



**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 — Recommendations of the Board of Auditors

United Nations Population Fund

**Follow-up to the report of the United Nations Board of Auditors
for 2012: 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 final 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 2012 (A/68/5/Add.7).

A separate table, available on the web page of the UNFPA Executive Board (<http://www.unfpa.org/public/home/exbrd/pid/15469>), provides an updated status of the implementation of the audit recommendations. UNFPA also addressed audit issues in the report of the Director, Division for Oversight Services, on UNFPA internal audit and oversight activities in 2012 (DP/FPA/2013/6), presented at the annual session 2013 of the Executive Board.

UNFPA is pleased to have again received an unmodified audit opinion from the United Nations Board of Auditors for its financial statements for the year that ended on 31 December 2012. The report of the United Nations Board of Auditors (A/68/5/Add.7) acknowledges that UNFPA is in good financial health and considers the UNFPA implementation, in 2012, of the framework for the International Public Sector Accounting Standards, as a major achievement.



I. Introduction

1. Pursuant to decision 97/2 of the Executive Board, the Executive Director, UNFPA, is pleased to submit a report on the implementation of the recommendations of the United Nations Board of Auditors (hereinafter referred to as the Board of Auditors) for the year that ended on 31 December 2012 (A/68/5/Add.7). In document A/68/381, the Advisory Committee on Administrative and Budgetary Questions reviewed a summary of the principal findings and conclusions of the Board of Auditors and the corresponding report of the United Nations Secretary-General (A/68/350).

2. UNFPA is pleased to have again received an unmodified audit opinion from the Board of Auditors for its financial statements for the year that ended on 31 December 2012. This affirms the continued efforts of UNFPA to accord the highest priority to resolving the concerns of the Board of Auditors and to building a culture of accountability.

3. The report of the Board of Auditors (A/68/5/Add.7) acknowledges that UNFPA is in good financial health and considers the UNFPA implementation, in 2012, of the framework for the International Public Sector Accounting Standards (IPSAS), as a major achievement. UNFPA appreciates the acknowledgment by the Board of Auditors of improved oversight by UNFPA management.

4. UNFPA is committed to addressing all of the issues identified by the Board of Auditors. UNFPA has either: (a) completed action on the recommendations; or (b) plans to complete the implementation of all recommendations by the end of 2014 or earlier, except for one recommendation that relates to fully funding employee benefits liabilities. UNFPA considers some of the recommendations to be of an ongoing nature; therefore, some recommendations cannot be completed per se. UNFPA has enhanced its response to the recommendations through a comprehensive and systemic approach that strengthens controls and ensures compliance with the recommendations.

5. UNFPA wishes to note that some recommendations have not been effectively implemented due to reasons beyond its control. For example, the implementation of the harmonized approach to cash transfers is a multi-agency matter that must be addressed in the larger context of the United Nations Development Group.

6. This report provides an update on the actions taken by UNFPA to implement the recommendations of the Board of Auditors, as contained in document A/68/5/Add.7. Further updates, with target dates for pending recommendations, are also available in the report of the Secretary-General on the recommendations of the Board of Auditors (A/68/350).

7. In addition, UNFPA addressed audit issues in the Report of the Director of the Division for Oversight Services on internal audit and oversight activities in 2012 (DP/FPA/2013/6), and in the management response to that report, which UNFPA submitted to the annual session 2013 of the Executive Board.

8. This report includes the following sections:
- (I) Introduction;
 - (II) Status of implementation of the audit recommendations;
 - (III) Conclusion;
 - (IV) Recommendation.

II. Status of implementation of the audit recommendations

9. The Board of Auditors made 11 new recommendations for 2012 and repeated one recommendation, compared to 34 for the period 2010-2011. Tables 1 and 2 below summarize the status of implementation of the recommendations as of 15 October 2013, for the financial period that ended on 31 December 2012.

Table 1

Status of implementation of the main recommendations

Department responsible	Number of recommendations	Not accepted	Implemented or closure requested	In progress	Target date set	No target date
Management Information Services	1			1	1	
Division for Management Services	3			3	3	
Procurement Services Branch	1			1		1
Total	5			5	4	1

Table 2
Status of implementation of all recommendations

Department responsible	Number of recommendations	Not accepted	Implemented or closure requested	In progress	Target date set	No target date
Management Information Services	1			1	1	
Division for Management Services	5			5	5	
Division for Human Resources	4			4	4	
Division for Oversight Services	1			1	1	
Procurement Services Branch	1			1		1
Total	12^a			12	11	1

^a This includes 11 new recommendations, in addition to one recommendation that has been repeated.

10. This report describes the status of implementation and the plans to implement the main recommendations, as well as the previous recommendations, made by the Board of Auditors on the following issues: (a) International Public Sector Accounting Standards; (b) unfunded employee benefits liabilities; (c) inventory management; (d) consultants, experts and temporary assistance; (e) human resources management; (f) procurement and contract management; (g) harmonized approach to cash transfers; (h) information technology; (i) internal audit and oversight; (j) regionalization; (k) operating fund advances; and (l) other recommendations from previous financial periods that have not been addressed under one of the above sections.

A. International Public Sector Accounting Standards

11. The financial statements for the year that ended on 31 December 2012 were the first that UNFPA prepared in compliance with the International Public Sector Accounting Standards. UNFPA was pleased with the unmodified audit opinion on these statements from the Board of Auditors and with the small number of recommendations issued. This testifies to the level of preparedness by UNFPA and the quality of its financial disclosures.

12. With regard to asset management, the Board of Auditors recommended that UNFPA: (a) review and update the fixed asset management policy and procedures to provide a clear policy on the actions to be taken when property, plants and equipment are fully depreciated; and (b) review the useful life of property, plants and equipment.

13. With reference to 12 (a) above, UNFPA updated its fixed asset management policy and procedures in January 2013. UNFPA will further revise this policy in early 2014. With regard to 12 (b) above, UNFPA will conduct a review of the suitability of the useful life of property, plants and equipment during the second half of 2013. Based on the results of this review, UNFPA management will, in 2014, make further decisions regarding this matter.

14. The Board of Auditors also recommended that UNFPA: (a) issue a reminder to all country offices to adhere to the requirements of the fixed asset management policy and procedures, in particular regarding the recording and reconciliation of assets; and (b) continue to perform a verification exercise to ensure that all of its assets are recorded on the assets register. The Board of Auditors, during the previous period, recommended that UNFPA strengthen asset-management controls in the field by either: (a) reviewing the guidance available to country offices; or (b) intensifying training on asset management.

15. In September 2012, UNFPA launched an online asset certification course, whose implementation is monitored by UNFPA headquarters. Staff members whose responsibilities include asset management must complete this course. Feedback on UNFPA guidance to field offices and feedback received from various headquarters units have led to improvements in the fixed asset management policy and procedures, which UNFPA updated in January 2013, and to improvements in the asset management intranet. Verification missions from headquarters to country offices are no longer cost-efficient. Therefore, UNFPA will utilize the services of local consultants, as was done in 2011, to verify the accuracy of submissions made by country offices.

16. UNFPA continues to send periodic reminders to country offices regarding compliance with the fixed asset management policy and procedures to country offices, based on verifications and emergent issues identified by headquarters. UNFPA will strengthen these controls and verifications in 2014, and will assign additional human resources to this task.

17. The Board of Auditors, during the previous period, recommended that UNFPA perform physical verification to ensure the accuracy and completeness of the asset register. The UNFPA policy requires that an annual physical count be completed by each country office. Through the certification letter, each UNFPA representative certifies that the physical count took place and that reconciliation with Atlas records was performed. In

2012, UNFPA received 100 per cent of such certification letters. Furthermore, UNFPA hires, on an annual basis, an external consulting firm to perform an independent verification of the accuracy of asset physical counts performed in a number of priority countries.

18. The Board of Auditors, during the previous period, recommended that UNFPA update asset registers with correct asset locations. Current controls indicate that of over 10,000 assets, only about 180 do not have accurate asset locations assigned to them. This is less than 2 per cent of the total assets. UNFPA will further strengthen controls to ensure that appropriate location information is assigned to each asset.

19. The Board of Auditors recommended that UNFPA comply with rule 114.4 (c) of the UNFPA Financial Regulations and Rules with regard to payments made with no supporting documents. UNFPA headquarters is coordinating closely with the Nigeria country office to address these issues. In the absence of supporting documents, payments are made based on a certification by the committing officer, indicating that such a request was necessary, and that the goods were satisfactorily delivered according to specifications. Evidence was provided to the auditors to demonstrate that all payments had been made based on valid supporting documentation. UNFPA provided copies of the related receipts acknowledging payments from vendors to the Board of Auditors, as requested.

20. Concerning the recommendation from the previous period to monitor and follow up on accounts payable, UNFPA has strengthened the monitoring of its accounts payable. UNFPA monitors and follows up pending accounts payable through the country office 'dashboard' and quarterly accountability checklists. UNFPA periodically analyses the ageing of accounts payable but does not have the material value of aged payables.

B. Unfunded employee benefits liabilities

21. The Board of Auditors noted that as of 31 December 2012, UNFPA had an unfunded employee benefits liability of \$111.9 million (45 per cent of the total employee benefits liability in 2012), consisting of after-service health insurance, repatriation benefits, home leave and annual leave. The Board of Auditors recommended that UNFPA strengthen the implementation of the funding plan for employee benefits liabilities.

22. UNFPA management acknowledges an increase in the amount of unfunded employee benefits liabilities during 2008-2009, 2010-2011 and 2012, primarily as a result of actuarial losses. In 2013, UNFPA took additional steps to strengthen the implementation of its plan to address the funding gap in employee benefits liabilities by: (a) adding new funding sources through supplementary payroll charges; and (b) participating in a joint evaluation, with other United Nations organizations, of external investment management services for its after-service health insurance post-

employment benefits funds. UNFPA is committed to fully funding employee benefits liabilities by 2017. UNFPA will re-examine its funding mechanism annually to ensure that it meets the intended funding objective.

23. The Board of Auditors, during the previous period, recommended that UNFPA maintain accurate and complete leave records, as elaborated in the human resources management section of this report.

24. The Board of Auditors also recommended, during the previous period, to take appropriate measures to ensure the validity, accuracy and completeness of the data used in the computation of all post-retirement and end-of-service liabilities in future financial periods by ensuring that the information pertains to the correct reporting period. This recommendation was not considered as having been implemented by 2012 because UNFPA, in conjunction with UNDP, the United Nations Children's Fund (UNICEF) and the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women), and in agreement with the Board of Auditors, retained the previous year's census data in its 2012 actuarial evaluation. In 2013, UNFPA joined a group of other United Nations organizations to procure actuarial evaluation services on an annual basis under a long-term contractual arrangement. However, the frequency of census data updates will not be annual; they will conform to accepted actuarial standards.

25. The Board of Auditors, during the previous period, recommended that UNFPA consider a revision to the separation process. Since 2005, UNFPA has recovered education grant advances prior to finalizing the separation of a staff member. As recommended by the Board of Auditors, UNFPA revised, in March 2012, the letter of separation for staff members. That letter informed staff that they must submit education grant advances for payment prior to the date of separation. If the claim is not received at the time of separation, the full amount of the advance will be recovered from the staff member's final salary.

26. The Board of Auditors recommended, during the previous period, to: (a) clear all long-standing amounts from staff education grants; (b) regularly reconcile the accounts to comply with United Nations information circular (ST/IC/2002/5); and (c) consider a revision to the separation process to ensure that outstanding education grants are recovered from staff prior to their separation. The UNDP Benefits and Entitlements Services unit has processed all outstanding education grant advances of over 365 days. The last long-pending case was written off in early 2013, in accordance with Financial Regulations and Rules 14.5 and 114.10. As indicated in paragraph 25 above, UNFPA revised the letter of separation for staff members in March 2012, informing staff that education grant claims must be submitted for payment prior to the date of separation. UNFPA and UNDP are rewriting the service-level agreement with regard to the roles, responsibilities and processes relating to the issue and recovery of education grants.

C. Inventory management

27. The Board of Auditors recommended that UNFPA improve the use of the inventory management system module known as CHANNEL. This will ensure the full utilization of the system in tracking inventories in field offices, thereby increasing the reliability of inventory balances presented in the financial statements.

28. UNFPA is currently working to resolve the gap in the inventory management system.

29. Throughout 2013, UNFPA expanded and improved CHANNEL utilization. In March and April 2013, UNFPA performed the verification of 31 December 2012 entries. It also implemented additional CHANNEL training in July 2013. UNFPA performed an interim physical count of inventory in stock as of 31 July 2013, and has requested country office inventory focal points to verify and update CHANNEL data, based on the results of this count. UNFPA is improving several core functionalities of CHANNEL and plans to extend its use to all goods in transit by the fourth quarter of 2013.

30. In 2013, UNFPA also improved data accuracy by validating system entries against the organization's enterprise resource planning database and by extending the use of the CHANNEL system to all country offices, to be used as a daily warehouse management tool and as an inventory in-transit tracking tool. As UNFPA launches the enhanced version of the CHANNEL system to country office inventory focal points, UNFPA will request all offices to track and report their 2013 year-end inventory balances through CHANNEL.

31. The Board of Auditors, during the previous period, recommended that UNFPA advise suppliers and requisitioners of the importance of utilizing the online tracking system to: (a) monitor the status of lead times for orders and the quality of goods delivered; and (b) evaluate suppliers.

32. The Procurement Services Branch continues to stress the importance of using the online tracking system in solicitation documents, long-term agreements and other communications with suppliers. It recommends the use of this tracking system in country office training materials and in other communications with country offices. The Procurement Services Branch is correcting the technical issues related to the online tracking system.

33. The short-term solution to such technical issues, which would integrate the Procurement Services Branch's new version of the order tracking system with CHANNEL, is expected to be completed at the beginning of 2014. The longer-term solution, however, is an integrated supply chain management solution that would complement Atlas. It would enable UNFPA to address supply chain management effectively through an adequate information and

activity system. The Procurement Services Branch has prepared a business case regarding the longer-term solution, for consideration by senior management.

D. Consultants, experts and temporary assistance

34. The Board of Auditors reiterated its earlier recommendation that UNFPA enhance its control over the use of special service agreements and only permit special service agreements that are consistent with its policy.

35. The UNFPA Division for Human Resources is exploring, with input from the Management Information Services Branch, the use of an application in Atlas that would generate employment history and reports that would enable the organization to assess the use of the special service agreement modality. If deemed adequate, UNFPA will further test the application and make modifications, if necessary, before launching it.

36. 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.

37. In order to address the above recommendation, UNFPA and UNDP are working in partnership to import service-contract data into Atlas. As of the end of July 2013, data on the service-contract population from 56 country offices had been imported into the Atlas human resources management system. By the end of 2013, UNFPA expects to import data from another 17 country offices into the Atlas human resources management system.

38. UNFPA would like to clarify that distinctions exist between the different types of contract modalities.

39. The Board of Auditors, during the previous period, recommended that the UNFPA Nepal country office review its service contracts to ensure that core functions were not performed by service contractors. In 2009, the UNFPA Nepal country office aligned its staffing structure with the strategic direction of the country programme and progressed from service delivery to building the capacity of partners. As a result, the office reduced the number of service contract positions, with the remaining service contract holders performing project-related activities. UNFPA reviewed its programmatic staffing requirements as part of the new country programme for Nepal, 2013-2017, and completed an alignment process, whereby all core functions are performed by fixed-term staff. Project-related functions continue to be carried out by service contract holders.

40. The Board of Auditors recommended that the Sudan country office evaluate service contracts and justify their continued use. Regarding the use of service contracts, UNFPA utilizes service contracts administered by UNDP, and follows UNDP guidelines. Such contracts are issued for a

minimum of six months, and are renewable for up to five years, but not for more than 12 months at a time. Special service agreements, on the other hand, are issued for short-term consultancies, up to a maximum of 11 months, and are renewable with a break in service. A contract for professional services, also known as a service contract, is a procurement contract by which an institution, a corporation or other juridical entity (a contractor) is engaged to perform duties or work for UNFPA.

E. Human resources management

41. The Board of Auditors recommended that UNFPA: (a) improve the e-service application for leave management in order to ensure effective control, accurate recording and the processing of leave applications so that the planned output from this application could be achieved; and (b) establish an internal review mechanism to ensure that leave monitors and absence administrators, as well as supervisors, adequately administer and reconcile leave applications.

42. In response to 41 (a) above, given that UNDP leads the design of the e-services application in Atlas, UNFPA will refer this recommendation to UNDP. With regard to 41 (b) above, UNFPA is revising its policy on absence management, which it will disseminate prior to the end of 2013. The revised policy will stress the mandatory use of e-services for leave management, including the application and approval of leave. It will also define roles and responsibilities within the system. All staff members are responsible for the correct registration of their leave. Supervisors are responsible for monitoring the leave taken by staff under their supervision. Leave monitors and absence administrators are only responsible for performing functional activities in specific cases in Atlas e-services.

43. The Board of Auditors recommended that UNFPA: (a) improve its leave policy to clearly state the role of leave monitors and absence administrators and the approval limits, so as to ensure that headquarters has adequate control of the endorsement and granting of special leave; and (b) review Atlas reports on special leave to make them more comprehensive by including the duration of the special leave and the reason for granting it.

44. With regard to 43 (a) above, it should be noted that the UNFPA learning and career management policy is not the policy that regulates special leave. The policy that regulates the management of such leave is the UNDP policy on special leave. UNFPA is revising the form to apply for special leave to better align it with the requirements of the UNDP policy. The UNDP policy on special leave provides a clear, hierarchical demarcation of authority to approve such leave. With regard to 43 (b) above, UNFPA has reviewed Atlas reports on special leave to make them more comprehensive by including the duration of the special leave and the reason for granting it. UNFPA has developed a revised Atlas report, which it is testing.

45. The Board of Auditors, during the previous period, recommended that UNFPA maintain accurate and complete leave records. UNFPA has taken a number of measures to address absence management including: (a) the launch of Atlas e-services, an employee self-service application that manages various benefits and entitlements and includes an online leave application and approval module for international and local staff in all duty stations; (b) the presentation of webinars on the use of the e-services module; (c) the issuance of self-learning, step-by-step guides on various functionalities of Atlas e-services; (d) the issuance of an absence-management policy that formalizes the process of absence management; and (e) the provision of one-to-one support for absence processors and managers.

46. The Board of Auditors, during the previous period, recommended that UNFPA implement procedures that would require the preparation and review of payroll reconciliations, at least on a quarterly basis. UNFPA has reconciled payroll for the last three quarters of 2012. Beginning in 2013, UNFPA will undertake payroll reconciliation for all quarters henceforth.

47. The Board of Auditors, during the previous period, recommended that UNFPA, in conjunction with UNDP, ensure that advanced payments made to staff through the payroll were reflected in staff advances in the general ledger in a timely manner. UNFPA has taken measures to reduce the reconciliation and recovery time. Staff members who are separating from the organization must now submit evidence of their reconciliation payments prior to obtaining their final salaries. This is an ongoing activity that requires continued attention. UNFPA is in the process of determining why some education grant advance recoveries are not reflected in the reconciliation reports.

F. Procurement and contract management

48. The Board of Auditors recommended that UNFPA strengthen mechanisms to monitor and review procurement, taking into consideration risk and cost factors, by increasing regular reviews of the performance of the requisition units.

49. The staff of the UNFPA Procurement Services Branch are performing random checks. For example, the Branch is reviewing local contract review committee submissions and providing advice. If procurement is in excess of \$100,000, the desk officer of the concerned unit will review and provide advice on the submission.

50. Following the success of the common procurement team in Copenhagen, Denmark, a UNFPA-led team was established in 2012 to manage collaborative procurement activities for the New York headquarters of UNDP, UNFPA, UNICEF, the United Nations Procurement Division and UN-Women. The team has increased collaboration in buying and using each other's contracts for headquarters procurement. UNFPA is building on UNDP

long-term agreements for information technology equipment and translation, while UNDP is building on UNFPA language training. The increased number of licenses for the long-term agreement on language training, with several United Nations organizations able to take advantage of such an agreement, has resulted in large discounts. The accumulated savings to date for the United Nations is approximately \$500,000. Additional value is derived from the time saved in procurement and legal reviews and through simplified business practices.

51. UNFPA has launched new procurement procedures that provide guidance on when to permit exceptions to formal methods of procurement. The new procedures specify the requirements to be fulfilled and the documentation to be provided in order for exceptions to apply. Section 6.8 of the UNFPA Policies and Procedures Manual outlines the details for exceptions to established formal procurement practices, in accordance with financial rule 114.15.

52. The Board of Auditors, during the previous period, recommended that UNFPA comply with its policies and procedures regarding the evaluation of vendor performance. UNFPA has conducted vendor performance evaluations of contraceptive suppliers for several years. In April 2011, UNFPA launched a new web-based vendor performance evaluation tool. After several months of use, the tool required technical modifications; therefore, the Board of Auditors recommended that UNFPA expedite the correction of system errors of the vendor performance evaluation tool. UNFPA redesigned the tool on a more stable information technology platform and launched it in the Procurement Services Branch. The global launch will take place in December 2013, after UNFPA tests the system in selected country offices and headquarters business units in October and November 2013.

53. The Board also recommended that UNFPA: (a) strengthen the review of ex post facto cases and other submissions to the Contracts Review Committee to limit the number of ex post facto cases. The Board of Auditors further recommended that UNFPA develop adequate contract management procedures to identify contracts that will expire, to enable it to begin the procurement process in adequate time. In December 2012, UNFPA launched a new e-tendering and contract management tool. All contracts and long-term agreements managed by the Procurement Services Branch are uploaded on this tool.

G. Harmonized approach to cash transfers

54. The Board of Auditors reiterated its previous audit recommendation and concurred with the joint audit team of the harmonized approach to cash transfers that there was a need for UNFPA, in collaboration with other United Nations organizations using the harmonized approach, to re-examine the framework and address the reasons why the framework has not worked.

The focus will be on redesigning the framework or developing a more effective model that will achieve the original objectives of the framework.

55. The process has been delayed due to the limited availability of senior-level staff (comptrollers) in a number of validation exercises. Issues to be agreed upon include the launch of the new process. The advisory committee of the harmonized approach to cash transfers has led the process, with the assistance of a global accounting firm.

56. Through the advisory committee, UNFPA is supporting United Nations Development Group efforts to improve the framework of the harmonized approach to cash transfers and its implementation on the country level.

57. The Board of Auditors, during the previous period, recommended that UNFPA: (a) consider amendments to the implementation guidelines of the harmonized approach to cash transfers to clearly define roles and responsibilities related to its implementation; and (b) establish, in conjunction with other United Nations organizations, clear deadlines for compliance of the harmonized approach to cash transfers in country offices.

58. Furthermore, the Board of Auditors, during the previous period, recommended that UNFPA: (a) review the adequacy of the assignment of responsibility within the organization for the active participation of UNFPA in the harmonized approach to cash transfers; (b) review the assessment and audit reports to identify the needs of the implementing partners and improve capacity; and (c) correctly implement the framework of the harmonized approach to cash transfers so that it ensures that funds are used for the intended purposes.

59. UNFPA has been actively engaged in the revision of the framework of the harmonized approach to cash transfers at the inter-agency level. This process began in December 2012, and is expected to result in a revised inter-agency framework by the end of 2013. After that time, UNFPA will adjust its internal policies and pilot the new framework. The transition phase is expected to take two years.

60. UNFPA continues to provide support to country offices in implementing the harmonized approach to cash transfers. UNFPA also considers, as a priority, the provision of capacity-development support to implementing partners, particularly in the areas of national execution and the implementation of the framework.

H. Information technology

61. The Board of Auditors recommended that UNFPA: (a) formalize the information technology change-management procedure by standardizing change-request forms and by communicating clearly defined responsibilities for managing change requests from divisions, departments,

countries and regional offices; and (b) ensure that the user acceptance testing process is properly documented and included in the central server.

62. The Board of Auditors noted that while the process of Atlas change management between UNFPA and UNDP is clear, the procedure for collecting Atlas-related changes from users to UNFPA focal points is not documented. It is not clear who has the right to propose changes in the system.

63. UNFPA acknowledged the need to improve the process. It has therefore introduced a tool called ServiceNow. UNFPA will incorporate the documentation necessary for change management (from the initiation of the request to migration to production) into ServiceNow.

64. In addition, a recent internal audit of UNFPA Cognos (business intelligence and reporting environment) yielded two recommendations regarding change management that UNFPA will address using ServiceNow.

I. Internal audit and oversight

65. The Board of Auditors recommended that the UNFPA Division for Oversight Services expedite the process of filling the vacant auditor post.

66. UNFPA concurs with the recommendation and seeks to fill vacant positions as quickly as possible. At the end of 2012, the Division for Oversight Services was awaiting the arrival of the candidates selected for two of the vacant positions. The selected candidates arrived during the first quarter of 2013. The candidate selected for the third position refused the offer. As a result, UNFPA initiated another recruitment process in 2013.

J. Regionalization

67. The Board of Auditors, during the previous period, 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, during the previous period, further recommended that UNFPA address the weaknesses in its regional office architecture, as recommended by the Division for Oversight Services.

68. Regionalization is a work in progress; the most recent step has been the establishment, in 2013, of a second regional office in Africa. During the beginning of 2013, UNFPA undertook a management review of regionalization; the review provided recommendations to enable the regional offices to achieve their full potential. The review has resulted in concrete measures that are reflected in the new UNFPA business model, as part of the

UNFPA strategic plan, 2014-2017. These measures include reviewing the roles and responsibilities of the regional offices and clarifying the division of labour with headquarters.

69. UNFPA has taken a number of steps to examine and further develop the capacity of regional offices. These included: (a) a consultancy to assess the capacity and role of the regional offices, which included visits to two regional offices and which culminated in a set of conclusions and recommendations; (b) the establishment of a new regional office for West and Central Africa; (c) the introduction and filling of a number of regional posts in all of the regional offices, including regional communication advisers, regional resource mobilization advisers and regional international operations managers, to strengthen the capacity of the regional offices; and (d) the training of 42 regional office staff members on results-based management in 2012.

70. The Board of Auditors recommended, during the previous period, to expedite the finalization and implementation of the business plan to redesign some of the posts in the regional offices. This recommendation referred specifically to vacant posts in the Eastern Europe and Central Asia regional office. Of the nine posts in question, UNFPA has filled six of them. The three remaining posts are in various stages of recruitment.

K. Operating fund advances

71. The Board of Auditors, during the previous period, recommended that UNFPA follow up on long-outstanding operating fund advances in a timely manner and ensure that fund advances were utilized for their intended purposes. In its report (A/68/5/Add.7), the Board of Auditors acknowledged UNFPA progress in implementing the previous recommendations on operating fund advances, but did not consider the previous recommendations on this matter as having been fully implemented. In the report for the biennium that ended on 31 December 2011 (A/67/5/Add.7), the Board of Auditors reiterated that UNFPA should consider effective controls, with a focus on headquarters monitoring of country office controls, to ensure that operating fund account balances were cleared on time.

72. UNFPA maintained strict control over operating fund advances. At the end of 2012, the level of outstanding advances to governments and non-governmental organizations of \$9.2 million was virtually unchanged from the low (IPSAS-restated) level of \$9.0 million. UNFPA achieved this through better reporting facilities for operating fund advances ageing; more stringent guidance on operating fund advances funding authorization and certification of expenditures (FACE) form expenditure reporting reconciliation; and, more importantly, on conditioning new advances for clearing balances of operating fund advances older than six months. Balances of operating fund advances older than six months represented less than 10 per cent of the total year-end balance of operating fund advances. In

addition, UNFPA established strict quality controls through reconciliation reviews.

L. Other recommendations from previous periods

73. The Board of Auditors recommended that UNFPA follow up with donors to ensure that available donor funds were utilized for programme implementation or paid back to donors in a timely manner. Budget holders receive periodic communications to remind them of their responsibility to spend donor funds in a timely manner and to review expiry agreement dates. In past years, UNFPA has made improvements regarding unspent donor funds and has reduced unspent balances. Unspent balances are communicated to donors every year through the submission of certified donor financial statements. In most cases, the agreements state how to dispose of unspent balances. In some cases, however, UNFPA must consult the donors. UNFPA will continue to increase its communications with donors. Unless donors provide formal responses, UNFPA cannot refund or reprogramme the funds.

74. The Board of Auditors recommended that UNFPA ensure that operationally closed earmarked projects be financially closed in a timely manner. The Programme Division and the Finance Branch have launched a project-closure 'dashboard' to facilitate and ensure timely project closures.

75. The Board of Auditors noted an improvement in the implementation of the recommendations that were not resolved during the biennium that ended on 31 December 2011. Three recommendations that were not implemented related to the harmonized approach to cash transfers, as noted in paragraph 59, and are pending due to the current United Nations Development Group revision of the harmonized approach framework. In annex 1 of its report for the financial period that ended on 31 December 2012 (A/68/5/Add.7), the Board of Auditors provided a summary of the status of implementation of recommendations for previous financial periods. The Board of Auditors noted that, of 61 recommendations made during the previous financial periods, 25 (41 per cent) were fully implemented; 34 (56 per cent) were under implementation; and two (3 per cent) were overtaken by events.

76. As of July 2013, the status of implementation of the 34 recommendations that were in progress is summarized in table 3, below:

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 2012

Department responsible	Number of recommendations	Not accepted	Implemented or closure requested	In progress	Target date set	No target date	Overtaken by events
Division for Management Services	16	0	4	12	12	0	0
Division for Human Resources	7	0	3	4	4	0	0
Information and External Relations Division	1	0	1	0	0	0	0
Office of the Executive Director	3	0	0	3	3	0	0
Procurement Services Branch	4		3	1	1	0	0
Nigeria country office	1		1		0	0	0
Sudan country office	1		1		0	0	0
Nepal country office	1		1		0	0	0
Total	34	0	14	20	20	0	0

III. Conclusion

77. UNFPA is pleased with the unmodified audit opinion contained in the report of the Board of Auditors for the UNFPA financial statements for the year that ended on 31 December 2012 (A/68/5/Add.7). UNFPA has continued to accord the highest priority to achieving a record of unmodified audit opinions and to resolving the concerns of the Board of Auditors. As noted by the Board of Auditors, UNFPA must improve its systems and strengthen internal controls, as well as improve decision-making processes and financial

management, in order to realize the full benefits of IPSAS-based financial information. To ensure adequate accountability in a highly decentralized structure, UNFPA must further strengthen its management oversight, fiduciary duties and the monitoring of its field-level activities, including enhancing the role and functions of the regional offices in programme delivery.

78. UNFPA will sustain the efforts it has made so far to implement all the audit recommendations. UNFPA will continue to: (a) improve systems; (b) strengthen internal controls; and (c) improve decision making and financial management. In order to achieve these goals, UNFPA has developed and implemented a number of new and revised policies, procedures and tools.

IV. Recommendation

79. The Executive Board may wish to take note of the present report (DP/FPA/2014/1) on the actions taken by UNFPA and the further actions planned by UNFPA to implement the recommendations of the Board of Auditors for the financial period that ended on 31 December 2012.