office***

13. UNFPA appreciates the guidance received from the Committee with regard to evaluation. UNFPA management is confident that progress on the decentralized evaluation will be on track in 2018 and an external peer review of the evaluation function will be completed in 2018.

***Advice related to the Office of Audit and Investigation Services***

14. UNFPA appreciates the Committee's review and acknowledgement of the progress made in completing the internal audit and investigation work plan for 2017. Management also takes note of the lead times in the filling of vacancies due to various reasons.

15. UNFPA acknowledge the Committee's appreciation of the action taken by the Executive Director in providing full support and additional resources for the audit and investigation function in 2017 and will give utmost priority to addressing any future requirements, as necessary.

***Advice related to the United Nations Board of Auditors***

16. Management appreciates the regular meetings of the Board of Auditors and the Committee and welcomes the Committee's appreciation of its continued efforts to implement the outstanding recommendations of the Board of Auditors.

***Advice related to the Ethics Office***

17. Management acknowledges and appreciates the support of the Committee for the importance of the ethics function (including its critical support in implementing the organization's zero tolerance for any form of sexual exploitation and abuse), and reiterates its continuing commitment to promoting an organization-wide culture of integrity and accountability.

***Conclusion***

18. UNFPA reaffirms its commitment to promoting greater accountability and transparency, and will continue to launch and improve coordinated management initiatives.

19. UNFPA takes note of the issues the Committee will continue to follow in 2018 and is committed to extending full support.

20. Management appreciates the advice and counsel provided by the Committee in 2017. UNFPA would like to convey thanks to all Committee members – Mr. Ariel Fiszbein (Argentina), Mr. Edward Ouko (Kenya), and Mr. Louis Wong (Australia); and the Chair, Ms. Enery Quinones (United Kingdom) – for their leadership, guidance and valuable advice throughout the year 2017.

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