



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

Distr.: General
24 December 2015

Original: English

First regular session 2016

25 to 29 January 2016, New York

Item 6 of the provisional agenda

UNFPA — Recommendations of the Board of Auditors

UNITED NATIONS POPULATION FUND

**Follow-up to the report of the United Nations Board of Auditors for 2014:
status of implementation of the recommendations**

Report of the Executive Director

Summary

Pursuant to decision 97/2 of the Executive Board, the Executive Director, UNFPA, is pleased to submit the present report on the implementation of the recommendations contained in the report of the United Nations Board of Auditors for the financial period that ended on 31 December 2014 (A/70/5/Add.8).

UNFPA received an unqualified audit opinion from the United Nations Board of Auditors for its financial statements for the year that ended on 31 December 2014. The report of the United Nations Board of Auditors (A/70/5/Add.8) acknowledges that UNFPA is in good financial health.

A separate table, available on the UNFPA Executive Board website, provides an updated status of the implementation of the audit recommendations. UNFPA provided a management response to the issues mentioned in the report of the Director, Office of Audit and Investigation Services, on UNFPA internal audit and investigation activities in 2014 (DP/FPA/2015/7), presented at the 2015 annual session of the Executive Board.

Elements of a decision

The Executive Board may wish to take note of the present report on the actions taken by UNFPA and the further actions planned by the organization to implement the recommendations of the Board of Auditors for the financial period that ended on 31 December 2014.



I. Introduction

1. Pursuant to decision 97/2 of the Executive Board, the Executive Director of UNFPA is pleased to submit the present report on the implementation of the recommendations of the United Nations Board of Auditors (Board of Auditors) for the year that ended on 31 December 2014 (A/70/5/Add.8). The Advisory Committee on Administrative and Budgetary Questions reviewed a summary of the principal findings and conclusions of the Board of Auditors (A/70/380) and the corresponding report of the United Nations Secretary-General (A/70/338).

2. The report of the Board of Auditors acknowledges that UNFPA is in good financial health. UNFPA is pleased to have received an unqualified audit opinion for its financial statements for the year that ended on 31 December 2014. This affirms the continued efforts of UNFPA to accord the highest priority to resolving the concerns of the Board of Auditors and continuing the momentum in building a culture of accountability.

3. UNFPA appreciates the acknowledgment by the Board of Auditors of the improved oversight by UNFPA management. The organization is committed to addressing all issues identified by the Board of Auditors, and plans to complete the implementation of all recommendations by the end of 2015. UNFPA has further enhanced its response to the recommendations through a comprehensive and systemic approach that strengthens controls and ensures compliance with the recommendations.

4. Furthermore, UNFPA provided a management response to address the issues mentioned in the report of the Director of Office of Audit and Investigation Services on internal audit and investigation activities in 2014 (DP/FPA/2015/7), which was shared at the 2015 annual session of the Executive Board.

II. Status of implementation of the audit recommendations

5. The Board of Auditors made 10 new recommendations for 2014, compared to 11 for 2013. Tables 1 and 2 below summarize the status of implementation of the recommendations, as of October 2015, for the financial period that ended on 31 December 2014.

Table 1
Status of implementation of the main recommendations for 2014

Department responsible	Number of recommendations	Not accepted	Implemented or closure requested	In progress	Target date set
Office of the Executive Director	1	–	1		1
Division for Management Services	1	–	1		1
Programme Division	1	–	1		1
Programme Division and Division for Human Resources	1	–	–	1	1
Total	4	–	3	1	4

Table 2
Status of implementation of all recommendations for 2014

Department responsible	Number of recommendations	Not accepted	Implemented or closure requested	In progress	Target date set
Office of the Executive Director	2	–	2		2
Division for Management Services	4	–	3	1	2
Division for Human Resources	1	–	1		1
Programme Division and Division for Human Resources	1	–	–	1	1
Programme Division	2	–	1	1	2
Total	10	–	7	3	10

6. This report presents the status of implementation for all recommendations of 2014 and prior periods made by the Board of Auditors, addressing the following issues: (a) internal control systems (b) governance, accountability, and business transformation process; (b) selecting, monitoring and auditing implementing partners; (c) result-based management; (d) programme management; (e) human resource management; (f) inventory management; (g) accounts and financial management; and (g) other recommendations from financial periods prior to 2014 that have not been addressed under one of the above sections.

A. Internal control system

Enterprise risk management framework and risk register

7. The Board of Auditors recommended that UNFPA (a) accelerate the process of developing an enterprise risk management framework that outlines the underlying approaches to risk management and mitigation strategies to guide UNFPA management in identifying, assessing and addressing risks at all levels of operations; and (b) establish risk registers at the operational level and a consolidated register at the strategic level outlining the categories and nature of the risks which may affect UNFPA in delivering its mandate.

8. In response to this recommendation, UNFPA informed that its enterprise risk management (ERM) strategy, comprising 12 top corporate risk areas (11 strategic risk areas plus fraud), was discussed and approved at the Executive Committee meeting held on 10 June 2015. The Executive Committee formed from among its members a risk committee for UNFPA. These risk owners will chair risk treatment working groups that will meet periodically with relevant experts to address specific organizational risk and coordinate mitigation strategies. The UNFPA ERM strategy highlights clear support from the top, introduces change in incremental steps, leverages existing resources, harmonizes existing risk management activities and embeds ongoing ERM improvements, knowledge-sharing and continuing education into the business culture of the organization.

9. In July 2015, UNFPA launched the first corporate risk assessment, consisting of two elements: strategic risk and fraud risk. The Strategic Information System (SIS) supports both assessments. During the strategic risk assessment, business units are required to assign a criticality rating for each of the identified risk factors and assign a staff member equipped and empowered to respond to that specific risk factor. The fraud risk assessment is designed to raise risk awareness, communicate best practices throughout the organization and provide a feedback loop to improve

internal controls and policies. Business units are asked first to assess an inherent risk level (i.e. risk before risk response measures) for each identified risk factor, then assess the effectiveness of existing risk response measures and evaluate the residual risk level (i.e. risk after risk response measures). September marks the beginning of the risk response cycle. Moreover, each year in March, the risk committee will reassess existing risks to refine further the ERM strategy.

B. Governance, accountability and business transformation process

Establishment of decentralized offices

10. The Board of Auditors recommended that UNFPA (a) update the guidelines for decentralized offices to clearly define and outline the different arrangements for decentralized offices for establishing and managing operations; (b) continue to develop comprehensive business cases and seek retroactive approval for the remaining decentralized offices; and (c) incorporate the organization chart of decentralized offices and its reporting lines into the organization structure of country offices.

11. In response to this recommendation, UNFPA undertook a comprehensive review of its decentralized offices regarding the availability of business cases and approvals from regional offices, and secured retroactive approvals, where required. UNFPA is in the process of updating its guidelines for decentralized offices under the human resources alignment framework to define and outline the different types of decentralized office arrangements, including their linkages with the country office organizational structure.

Performance assessment deficiencies

12. The Board further recommended that UNFPA (a) ensure that monitoring and assessment visits are undertaken for effective evaluation of the implementation of activities at decentralized offices; (b) define the role of the focal points for decentralized offices and provide clear guidance on what support and oversight the focal points should provide; and (c) establish performance targets and set systematic monitoring and assessment criteria for the focal points, to ensure that they deliver according to the UNFPA mandate.

13. UNFPA will revisit this recommendation in light of the development of the guidelines on organizational structuring. The performance targets and the monitoring and assessment criteria of individuals (including focal points) are managed through the corporate Performance Appraisal and Development (PAD) application and for UNFPA business units through the Strategic Information System (SIS).

C. Results-based management

Performance indicators, baselines, and targets in the workplans of implementing partners

14. The Board of Auditors recommended that UNFPA (a) include performance indicators, targets and baselines for expected outputs in the workplans of all its approved implementing partners; and (b) ensure that the assessment of the performance of implementing partners in delivering the UNFPA core mandate is based on those performance indicators, targets and baselines.

15. In response to this recommendation, the Global Programming System (GPS) now includes functionality that ensure that all 2016 workplans, including those of implementing partners, will include output indicators, targets and baselines. The performance assessment of implementing partners is addressed below (see paragraph 21).

D. Programme management

Inadequate monitoring of the workplans of implementing partners

16. The Board of Auditors recommended that UNFPA (a) strengthen its monitoring procedures for implementing partners to ensure the adequate performance of programme implementation activities, and (b) prepare monitoring plans that can be achieved within the time frame.

17. In response to this recommendation, UNFPA will be launching a GPS phase II functionality, expected to be operational by the end of 2016 or the beginning of 2017, which will include workplan progress reporting of implementing partners. Payments to implementing partners will be subject to proper and timely reporting on implementation progress and results. GPS phase II functionality will also require timely funding authorization and certificate of expenditure (FACE) form submission that is a prerequisite before making any payments to implementing partners.

Reconciliation of data between combined delivery reports and funding authorization and certificate of expenditure forms

18. The Board of Auditors recommended that UNFPA reconcile the data in the combined delivery reports with those recorded in the funding authorization and certificate of expenditure (FACE) forms on a quarterly basis, in accordance with the national execution audit guide.

19. In response to this recommendation, the UNFPA national execution (NEX) audit guide issued in 2013 required business units to perform combined delivery reports (CDR) to FACE reconciliations quarterly. Subsequently, in the 2014 version of the NEX audit guide, quarterly reconciliations were only recommended and no longer required, in order to remove an undue burden on business units. The audit guide, however, emphasizes that it is critical that the reconciliation be performed at year-end. Management has taken steps to ensure the requirement as per 2014 NEX audit guide is communicated in the year-end accounts closure instructions and in follow-up training. A reminder of this requirement is always included in the questionnaire completed by business units as part of the implementing partner audit preparation phase. UNFPA global auditor feedback on the quality of business unit preparation for audit, including CDR to FACE reconciliation, indicate that such reconciliations are diligently performed by 84 per cent of the business units and available for NEX auditors (up from 77 per cent of business units in 2011).

Assessment of implementing partners

20. During the period prior to 2014, the Board of Auditors recommended that UNFPA consider harmonizing the Implementing Partner Capacity Assessment Tool (IPCAT) and the harmonized approach to cash transfers (HACT) to improve the overall assessment of implementing partners.

21. As part of the HACT framework, the IPCAT will be integrated into a harmonized (UNDP, UNFPA and UNICEF) micro-assessment. A mapping of the various assessments was completed; relevant questions on governance structures, human resources, finance and procurement will be incorporated into the micro-assessment. The HACT inter-agency group is finalizing the harmonized micro-assessment and is expecting to issue it by the end of 2015. As agreed with other agencies, questions related to the technical capacity of partners and their comparative advantage in mandate areas will be incorporated into the UNFPA selection process for implementing partners. The UNFPA policy for selection and assessment of implementing partners is currently under revision to reflect these changes.

Delays in signing annual workplans

22. During the period prior to 2014, the Board recommended that UNFPA agree with implementing partners to abide by the terms of their engagement and ensure that the signing of annual workplans is completed in advance of the implementation cycle of any new project.

23. In response to this recommendation, UNFPA revised the policy and procedures for preparation and management of workplans as well as the legal contract with implementing partners (both issued in July 2014), to emphasize the existing requirement of a timely workplan signing. Since the launch of the UNFPA Global Programming System (GPS) in November 2014, there is full transparency of workplans, including the date of their signing.

E. Human resources management

Management of the Atlas eServices (leave application)

24. The Board of Auditors recommended that UNFPA (a) clean up the data and manual adjustments in the eServices application before the end of the year to record the leave liability accurately and thereafter monitor leave records consistently through the system; and (b) configure the eServices application so that it does not allow for negative leave balances beyond the maximum advance leave days allowed in the policy.

25. In response to this recommendation, UNFPA confirmed that it would ensure the timely data clean-up; a manual adjustment in the eServices application will be carried out before the end of 2015, as prescribed by the leave policy. Regarding advance leave days, the eServices application has already been reconfigured so that negative leave balances beyond the maximum advance leave will not be allowed.

Maintenance of the global database for consultants and service contracts

26. The Board of Auditors recommended that UNFPA continue to develop a global comprehensive database for maintaining, recording and periodically updating key information on consultants and service contracts to improve control, monitoring and reporting on special service agreements and service contracts at field offices.

27. In response to this recommendation, UNFPA notes that the organization already maintains service contract data in Atlas – the name of its enterprise resources planning (ERP) system – and is continuously updated so that it is always current. For individual consultants, UNFPA will leverage the use of the current consultant roster, (which has replaced the special services agreements modality).

Use of service contracts and special service agreement

28. During the period prior to 2014, the Board of Auditors recommended that UNFPA adhere to the recruitment guide by (a) ensuring that the hiring of service contract holders is not used as a substitute for the recruitment of fixed-term officers; (b) whenever hired, contractors should not exceed contract periods stipulated in the service contract user guide; and (c) reconfigure the web-based tool to improve monitoring and evaluation of the performance of special service agreements and service contracts in a timely manner.

29. In response to this recommendation, UNFPA conducted a once-off review of all existing service contracts to adjust contract modalities, where necessary. Subsequently, human resource strategic partners will examine the terms of reference of new service contracts on an ongoing basis to ensure compliance with the service contract policy.

Use of special service agreements not in line with the policy

30. During the period prior to 2014, the Board of Auditors reiterated its earlier recommendation that UNFPA enhance control over the use of special service agreements and only allow special service agreements that are consistent with its policy.

31. In response to this recommendation, UNFPA issued a comprehensive revised individual consultant policy in July 2015. Three previously separate policies ('Consultants at UNFPA headquarters'; 'International consultants at UNFPA field duty stations'; and 'Local consultants at UNFPA field duty stations') on hiring consultants under special service agreements have been merged into a streamlined single individual consultant policy that governs the hiring of

international and local consultants at all locations and aligns it with the structure of the consultant roster created as a tool for managing, evaluating and retaining high-quality consultants. Even if the hiring of consultants under the special service agreement modality would be delegated to managers in the field, the new consultant roster would allow managers to have access to comprehensive information on consultants and enhance control over the use of special service agreements. UNFPA will closely monitor implementation for review by the Board of Auditors teams during their field visits.

32. During the period prior to 2014, the Board of Auditors recommended that UNFPA adhere to the service contract policy by conducting evaluations of service contracts two months prior to their expiration dates and by providing justification for renewals.

33. This recommendation is addressed in the revised UNFPA policy on service contracts (issued in July 2014), which provides country offices access to the new UNDP service contract handbook and addresses other issues noted by the Board of Auditors regarding the use of service contracts, including performance evaluation. In partnership with UNDP, UNFPA imported data of service contracts into Atlas. A new online tool has been rolled out to facilitate service contract performance assessments prior to the end or renewal of contracts. UNFPA will monitor its implementation for review by the Board of Auditors teams during their field visits.

F. Inventory management

34. The Board of Auditors recommended that UNFPA (a) establish a robust supply chain mechanism to ensure that there is effective delivery and distribution of procured inventories to the intended beneficiaries by field offices; and (b) develop tools that will enable country offices to monitor the timeliness and effectiveness of inventory distribution, including regular tracking of key metrics, such as percentage of execution of distribution plans and inventory levels held at service delivery points.

35. In response to this recommendation, UNFPA is working on improving its systems to facilitate effective inventory management. As part of these efforts, UNFPA has launched a new ERP-integrated inventory tracking system, called 'Shipment Tracker' (replacing the 'Channel System'). This inventory tracking system tracks the flow of commodities throughout the full procure-to-pay cycle, starting from requisition and ending with the ultimate distribution to UNFPA implementing partners or beneficiaries, all within a single ERP. This system provides users and management with live information on the status of commodities at any point in time. It also enables development of analytical and diagnostic tools, which will supply management with such key metrics, such as the volume of goods available for distribution, aged inventory balances, among others. Data generated by Shipment Tracker will provide management with the necessary information to address in a timely manner identified weaknesses, such as long delivery times or bottlenecks within the in-country logistic chain.

36. Shipment Tracker was launched in October 2015, with effective date of 1 July 2015. All UNFPA offices were directed to hold stock counts and certify inventory balances, as of the end of the third quarter 2015, based on Shipment Tracker data. This makes it possible to collect lessons learned and introduce system improvements in time for the fourth quarter inventory certifications, which will serve as a basis of inventory balances in the annual financial statements for the fiscal year ending 31 December 2015.

G. Accounts and financial management

37. The Board of Auditors recommended that UNFPA (a) speed up the investigation on the unusual credit balances in the individual salary advance accounts; and (b) consider instituting an automated system to control staff advances at field and head offices.

38. In response to this recommendation, UNFPA has prepared a detailed action plan to prioritize review and clear the remaining outstanding aged and credit balances; it has made good progress in its implementation. UNFPA has developed an Atlas integrated solution for

management of staff advances at both headquarters and field offices. Starting in October 2015, requests for salary advances are channelled through the dedicated Atlas eServices salary advance tool and approved by headquarters, creating an important linkage between salary advance release and recovery processes.

H. Other recommendations from financial periods prior to 2014

39. During the period prior to 2014, the Board of Auditors recommended that UNFPA (a) provide clarity on the extent of oversight that regional offices should provide to country offices; (b) equip regional offices with staff and tools to enable them to carry out oversight functions; and (c) design and implement a performance measure system to measure the effectiveness and performance of regional offices. The Board of Auditors further recommended that UNFPA address the weaknesses in its regional office architecture, as recommended by the Office of Audit and Investigation Services.

40. In response to these recommendations, UNFPA has revised its organizational handbook. The revised organization handbook addresses the issue of oversight of country offices by regional offices. Weaknesses in the regional office architecture have been addressed through the recruitment of resource mobilization and communications officers. In addition, human resources strategic partners are currently located in each regional office. Performance and results monitoring of all business units (including regional and country offices) is being undertaken through the SIS, which provides a standardized way for all UNFPA units to plan, monitor and report on results.

Establishment of long-term agreements for regular services

41. During the period prior to 2014, the Board of Auditors recommended that UNFPA collaborate with other United Nations agencies to establish long-term agreements (LTAs) with suppliers for services utilized by the field offices on a regular basis.

42. In response to these recommendations, the UNFPA Procurement Procedures (Section 14 on cooperation) contain clear guidelines on cooperation with other entities, especially concerning the creation and use of contracts. Further, the updated Guidelines on Common United Nations Procurement, published by the Procurement Network of the High-level Committee on Management (HLCM) in 2012, are widely available. The guidelines show many examples of different types of procurement collaboration in country offices, including by establishing joint LTAs, sharing existing LTAs, or by using the procurement services of another United Nations organization.

43. In 2015, the UNFPA Procurement Services Branch approached a Member State, seeking its support for procurement collaboration in select countries where a greater impact could be achieved. The idea was to increase joint procurement efforts at country level through the effective use of harmonized policies and common tools developed by the harmonization group of the HLCM-Procurement Network. The Procurement Services Branch then involved the Development Operations Coordination Office (DOCO) of the United Nations Development Group (UNDG) as well as the United Nations System Chief Executives Board for Coordination (CEB) in the initiative, and requested countries to submit innovative proposals to accelerate collaborative procurement. The UNFPA Procurement Services Branch, DOCO and CEB are jointly reviewing and evaluating the proposals received; the three best proposals will be presented for selection in November 2015.

44. The Procurement Services Branch is regularly following up with country representatives and regional office directors, reminding them of the expectations from donors to increase the volume of collaborative procurement at country level, but also sharing with them good practices from other countries with experience in collaborative procurement, especially Tanzania and Zimbabwe. Country-specific procurement strategies are being produced for selected countries, where harmonization of United Nations procurement is one of the key action points in the strategies. Further, special terms of reference for country office procurement focal points in

selected countries have been developed and linked with their PADs, to reinforce accountability and decentralization of operations. In addition, a database capturing the status of procurement collaboration at country office level has been established.

Funding of employment benefits liabilities

45. During the period prior to 2014, the Board of Auditors recommended that UNFPA continue to enhance its efforts in bridging the funding gap of the outstanding liabilities in employees' benefits within the proposed time schedule. The current funding plan includes three funding sources: cost accruals resulting from payroll charges; transfers from fund balances otherwise available for programming; and interest earned on the already funded portion of the after-service liability. Consequently, UNFPA continues to have one of the best-funded plans within the United Nations system; the organization is continually looking for innovative measures to eliminate the remaining funding gap.

46. In response, the Board of Auditors has acknowledged that UNFPA has already implemented a five-year funding plan to close the current employee liability funding gap. UNFPA management will continue to monitor this innovative plan, based on the three funding sources listed above. In future, the investment of these funds will be managed by an external investment fund manager – identified through a joint initiative with UNDP, UNICEF and the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women). UNFPA has also revised its financial regulations and rules (effective 1 July 2014) to facilitate investments in a wider range of financial instruments anticipated to provide higher returns.

Risk assessment by office of investigation and audit services

47. During the period prior to 2014, the Board of Auditors recommended that UNFPA determine the levels of assurance appropriate for business units ranked as being high and medium-risk and empower its internal audit with resources, as appropriate, to adapt its audit cycles to the chosen assurance level.

48. In response to this recommendation, UNFPA, in consultation with the Office of Audit and Investigations, will determine the levels of assurance appropriate for its high-risk and medium-risk business units and present its proposal to Executive Board, at its 2016 second regular session, for appropriate consideration in adapting its audit cycles and aligning internal audit resources, as required.

49. During the period prior to 2014, the Board of Auditors reflected on findings of the Division for Oversight Services (now Office of Audit and Investigations Services) as deficiencies in the areas concerned and underscored the need to address those deficiencies.

50. In response to this recommendation, UNFPA emphasized the substantial improvements achieved in office governance (in 86 per cent of reports) and in operations (in 100 per cent of reports), as reflected in the annual report of the Director, Office of Audit and Investigation Services. UNFPA management will request closure of this recommendation at an upcoming quarterly review by the Board of Auditors.

51. The Board of Auditors noted an improvement in the implementation of recommendations that were pending during the biennium that ended on 31 December 2013. Annex 1 of the Board of Auditors report for the financial period that ended on 31 December 2014 provided a summary of the status of implementation of recommendations for previous financial periods. The Board of Auditors noted that 12 of the 22 recommendations made during the previous financial periods were fully implemented (55 per cent) and 10 (45 per cent) were under implementation. The 10 outstanding recommendations are pending approval of certain policies and the implementation of new policies, structure and tools in field offices.

52. Table 3 below summarizes the status of implementation of the 10 recommendations that were 'in progress', as of October 2015.

Table 3
Status of implementation of recommendations from previous periods considered not fully implemented in annex 1 to the report of the Board of Auditors for the financial period that ended on 31 December 2014

Department responsible	Number of recommendations	Not accepted	Closure requested	In progress	Target date set
Division for Management Services	1	–	1	–	1
Division for Human Resources	3	–	2	1	3
Office of the Executive Director	3	–	2	1	3
Procurement Services Branch	1	–	1		1
Programme Division	1	–	1	–	1
Division for Management Services and Programme Division	1		1		1
Total	10	–	8	2	10

III. Conclusion

53. UNFPA welcomes the unqualified audit opinion contained in the report of the Board of Auditors for the UNFPA financial statements for the year that ended on 31 December 2014. The organization continues to accord the highest priority to achieving a record of unqualified audit opinions and to resolving the concerns of the Board of Auditors. As noted by the Board of Auditors, there is scope for improvement in some areas, specifically (a) internal control systems; (b) accountability; (c) the decentralization of operations; and (d) results-based programme management.