



25 April 2016

UNFPA management response

**Report of the Director, Office of Audit and Investigation Services,
including the annual report of the Audit Advisory Committee
(DP/FPA/2016/7 and Add.1)**

Item 14: UNFPA Internal audit and oversight

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 on UNFPA internal audit and investigation activities in 2015 (DP/FPA/2016/7).

This management response should be read in conjunction with the 2015 annual report of the Audit Advisory Committee (AAC), issued as an addendum to the OAS report (DP/FPA/2016/7/Add.1).

This report is organized into two sections. Section I provides management responses to key audit issues identified in the OIAS report. Section II provides management responses to the strategic advice contained in the AAC report.

Executive Board of UNDP, UNFPA and UNOPS
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Section I

Management response to the annual report of the Office of Audit and Investigation Services (DP/FPA/2016/7)

I. Introduction

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 2015 (DP/FPA/2016/7). Management takes note of the OAIS opinion on the adequacy and effectiveness of the UNFPA framework of governance, risk management and control processes. UNFPA management welcomes OAIS overall conclusion that through its various actions in response to OAIS reports and advice, it continued to demonstrate in 2015, its commitment to improving the effectiveness of the governance, risk management and control framework.
2. The Audit Monitoring Committee, chaired by the Executive Director, successfully coordinated efforts in improving the implementation of the audit recommendations aimed at increasing accountability within business units: UNFPA successfully implemented and closed 95 recommendations (73%) out of 131 outstanding recommendations pending as of 1 Jan 2015. UNFPA continues to remain committed and affirms its efforts to accord the highest priority to strengthening the culture of accountability.
3. UNFPA utilized the ‘Three Lines of Defense’ model (depicted below) in effective risk management and control. The model is used to communicate the roles played by management and independent internal and external oversight functions (with various governing bodies) and of an organization in providing assurance on risk management and controls.



Source: Institute of Internal Auditors (IIA) research – The Three Lines of Defense in Effective Risk Management and Control, 2013 and Leveraging COSO across the Three Lines of Defense, IIA, 2015.

- a. The first line of defense is the operations management and personnel having ultimate responsibility and accountability for executing defense activities on an ongoing basis in line with policies and procedures.
 - b. The second line of defence is responsible for guidance and directions for implementing organizational policies and for monitoring their proper execution. They provide oversight over business processes and risks. This line of defense oversees and enables the first line of defense.
 - c. The third line of defence is assurance that is independent of management, including internal audit and evaluation.
4. These three lines of defense together represent how accountability and oversight are mainstreamed in the organization at all levels. The first and second line of defense are management functions, while the third line of defense is an assurance function. All lines of defense have to complement one another.

UNFPA internal lines of defense			External line of defense
1st line	2nd line	3rd line	
Monitor day-to-day practices	Monitor the first line	Independent assurance	
<ul style="list-style-type: none"> • Finance function* • Procurement function* • Human resources function* • Trust fund management* • Information technology • Country office • Regional office 	<ul style="list-style-type: none"> • Finance function* • Procurement function • Human resources* • Trust fund management* • Regional office* • Donor assurance activities • Budget function • ERM function • Audit coordination • Quality management units 	<ul style="list-style-type: none"> • Internal Audit • Investigations • Ethics Office • Evaluation Office 	<ul style="list-style-type: none"> • General Assembly • Executive Board • Jointly financed activities • Audit Committee • External audit

*Have both first and second line of defense functions

5. The three line of defense model has continued to evolve in UNFPA over the past few years through the continuous development of the enterprise risk management (ERM) and integrated control framework (ICF).

II. Assurance at UNFPA

A. Mandate

6. UNFPA management appreciates the mandate of independent internal audit and investigation services based on the oversight policy, financial rules and regulations, the accountability framework and the OAIIS charter. Management also appreciates the advisory role performed by the Audit Advisory Committee and the advice offered to the Executive

Director on various financial, risk management and oversight processes, including in promoting the effectiveness of audit and investigation services. UNFPA senior management continues to benefit from the advice of the OAIS Director in Executive Committee meetings and is committed to ensuring that OAIS continues to enjoy organizational independence in performing its work and communicating its results.

7. Management also appreciates the OAIS quality assurance and improvement programme that includes ongoing and periodic external quality assessments; it is pleased to acknowledge the “general conformance with the international standards and code of ethics of the Institute of Internal Auditors” rating conferred by the Institute of Internal Auditors after its external quality assessment conducted in 2015.

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

8. UNFPA management through its various actions (detailed in section D), continued to demonstrate in 2015 its commitment to increasing the effectiveness of the governance, risk management, and control processes at UNFPA.
9. Management also takes note of the sources of evidence considered to formulate the opinion that refers primarily to activities conducted in 2014 and previous years.
10. UNFPA management clearly demonstrate that UNFPA has a strong, effective and wide-ranging system of governance, risk management and internal control that compares favourably with other UN organizations and has been acknowledged through various external assessments. UNFPA management continues to develop, expand and strengthen that system by observing, studying and adopting best practices proposed by professional bodies and independent consultants through its ongoing projects on ERM and ICF.

C. Resources

11. Management takes note of the overall similar vacancy rate (percentage wise) in OAIS in 2015 but with a different distribution compared to 2014, i.e. increased vacancy rates in the Directorate and Investigations Branch that are offset by a suitable decrease in the Internal Audit Branch. UNFPA management also takes note of the vacancy-adjusted OAIS budget funding of \$5.276 million (3.2 percentage points increase from 2014), provided solely from the institutional budget funds, and proactive budget management by absorbing austerity impact at the Directorate level (decrease by 25 percentage points). Due to this, the adjusted budget of the internal audit branch increased by 13 percentage points and that of the investigations branch by 2.5 percentage points (in spite of the increased vacancy rate).

III. Compliance with the oversight policy

12. Management appreciates the OAIS full compliance with the decision of the Executive Board on public disclosure of all internal audit reports, within one month of issuance, being now in the third year of public disclosure. Management also takes note of the continued efforts to improve the clarity and quality of its reports which has led to enhanced

management attention, with timely actions on audit recommendations that have contributed to organization-wide enhanced transparency and accountability.

IV. Internal audit

A. Risk-based audit planning

13. Management takes note of the OASIS risk-based audit plan based on a documented risk assessment of the audit universe of 139 business units and 35 corporate processes with separate risk models for business units and corporate processes.

B. Outcome of the audit risk assessment

14. UNFPA management takes note of the deferment of the 2015 audit risk assessment update due pending information on the nature, extent and foreseen impact of the change in the organization's budgetary situation. Management also takes note of the fact that the 2016 provisional work plan was prepared on the basis of the 2014 audit risk assessment (revisited to allow the comparison of audit cycles with other New-York based funds and programmes) and of the 2015 information technology risk assessment, leading to 14 business units and 17 corporate processes considered 'high risk' for 2016.

C. Internal audit activities in 2015

15. Management takes note of the internal audit activities in 2015, including a comparison of 2015 planned-versus-achieved audit engagements.

Resulting audit coverage

16. The austerity measures necessitated as result of budget shortfall in 2015 and 2016 have caused the organization to deliver more with fewer resources. This situation is likely to prevail in near future, and there is a need for UNFPA to create a sustainable approach by finding ways and means to deliver effectively by more efficient use of available resources.
17. UNFPA management takes note of the difficulties in achieving the 2015-2018 projected audit coverage due to the level of resource allocation for internal audit in 2016. Therefore, UNFPA management reinstated the original allocation by adding equivalent amount in its initial reduced allocation for 2016.
18. Management has also proposed an additional allocation of \$1 million (for 2017), compared to 2016 (after austerity reduction), in the midterm review of integrated budget proposal (DP/FPA/2016/3). This additional resources will strengthen the internal audit capacity of OASIS to maintain projected audit cycles of three years for high-risk business units; 10 years for medium-risk business units (with additional assurance provided by continuous auditing activities) and 10 years for cross-cutting reviews of corporate processes.

D. Key finding of internal audit activities

Country Office audits

19. Management takes note of the five country offices audit reports and is committed to further strengthening risk mitigation and improvement mechanisms as presented below by area and sub-area.

i. Office governance

20. Management takes note with appreciation of the good practices noted by OAIS in the area of office governance e.g. regular staff and management meeting, monitoring programme implementation and improved coordination between programmatic and operational activities.

21. Management would also like to assure that it continues to address systematically issues related to the organizational structure of country offices and staffing alignment with country programme needs and organizational priorities. Human resources strategic partners are regularly reviewing the organizational structures of business units to ensure that they are aligned with Strategic Programme and operational needs. Since 2014, 45 business units have been realigned; 23 realignments are underway; and more are planned for 2016. To address critical vacancy rates, the leadership pool concept has been introduced, which has assessed 94 candidates since 2014 for leadership pool positions (Representatives, Deputy Representatives, international operations managers) of which 83 have been deemed ready or ready with development.

22. Management would like to report that ‘myResults’, the corporate system for planning, monitoring and reporting on results, now allows all business units to create office results frameworks, linking annual management plans to results. The business units can set their annual outputs, define their indicators and targets to assess achievement of outputs, and identify quarterly progress milestones and critical assumptions, to track progress quarterly and take remedial measures. The office results frameworks provide the starting points, and results expected, for the preparation of individual annual performance and development plans.

ii. Programme management

a. Programme planning, implementation, and monitoring

23. Management takes note with appreciation the good practices observed by OAIS in the area of programme planning, implementation and monitoring, with the use of mobile phone banking technology for payment of travel expenses and incentive to programme participants, with minimizing the risks related inherent to cash distribution. Management also takes note of improvement opportunities related to (i) the timeline for finalizing key programme documents and workplans; (ii) the level of workplan detail; (iii) regular update of workplans as per the 2014 work plan management policy; (iv) the level of detail supporting workplan budgets; (v) the effectiveness of programme financial management

controls, including expenditure reviews and budget-to-actual reconciliations; and (vi) the alignment between workplans signed with implementing partners with the corresponding work plan ‘snapshots’ reflected in the global programming system.

24. In response to the issue of quality of programming and monitoring, UNFPA management is currently working on the new project document format that will allow more detailed description of programme interventions, their contribution to country programme outputs, as well as a summary of results achieved against pre-defined annual targets at the output level. This document shall supplement the country programme document and workplans, and will help ensure effective programme planning, implementation, and management.
25. In response to the call for designing a time-based action plan to enhance the effectiveness of humanitarian activities, UNFPA developed such a plan which consists of some interventions that derived from an action matrix agreed upon in the 2014 High-Level Global Humanitarian Consultation Meeting. This meeting was held to discuss an effective corporate response to the challenges of humanitarian operations. The action matrix identifies key bottlenecks and corrective management actions, which are quarterly, updated and reviewed by the Humanitarian Steering Committee Members. As of 20 January 2016, 70.7 per cent of the agreed actions were implemented while 19.5 per cent were on track and only 9.8 per cent needed improvement. Also, in 2015, UNFPA led a ‘Humanitarian Landscaping Study’, aimed at reviewing the successes and challenges facing UNFPA in delivering results, and identifying opportunities for the UNFPA work in the post 2015-humanitarian landscape. Following the recommendation from the global study, UNFPA developed a humanitarian results framework, which will become part of the 2016 midterm review of the strategic plan.

b. National execution (NEX)

26. Management takes note of the OAIS assessment that “improvements are expected in this area following the roll-out to all UNFPA offices, as from 2016, of the revised harmonized approach to cash transfers (HACT) framework; use of a revised capacity assessment checklist and the training provided to field offices in 2015 as part of the roll-out preparedness process.” On the issue of limited occurrences of fund transfers to implementing partners outside the operating fund process, UNFPA management believes that the establishment of the second line of defence control at Headquarters is the most effective approach to monitoring the application of appropriate implementation modality when engaging implementing partners. To this effect, further, UNFPA launched the ‘Automated Transaction Monitoring System’ in the fall of 2015 to monitor, on a sampling basis, business units’ compliance with the applicable policies related to funds transfer to implementing partners.

c. Inventory management

27. Management takes note of the OAIS comment about the need to improve operating effectiveness of inventory and supply-chain management controls and to reinforce compliance with the inventory management policy. This issue is being addressed by

constituting an inter-divisional work group under the overall direction of senior management.

d. Management of non-core resources

28. UNFPA management takes note of the issues with non-core resources management. A new Strategic Partnership Branch in the Division for Communication and Strategic partnerships has been established. Moreover, the knowledge of the UNFPA policies and procedures on private sector have been strengthened by developing (a) more robust procedures for selecting private sector partners including due diligence screening and risk management; (b) specific standard agreements and refined procedures for negotiating partnerships with the private sector; (c) training tools on how to build private sector partnerships; (d) appointing Resource Mobilization and Partnership Advisors in regional offices and Private Sector Specialists at headquarters, to have more capacity to oversee and guide UNFPA in mobilizing private sector partnerships and funding; (e) and most importantly, provided hands-on support and facilitated learning and training to enhance capacities at country offices to safely and successfully build new partnerships and mobilize more resources from the private sector.

iii. Operations management

a. Procurement

29. UNFPA appreciates the acknowledgement of several good practices and improvement in (i) updating the procurement procedures; (ii) developing guidance notes and tools; (iii) increasing field offices procurement capacity through training missions and promoting the completion of the Chartered Institute of Procurement and Supply (CIPS) certifications by field offices procurement focal points.
30. UNFPA is working on enhancing the field office procurement monitoring process by expanding the portfolio of monitoring reports and tools to track exceptions, escalate issues and respond to significant identified compliance issues. In addition, the next revision of the procurement procedures that will cover (a) the provisions of the procurement procedures related to award of contracts following joint procurement processes and long-term agreements; (b) requests for award that cannot be considered by local review committees; (c) treatment of offers that significantly exceed the quality of the lowest priced offer; and award of contracts for offers separated in multiple biddable lots; will be issued in December 2016. UNFPA management is also working towards establishing an effective process to monitor compliance with the requirement to submit qualifying procurement cases for committee review and to follow up on its approval conditions and recommendations. In the meantime, UNFPA will continue to identify qualifying cases not submitted to committees review by the use of procurement spot checks, that were started in 2015.

b. Human resources

31. Management has placed specific attention on the review of the use and management of the service contracts, and a one-off scan of country offices has been undertaken in 2015 to review whether contract modalities are used according to policy guidelines; this exercise is now being conducted on a quarterly basis. Further, a new performance evaluation tool has been developed for the evaluation of service contract holders, which includes automated reminder messages – which has markedly improved compliance. Service contract holder data has been migrated into the ATLAS environment to enable better monitoring of this contractual modality. Also, previous special service agreement policies have been reviewed and collapsed into one individual consultant policy to ensure easier compliance. Management is also developing a new tool which will enable the global monitoring of individual consultants usage and compliance with applicable policies.

c. Financial management

32. Management has strengthened control and oversight in the area of recording expenses in appropriate account codes and value-added tax reimbursement. For example, regarding expense coding, it has introduced an account coding dictionary; launched a new data quality dashboard that, inter-alia, identifies spurious combinations and provided extensive guidance through the accounts closure instructions; encouraged unsure country offices to utilize the integrated service desk for guidance. Further, there is a solid second line of defence measures conducted at headquarters that review, examine and seek correction of incorrect coding. A new value-added tax (VAT) guidance note has been issued to clarify and standardize VAT accounting and follow-up, including regular reconciliations that are reviewed at headquarters.

Regional Office audit

33. UNFPA appreciates the acknowledgement of several good practices and improvements in the audit of the East and Southern Africa regional office e.g. mechanisms for oversight over the regional programme implementation and the performance of country offices in the region, as well as the creation of a ‘programme coordination and quality assurance’ unit to support the development of country programmes and their quality assurance.
34. In the area of improvement of provision of technical assistance to country offices, including expediting the shift from primary provider to a broker of technical assistance, the Regional Office management has taken necessary steps by mapping institutions and has signed a letter of understandings with many institutions for technical assistance.
35. On the issue of assessment of the ‘Technical Assistance Management System’ (TAMS), Management will undertake an assessment to ensure its functionality in assessing the quality and responsiveness of the various units and to ensure that the system meets the technical assistance needs of country offices.

Corporate processes

i. Audit of the inventory management process

36. Management takes note of the issues observed in the design and operating effectiveness of the inventory management. UNFPA has constituted an interdivisional working group to define clearly the governance arrangements process; controls related to inventory delivery and distribution and defining the roles and responsibilities for all roles including of the inventory focal points at all levels of the organization.
37. The management appreciates OASIS assessment that satisfactory inventory accounting and reporting controls operated effectively. These controls which have been further strengthened in as from the third quarter 2015 through the launch of “Shipment Tracker” which replaced Channel and is integrated with ATLAS. As part of the launch, UNFPA delivered face-to-face training for five out of six regions as well as multiple webinars, all targeting the Inventory Focal Points.

ii. Audit of the governance arrangements and the design of internal controls over the procurement process

38. Management appreciates OASIS acknowledgement of satisfactory procurement strategy and organizational structure and staffing of the procurement function. The procurement strategy will be further updated in line with the midterm review of the Strategic Plan, 2014-2017 and the new funding environment brought forward with the 2030 Agenda for the Sustainable Development.

iii. Audit of staff benefits, entitlements and financial assistance

39. Management appreciates OASIS’ acknowledgement of satisfactory processing of staff benefits and entitlements and takes note of the issues reported in the governance arrangements. UNFPA relies on managerial oversight over benefits and entitlement is already carried out by UNDP, as per the service level agreement between the two organizations, and which is working well. However, management is reviewing the possibility of further strengthening this managerial oversight by obtaining spot reports from UNDP.

E. Follow-up of internal audit recommendations

Recommendations unresolved for 18 months and more

40. Management would like to highlight the substantial progress in closure of 18 months and more unresolved recommendation since the last report. During 2015, 18 (70 per cent) out of the 26 recommendations reported last year have been implemented. There has been a continuous decline in these aged (18 months and more) recommendations: as at 31 December 2015, 22 recommendations (about 1 per cent) remained unresolved for 18 months or more, compared to 26 in 2014 and 41 in 2013. Management, with the help of the Audit Monitoring Committee, is closely monitoring the implementation of these 22

recommendations and is expecting to implement 80 per cent of them by the fourth quarter of 2016.

Outstanding recommendations

41. Management is pleased to inform that, due to the regular follow-up in monthly meetings of the Audit Monitoring Committee and its secretariat, there is a significant increase in the percentage of closure of recommendations from previous years. Ninety-five recommendations (73 per cent) out of 131 outstanding recommendations were implemented in 2015.
42. A total of 171 new recommendations were issued in 2015; out of which 66 recommendations are due for implementation only in 2016. Starting in 2015, UNFPA migrated recommendation follow-up to its new recommendation tracking application. The customization, user's orientation, finalisation and approval of revised recommendation process note and eventual upload of the new recommendations were completed in the third quarter of 2015. Therefore, only 23 new recommendations were implemented in 2015, bringing total closure of 118 recommendations compared to 95 in 2014. Efforts are underway to address the remaining 2015 outstanding recommendations. UNFPA remains committed to implementing them fully by regular follow-ups with the relevant business units through the Audit Monitoring Committee secretariat and monthly committee meetings. This affirms the continued efforts of UNFPA to accord the highest priority to strengthening a culture of accountability.

V. Investigation

43. Management appreciates the Investigations branch having successfully concluded 63 cases in 2015, with 28 cases warranting a full investigation, including 13 substantiated cases, several of which were complex in nature, with multiple allegations involving fraud and financial irregularities. Management takes note of the Investigations branch's proactive support and close collaboration with the UNFPA Legal Office, the Ethics Office, the Procurement Service Branch and the Division for Human Resources, and in supporting the integrity initiatives of the Chief Executives Board.
44. Management takes note of the continuous increase in caseload (115 active cases in 2015, compared to 105 in 2014 and 81 in 2013), which was primarily due to an expanded mandate, including external investigations and more reporting of proscribed practices situations. UNFPA takes note of the top three categories of complaints of wrongdoing in 2015: fraud (37 percent); allegation of other forms of wrongdoing without financial implication (28 percent); and pharmaceutical product diversion (14 per cent). Management notes with concern that fraud continues to be in the top category for 2015 and 2014 and is committed to its zero tolerance policy towards fraud, corruption, and all types of harassment and abuse of authority.
45. In relation to the 14 cases substantiated in 2014 and referred to management by OAI (see paragraph 82 of the OAI annual report), management confirms the information contained

in the OAIS annual report, in that disciplinary or administrative action was taken by management in 13 cases. In one case, management action is pending. In relation to the 13 cases substantiated in 2015 and referred to management by OAIS (see paragraph 83 of the OAIS annual report), management wishes to clarify, for the information of the Executive Board, that these 13 cases resulted in 14 reports issued to management, with one case having resulted in two separate reports, given that the case concerned two separate subjects or entities. While the OAIS annual report notes that six of the 13 cases were pending management action at year end, that number has meanwhile dropped to five cases. In the sixth case, management has since taken action. Furthermore, as accurately reported in the OAIS annual report, management has also taken action in a further five cases. Finally, as reported in the OAIS annual report, in one additional case, a staff member has been separated from service as a disciplinary measure, while in the final case; the subject of the investigation (a service contract holder) had left the organization at the time the investigation report was issued; nevertheless, management took the requisite administrative action.

46. Management takes note of the investigation capacity challenges due to an increase in caseload and the increase in the number of complaints, which are complex and resource-sensitive. One post of investigator has been upgraded from P3 to P4. Management is pleased to report that the effect of 25 per cent budget reduction in its 2016 operational costs has been neutralized by reinstating the original allocation.
47. For further strengthening the OAIS investigation capacity to deliver effectively on its investigation mandate, UNFPA management has also proposed an additional allocation of \$0.70 million (for 2017), compared to the 2016 allocation (after austerity reduction) in the midterm review of integrated budget proposal (DP/FPA/2016/3).

VI. Advisory activities

48. UNFPA management would like to express its appreciation to OAIS for providing continued advisory services in the review of audit and investigation clauses in financial agreements; audit and investigation function assessments conducted by member states and donors, review of draft internal policies and procedures; and participating as an observer in various steering and working committees. Management takes note of the significant investment of OAIS management time due to this and will discuss with OAIS how to achieve an optimum balance.

VII. Coordination within the United Nations system

49. UNFPA appreciates the proactive involvement of OAIS in the activities of the Representatives of Internal Audit Services of the United Nations system organizations, (UN-RIAS). UNFPA management appreciates OAIS roles as Vice-Chair of UN-RIAS for joint audits and the focal point for UNDG interactions. Management also takes note of active OAIS participation in three joint audits, and other common activities. The active engagement of OAIS in inter-agency investigation activities as well as its role as the focal point (coordinating 20 reports) for the Joint Inspection Unit is well appreciated.

VIII. Conclusion

50. UNFPA management welcomes the overall conclusion in OAIS report that it continued to demonstrate in 2015 its commitment to increasing the effectiveness of the governance, risk management, and control processes. Management also takes note of the demand of OAIS in relation to available resources and reinstated the OAIS original 2016 allocation, reversing the 2016 austerity measures (\$0.4 million). In the midterm review of the integrated budget 2014-17, management has proposed an additional allocation of \$1.8 million (for 2017), compared to the 2016 total after austerity reduction, (this includes the Directorate and the AAC). These additional resources would help bridge the funding gap to deliver its mandate effectively. UNFPA has full confidence in the OAIS leadership and to support management in ensuring accountability of the organization. UNFPA management appreciates OAIS role as a trusted partner and acknowledges its valuable advice in maintaining an unqualified audit opinion from the United Nations Board of Auditors for its financial statements for the year that ended on 31 December 2014.

Section II

Management response to the annual report of the Audit Advisory Committee (DP/FPA/2016/7/Add.1)

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 acknowledges and welcomes the 2015 annual report of the Committee. Throughout 2015, UNFPA benefited from regular consultations with the Committee. UNFPA would like to express its gratitude to the Chairman and the members of the Committee; their commitment and guidance have been invaluable in strengthening UNFPA management practices.
3. Management appreciates the encouragement expressed to UNFPA in the annual report of the Committee and acknowledged the Committee's advisory role in providing valuable inputs e.g. (a) review of the draft financial statements and word of appreciation in its improvements; (b) understanding and acknowledgement of austerity measures undertaken to bridge the budget gap due to change in funding situation; (c) review of the progress made and experience gained from the roll-out of the revised framework for the harmonized approach to cash transfers (HACT) on a pilot basis in nine selected countries. UNFPA looks forward to receiving similar advice, guidance, and support from the Committee in the coming years.
4. UNFPA appreciates the review of the internal control framework (ICF) update project and progress on establishing enterprise risk management (ERM) system and the advise to create a link between ICF and enterprise risk management. Management has taken note of the AAC emphasis of ensuring implementation of Committee of Sponsoring Organizations of the Treadway Commission (COSO) components and a clear linkage of ICF with the "Three lines of defense." UNFPA also appreciate the Committee's acknowledgement of positive progress in ERM implementation and have taken note of clearly defining the roles and responsibilities for the overall risk management process, including the Risk Committee; identification of other risk types; documenting of the risk classifications, and mitigating action which would lead to the development of an accountability framework. UNFPA also take note of the Committee's suggestion to revisit and update its accountability framework.
5. UNFPA also appreciates the Committee's review of the implementation of the Information and Communication Technology (ICT) Strategy for 2014-2017. Management also took note of the Committee's suggestion to undertake an external intrusion and security review once in every three years to ensure that this highly vulnerable area continues to be managed according to best practices that address the latest and evolving ICT risks and enhanced methods to handle cybersecurity threats and incidents.
6. UNFPA management is undertaking a structure review of its Management information Services to address the above with the objective of optimizing effectiveness and efficiency and maximizing the support to UNFPA operations and programme delivery.

7. UNFPA appreciates the encouragement expressed in the annual report of the Committee about Management's proactive role in strengthening accountability by establishing an Audit Monitoring Committee in 2011. As noted by the Committee, this has yielded the desired positive outcome in terms of reducing the number of outstanding recommendations from both Board of Auditors and OAIS.

Advice related to the Evaluation Office

8. UNFPA appreciates the guidance and inputs received from the Audit Advisory Committee and its satisfaction with the achievement of Evaluation Office and improvements in quality rating of the country programme evaluations reports by approving TORs, identification of evaluation teams and working closely with Regional Monitoring and Evaluation Officers. UNFPA welcomes the Committee's appreciation on the comprehensiveness of the quadrennial evaluation plan for 2016-2019 and its support.

Advice related to the Office of Audit and Investigation Services

9. UNFPA appreciates the Committee's review of 2015 internal audit plan that is based on an updated audit risk assessment and consistent with its rolling audit strategy, 2015-2018 and its alignment with the business needs.
10. UNFPA takes note of the Committee's advise on the operational management of the audit cycle. UNFPA Management, through the Audit Monitoring Committee, is also closely following with audit entities for the provision of timely management response to audit findings for early finalization of audit reports. Improvements in these area can increase the number of completed audit engagements and timeliness in the issuance of audit reports.
11. UNFPA management appreciates the committee's acknowledgement of the benefits with the new continuous auditing tool developed by OAIS and positive results from initial tests. Management is equally pleased with this initiative, as during this time of austerity measure, this will help a great deal in achieving assurance in most cost effective manner for low and medium risks areas. Management appreciates the committee's interest in monitoring effective use of this new tool.
12. UNFPA management reinstated the original budget for 2016 and has also proposed an additional budget of \$1 million (for 2017), compared to 2016 allocation (after austerity reductions) in the midterm review of integrated budget proposal (DP/FPA/2016/3). This additonal resources will strengthen the internal audit capacity of OAIS to maintain projected audit cycles of three years for high-risk business units; 10 years for medium-risk business units (with additional assurance provided by continuous auditing activities) and 10 years for cross-cutting reviews of corporate processes.
13. UNFPA appreciates the guidance provided by the Committee in reviewing the activities and results of the Investigations Branch of the Office of Audit and Investigation Services. UNFPA took note of the increased caseload and the increase in the number of complaints of fraud that are more complex and resource-sensitive. One post of investigator has been

upgraded from P3 to P4 in 2016 and the original allocation has been reinstated to neutralize the effect of 25 percent reduction in operational costs for the travel and hiring consultants. UNFPA management, to further strengthen, OAIS's investigation capacity, has also proposed an additional budget of \$0.70 million (for 2017), compared to 2016 allocation (after austerity reduction) in the midterm review of integrated budget proposal (DP/FPA/2016/3).

14. UNFPA appreciates the contribution of the Audit Advisory Committee in reviewing the 2015 report of the Office of Audit and Investigation Services and its acknowledgement of the important role-played by OAIS in providing advice on key UNFPA business initiatives, reviewing various policies and OAIS-related clauses in various agreements. Management takes note of the trade-off between risk appetite; audit coverage; investigation workload, and the demand for ad-hoc advisory services and therefore has reinstated the original budget by adding a total of \$0.4 million in the initial reduced allocations for 2016. For further strengthening OAIS capacity, UNFPA management has also proposed an additional \$1.8 million (for 2017), compared to 2016 allocation (after austerity reduction) in the midterm review of the integrated budget 2014-17 (DP/FPA/2016/3). Management will continue to maintain a collaborative relationship with the Office of Audit and Investigation Services.

Advice related to the United Nations Board of Auditors

15. Management appreciates the regular meetings of the Board of Auditors and the Committee and welcomes the committee's appreciation Senior Management's continued efforts to resolve recurring issues and implementing the agreed recommendations from the Board of Auditors.

Advice related to the Ethics Office

16. Management acknowledges and appreciates the support of the Committee for the importance of the ethics function and reiterates its continuing commitment to promote an organization-wide culture of ethics, integrity and accountability.

Conclusion

17. UNFPA would like to reaffirm its commitment to promoting greater accountability and transparency, and the new long-term proposals in 2016, necessitated due to the shortfall in UNFPA funding situation, will duly consider the risk appetite of the organization.
18. UNFPA management is already in process for further development of enterprise risk management, integrated control framework, accountability framework, and related linkages. UNFPA management is already in the process undertaking a structural review of its information management system to mitigate ICT risks, improving governance and revising its strategy. UNFPA management has already included OAIS proposal for further strengthening of audit and investigation capacity and thereby improving audit coverage for high and medium risk areas and strengthening investigation capacity.

19. Management appreciates the advice and counsel provided by the Audit Advisory Committee in 2015. UNFPA would like to convey thanks to all Committee members and the Chair, Mr. Verasak Liengsriwat (Thailand) for the leadership, guidance and valuable advice throughout the year 2015. UNFPA looks forward to continuing to work with Ms. Berlina Mxakwe (South Africa), Ms. Mary Ann Wyrsh (United States of America), Mr. Peter Maertens (the Netherlands) and Mr. José Urriza (Argentina) in 2016.
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