



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

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**UNFPA – Internal audit and investigation**

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**Addendum**

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## Annual report of the Oversight Advisory Committee

United Nations Population Fund  
Oversight Advisory Committee  
2018 annual report to the Executive Director

### I. Purpose

1. This report is addressed to the Executive Director of UNFPA and provides a summary of the activities and advice of the Oversight Advisory Committee (“OAC, or the Committee”) of UNFPA during 2018. It is submitted pursuant to item 14 of its terms of reference approved in 2018, and in accordance with paragraph 25 (c) of section IV, subsection I of the UNFPA revised oversight policy.

### II. Oversight Advisory Committee activities in 2018

2. *Terms of reference.* On 26 January 2018, the Executive Director approved the revised terms of reference, in line with paragraph 60 of the revised UNFPA oversight policy. The revision (a) refers to the revised UNFPA oversight policy approved by the Executive Board in January 2015 after the last amendment of the terms of reference in 2014; (b) more clearly reflects and clarifies the interactions of the Committee with some offices or new internal bodies, e.g. the Ethics Office, the Evaluation Office, and the vendor review committee; and (c) incorporates the changed role regarding the Committee’s involvement in the financial statements review. The wording was also amended to provide additional clarity, where necessary. As a result, the Committee’s name was changed from Audit Advisory Committee to Oversight Advisory Committee. The name change will be reflected in the next proposed amendment of the oversight policy to the Executive Board.

3. *Members of the Oversight Advisory Committee.* Committee members are appointed for three years, renewable once. Committee members possess expertise in risk management, internal control, oversight, governance, financial management and reporting, ethics, investigation, internal audit, evaluation and development and programme matters. The members of the Committee who joined in 2017 were Mr. Ariel Fiszbein (Argentina), Mr. Edward Ouko (Kenya), Ms. Enery Quinones (United Kingdom) and Mr. Louis Wong (Australia). The fifth seat remained vacant in 2018. Ms. Quinones was elected Chairperson of the Committee for the year 2018. All Committee members are external to UNFPA, and are independent of its management.

4. *Meetings.* The Committee held three meetings in 2018 (18-20 April, 11-13 July and 31 October – 2 November 2018). Individuals invited to relevant sections of the meetings included, among others, the Deputy Executive Director (Management); the Deputy Executive Director (Programme); programme and operational senior management; the Director, Office of Audit and Investigation Services (OAIS); the Director, Evaluation Office; the Director, Division for Management Services; the Ethics Adviser; the Legal Advisor and the representatives of the Board of Auditors. The Committee also had private meetings with the Director, OAIS; the Director, Evaluation Office; the Ethics Adviser; and representatives of the Board of Auditors.

5. *Field visit.* Members of the Committee undertook a visit to the UNFPA country office in Jakarta, Indonesia (8-9 October 2018) and to the UNFPA regional office in Bangkok, Thailand (11-12 October 2018). The purpose of the visit was to familiarize Committee members with on-site UNFPA operations in order to better understand and appreciate how the mandate of UNFPA plays out at the field level. Although the Committee’s visit occurred at a difficult time, particularly for the Indonesia office responding to a natural crisis which had affected the country a few days before the visit, Committee members were impressed by the dedication and effort of all staff to ensure delivery of the UNFPA mandate

in those circumstances and to help the Committee better understand the issues and challenges confronting UNFPA. The Committee also appreciated the cooperation between the country office and the regional office that underpins fast and well-coordinated action. The Committee sent letters of appreciation to the Representative of the UNFPA country office in Indonesia and to the Regional Director of the Asia Pacific region.

6. *Executive Board.* To allow members of the Executive Board to have the opportunity to ask questions on the annual report of the Committee for 2017, the Chairperson of the Committee, attended the meeting of the Executive Board in June 2018.

7. *Reporting.* The Committee prepared minutes for each of its meetings, provided advice based on the deliberations, and briefed the Executive Director on the outcome of the meetings.

8. *Recommendations.* The Committee made recommendations and suggestions to UNFPA management during its meetings and followed up on the implementation thereof.

9. *Annual assessment of the effectiveness of the Committee.* The Committee undertook an assessment of its effectiveness in 2018 and agreed to follow up on issues that emerged, particularly those relating to the visibility and value added of the Committee.

### III. Key messages and challenges

10. *Sexual harassment and protection against sexual exploitation and abuse (PSEA).* The Committee noted the continued concerns regarding the issues of sexual harassment and sexual exploitation and abuse. It was also informed of the impressive amount of work that has been undertaken, particularly as regards PSEA. The Committee noted the progress made by UNFPA and commends the organization for the appointment of the SEA Coordinator in August 2018. The prioritization of these issues, as well as the measures taken and those in progress will go some way towards assisting UNFPA to manage potentially negative situations but the Committee reflected that more work is still needed to implement an effective prevention mechanism (see also paragraph 16).

11. *Integrated Budget.* The Committee extended its congratulations to the Executive Director on the approval, by the Executive Board, of the revised Integrated Budget, 2018-2021, and noted in particular the appreciation by the Executive Board of the consultative process carried out by UNFPA with Member States.

12. *Funding situation.* The Committee recognized the efforts made by UNFPA to address the challenges regarding the overall funding situation. These include (a) the continued shift from core to non-core funding; (b) the changing donor base; as well as (c) the emergence of pay-for-performance contracts and (d) the increase in non-standard donor agreements. The Committee noted that while private-sector funding remains relatively low, reaching out to private-sector donors carries its own set of risks, which the organisation must be equipped to address.

13. *United Nations development system reform and change management process.* The Committee recognized that the UNFPA change management process and the United Nations development system (UNDS) reform are mutually reinforcing. The Committee noted that, at the time of writing this report, there are challenges as regards the funding of one of the core changes in the UNDS reform, i.e., the resident coordinator system, including the definition of the 1 per cent levy. The Committee took note that doubling the resident coordinator contribution, which has been included in the revised Integrated Budget, 2018-2021 approved by the Executive Board in September 2018, has wiped out all UNFPA savings from the comprehensive resource review. As concerns the UNDS reform, the Committee was informed that UNFPA, together with the United Nations Educational, Scientific and Cultural Organization (UNESCO) and the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women), would jointly finance representation in the Business Innovation Group of the United Nations Sustainable Development Group, which is currently leading, inter alia, the work on common back

offices. The Committee recognized the important progress made so far in implementing the comprehensive resource review as well as the ongoing concurrent work streams on other change initiatives. The Committee noted that these transformations can engender some tension, and urged Management to address issues of stress among staff due to certain changes, which might impact them professionally.

14. *Information and communication technology (ICT) transformation*, including the Enterprise Resource Planning system (ERP). In its 2017 annual report, the Committee had drawn attention to the risks to UNFPA – particularly the risk of cyberattacks – represented by the aging ICT environment. The Committee was informed of the initiatives relating to the ICT transformation and noted the complexities and challenges associated with the undertaking, in particular ensuring the necessary skill set among staff. The Committee noted that the United Nations Development Programme (UNDP) had decided to undertake an upgrade of the existing ERP system (Atlas) but that UNFPA was still on track to implement a new system that would better service UNFPA needs. However, the Committee noted that payroll, treasury and staff services would still be serviced by UNDP on the Atlas platform – which could create interface challenges. As concerns the new ERP, the Committee was informed that the ERP project started in June 2018. The Committee agreed that it would follow up on the progress of the project, including data migration from Atlas and related control issues.

15. *Harmonized approach to cash transfers (HACT) framework*. The Committee appreciated the response by management to its request regarding the cost of HACT for 2016-2017 and noted the decrease in the costs of micro-assessments as well as HACT audits. By mid-year 2018, 75 per cent of implementing partners had been assessed, with the majority of these having been assessed as low risk. The Committee welcomed the greater rate of implementation of spot-checks but emphasised the need for quality control. The Committee, concerned with the costs resulting from multiple levels of controls, cautioned that while effective controls are of utmost importance, due attention should be given to cost-benefits and avoidance of duplicate controls.

16. *Implementing partner protocol on PSEA*. The Committee expressed concern at the push-back from some non-governmental organizations regarding the inclusion of clauses on PSEA in the revised standard agreement, as part to the implementing partner protocol implementation. The Committee noted the ongoing discussions on how to resolve issues of lack of investigation capacity and costliness of expected measures. The Committee was reassured that these are being addressed separately with the different implementing partners.

17. *Enterprise risk management (ERM); internal control framework and accountability framework*. These three interrelated areas continued to be high priority for the Committee in 2018. The Committee was informed of the status of the 2018 ERM cycle and the key strategic risks (including fraud risk), as identified by the different business units, and noted the discrepancy in the assessment of risks among the different units. The Committee considered the notable progress in putting in place an effective ERM but stressed that the quality of risk assessment was critical. The development of an ERM policy was welcome and would help define risk appetite statements for key business units. It took note of how the new ERP system might help improve ERM. The Committee appreciated management's frank appreciation that the UNFPA ERM has not reached the expected maturity level yet but was confident that it would.

18. *Regarding the internal control framework*, the Committee noted the substantial progress on key policies, such as the workplan and inventory policies. A risk/control matrix is now a standard part of key policies, for instance, for procurement. Overall, the second line of defence had been reviewed and strengthened in terms of controls and remediation activities. The Committee took account of the postponement of the 'delegation of authorities' matrix to 2021 until the ERP system is completed. As concerns the fraud risk, training of personnel and implementing partners was carried out in 2018; and the Committee urged the organization to continue its work on the fraud strategy, which is key for many UNFPA stakeholders.

19. *Joint Inspection Unit (JIU) recommendations on fraud prevention, detection and response.* The Committee appreciated the progress made in implementing the recommendations of the JIU report on ‘Fraud prevention, detection and response in United Nations system organizations’ ([JIU/REP/2016/4](#)). The Committee noted that several recommendations were still outstanding and cautioned against the perception of fraud risk as being relatively low.

20. *Office of Audit and Investigation Services (OAIS).* The Committee appreciates that the investigative capacity of OAIS would be strengthened by the addition of two temporary staff in 2019 and 2020. Despite this increase, the Committee wished to call attention to the alarming increase in investigative cases, which, coupled with several departures in 2018 (the Branch Chief, an investigator and two experienced investigation consultants) and the arrival of relatively junior, untrained staff, was putting excessive strain on existing investigation resources. This has a human dimension, which is of concern, but also impacts the audit work, which cannot continue to subsidize the work on investigation.

21. *Audit Monitoring Committee.* As it did in its 2017 annual report, the Committee acknowledges that the audit monitoring committee is an excellent vehicle for ensuring the timely implementation of outstanding internal and external audit recommendations. The Committee urges the audit monitoring committee to continue its efforts, especially as concerns those recommendations addressing high-risk activities.

22. *Evaluation function.* The evaluation function is another cornerstone of the Executive Director’s fiduciary oversight responsibilities. The Committee welcomed the adoption of the revised evaluation policy and noted the clear language regarding the cycle of evaluations. The Committee was, however, of the view that there should also be clear responsibility for ensuring that the cycle of evaluations is respected. As concerns funding of the function, the policy provision of between 1.4 per cent (floor) and 3 per cent (ceiling) of programmatic resources should allow for an increase in the number of decentralized evaluations which, the Committee believes, should be prioritized. The Committee will continue to follow the implementation of the evaluation workplan, 2018-2021 as well as the level of implementation of the recommendations emerging from the evaluations. The Committee looks forward, as well, to reviewing the implementation of the recommendations from the external review of the function, which was concluded in 2018.

23. *Financial statements and reporting.* The Division for Management Services presented to the Committee the draft UNFPA financial statements and reporting for the year ended 31 December 2017, prepared in accordance with the International Public Sector Accounting Standards (IPSAS). The Committee’s opinion was that the preparation of the financial statements and reporting by the Division for Management Services has become a standardized process, reflecting a high level of professionalism, with adequate controls being applied and demonstrating the performance of sound analysis of accounts, with proper follow-up with field offices and other business units. The Committee agreed to follow up on the continually growing liability of after-service health insurance and was interested in also following the implementation of the revenue recognition and cost recovery policies.

24. *Human resource strategy.* The Committee underlined that the organization’s major asset is its staff. The organization’s ambition to become more agile and flexible will largely depend on whether staff is up to the level required to deliver. The Committee heard, with interest, the presentation by the Division for Human Resources on the goals of the draft ‘new people strategy’ of UNFPA, which includes a review of competency profiles with emphasis on innovation skills. The Committee noted that the organization needed to be prepared for the long haul as this fundamental cultural change would not happen overnight and it might be necessary to invest in retraining existing staff. The Committee also noted that legacy procedures, which require sign-off by the Executive Director for certain positions, are being revamped, with a view to having in place an authorization-and-risk matrix to decentralize decision-making and eliminate bottlenecks in recruitment.

25. *Vendor review committee (VRC)*. The vendor review committee is an internal technical administrative body established to make recommendations on possible sanctioning of vendors to the Chief Procurement Officer, who is responsible for the final vendor sanctions decisions. At its meeting in Spring, the Committee heard from the VRC Chair who reported that a VRC secretary had been recently appointed. The Committee expressed the hope that, with this appointment, the organization would begin to tackle the backlog of cases. The Committee reiterated its 2016 recommendations to increase the relevance of this body, i.e. (a) that the vendor review committee produce an annual report, summarizing its work and including improvements to the procurement process based on lessons learned; and (b) that the membership be expanded, with one or more persons external to UNFPA. These recommendations could be considered in the context of a review of the vendor sanctions policy, which could be undertaken when sufficient experience had been built with its implementation.

26. *United Nations Board of Auditors*. The Committee noted the unqualified opinion on the financial statements for 2017 given by the Board of Auditors and the number of control issues raised. The Committee had a final meeting with representatives of the outgoing member of the Board of Auditors responsible for auditing UNFPA. The Committee thanked them for the excellent cooperation between the Board of Auditors and the Committee. The Committee also held an introductory meeting with representatives of the incoming member of the Board of Auditors responsible for auditing UNFPA, to welcome them and to explain the role of the Oversight Advisory Committee. The Committee wished to continue the good cooperative relationship with the new member of the Board of Auditors.

27. *Ethics Office*. The Committee held a private session with the Ethics Advisor in April 2018 and remained strongly committed in support of the ethics function in UNFPA, which fosters a culture of integrity and accountability. The Committee is of the view that the ethics function is particularly critical in supporting the organization's efforts to effectively address sexual exploitation and abuse. The Committee noted the continuous support and importance placed on the ethics function by the Executive Director and the senior management of UNFPA.

28. *UNFPA branding*. The Committee was presented with the first branding strategy for UNFPA. The Committee commended the organization for this initiative but expressed concern that the 'tag line' referring to "reproductive rights for all" could have negative connotations and lead to push-back in some countries. The Committee, nonetheless, acknowledged that this was a normative principle of UNFPA and noted that what was required was a careful evaluation of the cultural contexts in which it is presented.

## **IV. Conclusion**

29. In 2019, the Committee will continue to review relevant activities, records, risks and controls, particularly those relating to the achievement of results set out in the Strategic Plan, 2018-2021 and the 2030 Agenda for Sustainable Development, as well as contributions to the United Nations reform efforts and opportunities for improvements in organizational effectiveness and efficiency.

30. The Committee will continue to follow up, among other matters within its mandate, on the following:

- (a) The various change initiatives undertaken by the organization as well as the implementation of the United Nations reform launched by the Secretary General;
- (b) The funding situation of UNFPA;
- (c) The continued development of enterprise risk management and the linkages between enterprise risk management, the internal control framework and the accountability framework;

- (d) The implementation of the HACT framework, including lessons learned from HACT audits and spot-checks;
- (e) The finalization and subsequent implementation of the 'new people strategy' in human resources;
- (f) The risks related to information and communication technology, including the ICT transformation;
- (g) Developments in addressing sexual exploitation and abuse as well as sexual harassment, including investigation of allegations thereof;
- (h) Progress and completion status of the annual workplans of the evaluation function and of OAIIS;
- (i) Resource constraints of OAIIS;
- (j) The implementation of audit and evaluation recommendations as well as the recommendations of the external review of the evaluation function;
- (k) The conclusions and recommendations of the forthcoming report of the Joint Inspection Unit on the oversight committees in the United Nations system, in particular issues relating to governance and increased transparency and accountability.

31. The Committee wishes to thank the Executive Director, the Deputy Executive Directors and senior staff, the staff of OAIIS and of the Evaluation Office, the Board of Auditors and other UNFPA management and staff who participated actively in the Committee's activities and cooperated with the Committee in discharging its responsibilities.

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