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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 2019**

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 was 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 were, 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 was '*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 were, 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 2013 internal control framework and the 2014 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 (a) OAIS audits of field offices; and to the extent relevant, (b) joint audits of joint United Nations activities, concluded between 1 January and 31 December 2019, as detailed in the Report of the Office of Audit and Investigation Services on UNFPA internal audit and investigation activities in 2019 (DP/FPA/2020/6, sections IV and VI, and annex 2).

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) outcome of the 2019 audit risk assessment, undertaken to support the development of the 2020 audit plan; (c) status of implementation of internal audit recommendations, as at 31 December 2019; (d) systemic issues noted in investigations completed in 2019; (e) interim audit findings reported by the United Nations Board of Auditors in its interim audit observation memoranda for the audit of the UNFPA 2019 financial statements, shared in February 2020; (f) results of implementing partner audits commissioned by management and completed in 2019; (g) results of control self-assessments completed by numerous country and regional offices, as well as certain headquarters business units in December 2019; (h) third-party assurance reports obtained regarding investments custodians, outsourced vendor management, and some information technology systems and services (see paragraph 10 below); and (i) results of the 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 2018 or in previous years, and the first quarter of 2019. Additional matters could have been identified that may have affected the opinion had additional audit work been performed in 2019 and/or in previous years.

9. In 2019, 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 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.

10. In addition, UNFPA outsources 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, email services, cloud storage and the services in use in OAIS. UNFPA did not obtain such third-party assurance reports in relation to firewall and vulnerability management, technology infrastructure maintenance, website hosting services and learning-related applications. Therefore, these are not covered by the OAIS opinion.

V. Process followed for aggregating audit results and assessing issues

11. Results of the audits undertaken by OAIS 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.

12. 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 in 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 had been 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

13. OAIIS 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.

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

A. Governance and risk management

Integrated control framework

15. The integrated control framework was significantly enhanced in 2019 as a result of work done and progress made in 2019 and in previous years. Key policies and guidelines were developed and released in the year, like the cash disbursement policy and the revised procurement guidelines. Performance reporting processes improved, and an anti-fraud strategy was issued. The new enterprise resource planning system, which is to include a governance, risk and compliance module, should present additional opportunities for integration of controls and procedures to cover all relevant governance, programme and operations management processes not only within UNFPA, but also within the United Nations system, to improve compliance.

16. The completion of the comprehensive and integrated control framework underway remains a necessity to improve management’s awareness about internal control requirements (supplementing the progress already made, such as in anti-fraud awareness activities), and better enforce accountability for internal controls. The framework should also cater to the needs of both development and humanitarian activities.

Enterprise risk management

17. In 2019, management continued to introduce changes to the enterprise risk management process, adopting a differentiated risk approach for specific contexts or programmes, with the intention of focusing resources on higher risk areas. For instance, a proactive preventive risk management process was adopted, targeting census projects, with operational and finance management guidance and related training thereon. These guidelines could be formalized and shared more widely; the outcome of the risk assessment should be integrated in the ‘MyRisks’ application to ensure organization-wide transparency of risks. Similarly, this approach could be extended to country offices involved in both development and humanitarian contexts, to include in the ‘MyRisks’ application differentiated risk profiles and mitigation measures.

18. In an effort to put in place a more differentiated and stringent quality assurance process, management commenced reviews of country office risk assessments, with the aim of identifying areas that require in-depth monitoring. Documentation of assigned risk ratings remains in need of significant improvement.

19. Further effort is required in this area, as the process continues maturing. The integration of enterprise risk management with the broader internal control framework and process, including results planning, has started and should be completed. Further, bridging the skill-set gaps that limit the relevance and effectiveness of assessments undertaken by business units should be of continuous focus. The progress made in 2019 towards the development of a comprehensive enterprise risk management policy, including a risk appetite statement, capacity building and awareness raising should form the basis for further improvement in the coming year.

Organizational structure and staffing

(i) Business unit capacity

20. Delays continued to be noted in the review of organizational structures and personnel for alignment to programme delivery and operational needs. While some tools were developed to support organizational design at country offices, streamlining the approach to office realignments remains necessary, strengthening capacity in this area to improve timeliness.

(ii) Vacancies in key positions

21. As in previous years, management continued to take action to lower vacancy rates for key management positions, with a decrease in the number of prolonged vacancies in these positions. Continued attention to this area is needed, to streamline the recruitment process, revisiting the necessary steps and their duration, as well as controls points.

Headquarters and regional office support and oversight

22. Managerial oversight controls (i.e., “second line of defense”) at headquarters and regional offices significantly improved in 2019, with the continued refinement of new managerial and exception reports first developed in 2018. In particular, the performance reporting process was consolidated in 2019, with report content expanded to cover several priority risk areas, including the monitoring of the commodities supply chain. Control over the recovery of value-added and other similar taxes was enhanced, with stricter accountability for lost recoveries to field offices.

23. The ‘second line of defense’ should continue to be strengthened – with clear terms of reference and guidelines regarding the nature, scope and frequency of management oversight; automation and integration of review processes within the planned new enterprise resources planning system; and providing appropriate human and financial resources commensurate with an effective management oversight architecture.

24. To minimize the risk arising from gaps in management leadership and oversight, headquarters and regional office support to, and oversight over, business units affected by vacancies in key positions, humanitarian interventions, and change management should continue to be strengthened. The ongoing corporate initiative in this area is welcome.

B. Internal control***Programme management****(i) Programme planning and implementation**a. Results-based management*

25. Measures related to results-based management put in place by management before 2018 continued to yield results in 2019, with more effective programme planning and implementation, as well as tracking of programme results. The introduction of a results-based management benchmarking framework to improve the quality of the overall results-based management response, the quality assurance performed at the regional office level in the development of country programmes, the provision of policy guidance, the establishment of country-to-country peer review processes, and tools to support country offices on programmatic matters are examples of such improvements.

26. 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.

27. These frameworks allow a more effective planning and implementation of UNFPA programme activities and better monitoring of progress towards achieving expected programme results. These would also complement the United Nations Development Assistance Framework results and resources matrices that are at a high level of aggregation or, where already adopted, planning under the United Nations System Development Cooperation Framework.

b. Workplan management

28. Following the introduction of the policy in 2018, workplan management continued to improve in 2019, and new functionalities were added to the global programming system, enhancing its usefulness. To further improve the effectiveness of the workplan management process, several areas require significant strengthening: (a) timeliness of workplan finalization and their level of details; (b) better rationalization and documentation of workplan budgets; (c) regular updating of workplans, to reflect

significant changes to planned activities, budgets or resources, occurring on an ongoing basis; and (d) further development of personnel skills in the use of the global programming system.

c. Programme financial management controls

29. In 2019, completion of implementation of the global programming system functionalities of electronic fund authorization and certificate of expense (FACE) forms, direct payment requests and workplan progress reports allowing better monitoring and periodic review, for instance through budget-to-actual reconciliations, helped improve programme financial management procedures and controls. Management also improved guidance in this area by consolidating multiple documents and instructions into one comprehensive reference source. Costing of high funding proposals was improved through additional measures and tools, including direct support of headquarters.

30. Notwithstanding progress made, the set-up of workplans and budgets requires continuous attention and further strengthening, with a rigour similar to that currently applied to the institutional budget.

31. The ICT transformation should integrate the points mentioned in (a) to (c) above in the development of the new enterprise resources planning system.

(ii) Implementing partner management

d. Implementing partner capacity

32. Implementing partner assessments reviewed in 2019 were timelier than in previous years and showed an improvement in documenting programmatic and financial management capacity, including fraud prevention controls. Yet they need to be more rigorous in assessing implementing partner capacity and identifying capacity-building needs, further to guiding the choice of the most appropriate cash transfer modalities and the extent of needed assurance activities.

33. In 2019, implementing partner assessments were expanded in two areas. Regarding supply-chain management, capacity assessment tools were developed and tested, for roll-out to implementing partners concerned in 2020. On prevention of sexual exploitation and abuse, the protocol developed and agreed among United Nations organizations in 2018 was further operationalized in 2019, with the development of risk management activities in this area to be rolled out in 2020.

34. At present, these three assessments appear disjointed and should be encapsulated into a coherent approach to minimize the impact on implementing partners. Reliance on assessments conducted by other organizations, when considered sufficiently robust, should also be considered.

e. Financial monitoring of implementing partners

35. Financial monitoring of implementing partners, to ensure that funds provided are used for the intended purposes, in line with the approved workplans and budgets, is an area that continued to need attention in 2019. In particular, the process, methodology, depth, and scope of spot-checks, including the documentation thereof, continue to require strengthening.

36. The capacity and skillsets of the personnel involved in implementing partner management continues to require strengthening.

(iii) Supply-chain management

37. Management should continue addressing delays in customs clearance, inconsistent performance and documentation of receiving and inspection controls for incoming goods, deficiencies in warehouse management controls and facilities, and lack of or insufficient tracking, monitoring and reporting on commodity inventory levels, distribution and availability up to service delivery points.

38. In 2019, management, together with other relevant programme stakeholders, undertook several initiatives to enhance support to programme countries and address gaps in supply-chain management systems. To bring more transparency, up to the 'last mile', management piloted a new assurance process, monitoring commodities through various means (such as dedicated implementing partner assessments, supply-chain maps, inventory self-reporting, spot-checks, and dedicated inventory reviews). Other initiatives included, e.g., the design of and training on a tool to assist field offices in quantification, which was rolled out to 35 countries as a mechanism to allow both UNFPA and its implementing partners to understand the weakest links in the supply chain and determine where to focus resources.

39. Scaling up these efforts, together with the planned revision of supply-chain management organizational arrangements in 2020, is expected to help improve transparency and effectiveness. The full impact of these actions will be reviewed in upcoming audits.

Operations management

(i) Human resources management

40. Progress was noted in the area of leave management through the automation and better communication.

41. Contract award and consultancy fee calculation and payment continued to be managed manually in 2019, with some level of deviation from policies and procedures regarding the selection, award and management of service and individual consultancy contracts. The corporate and regional consultant rosters require further attention. As outlined in paragraph 21, the recruitment process needs to be streamlined to decrease its duration while addressing through relevant controls points. Improvements are expected as part of the ICT transformation.

(ii) Procurement

42. Procurement procedures continued to operate effectively for centralized non-humanitarian procurement activities undertaken by the procurement services branch, which account for approximately half of total procurement at UNFPA. Several instances of non-compliance with procurement procedures continued to be found in country offices, particularly as regards procurement planning, bidding, and contract award, primarily in fragile or humanitarian contexts where sudden surges in procurement needs impacted planning and capacity (skills and numbers) of personnel at country offices.

43. 'Second line of defense' controls continued to improve in 2019, with establishing a country office procurement focal point system and building capacity through regional procurement training workshops to introduce key policy changes. These require further strengthening to address the risks originating from non-compliance with procurement procedures, as outlined in paragraph 42 above, including the introduction of e-procurement at country level, expected as part of the ICT transformation.

(iii) Financial management

44. 'Second line of defense' controls, implemented at headquarters level, continued to significantly mitigate the impact of miscoded transactions at country office level, on financial reporting. For instance, the global programming system was enhanced to prevent selecting erroneous account codes; mandatory periodic reviews of transactions to detect and correct miscoding were instituted both at country office and headquarters levels; and several capacity-building sessions conducted for those country offices with high miscoding rates.

45. The need to reflect, and approve, financial commitments in Atlas in a timelier manner through issuance of requisitions or purchase orders prior to decisions to procure goods and services or reimburse expenses are communicated to vendors or implementing partners, remains an area of focus to minimize the risk of transactions being executed without appropriate management approval and potentially incurring expenses in excess of available financial resources.

46. The planned new enterprise resource planning system is expected to bring significant improvements in this area.

(iv) Information and communication technology

47. Progress continued to be noted on the ongoing ICT transformation project, in particular regarding the governance of information and communications technology, and resource management. Implementing the security assessment outcome, under the umbrella of the ICT transformation, should be a priority. The full impact of the ICT transformation will be covered in future audits.

Specific programmatic areas

(i) Humanitarian response

48. 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

and limited availability and capability of implementing partners. Funds availability was at times unpredictable, leading to frequent changes to 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. in procurement, supply-chain management, implementing partner management, financial management and human resources. This also requires aligning office structures and human resource capacity.

49. The establishment of the Humanitarian Office in 2019 is expected to improve UNFPA ability to lead in and respond to humanitarian situations, thus becoming an increasing proportion of the organization’s portfolio. Actions to ease programme and operational bottlenecks previously identified are under way, for instance regarding fast track procedures, or more dedicated and coordinated resource mobilization. The shifting of mind-sets, to address and deliver in both development and humanitarian contexts, remains a key challenge to address. The impact of the measures, under way and upcoming, will be reviewed in future audits.

(ii) Census

50. Censuses represent another increasing area of activities. Their complexity and the costs involved presented challenges for country offices, in timely planning the overall exercise, realistic and accurate budgeting and rigorous oversight and operational implementation, e.g. with the choice of appropriate implementing partners, on time procurement, efficient and safe payment of enumerators, and on proper accounting treatment of assets. In the course of 2019, management developed operations guidance, checklists and tools, including financial management, as well as provided training thereon. Innovation, in terms of knowledge transfer and sharing of equipment, for instance, was also fostered.

51. With many censuses planned for the remaining of the 2020 Round of Censuses, further strengthening of capacity and support to census operations is required, including updating census costing models, as necessary, for realistic and more accurate budgeting. Future audits will review developments in this regard.