United Nations

DP/OPS/2012/5

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

Distr.: General
2 April 2012

Original: English

Annual session 2012
25 to 29 June 2012, Geneva
Item 12 of the provisional agenda
Internal audit and oversight

Activity report for 2011 of the Internal Audit and Investigations Group of the United Nations Office for Project Services

Summary

The Director of the Internal Audit and Investigations Group of the United Nations Office for Project Services (UNOPS) hereby submits to the Executive Board, through the Executive Director of UNOPS this activity report on internal audit and investigation services for the year ended 31 December 2011. The response of UNOPS management to this report is presented separately, as per Executive Board decision 2006/13.

Elements of a decision

The Executive Board may wish to:

(a) *Take note of* the annual report of the Internal Audit and Investigations Group for 2011;

(b) *Take note of* the progress made in implementation of audit recommendations more than 18 months old; and

(c) *Take note of* the annual report of the Strategy and Audit Advisory Committee for 2011 (in line with Executive Board decision 2008/37).

Contents

Annexes (available on the Executive Board website)

I. Introduction

1.   The Internal Audit and Investigations Group is pleased to provide the Executive Board, through the Executive Director, with the present annual report on the United Nations Office for Project Services (UNOPS) internal audit and investigation activities for the year ended 31 December 2011. This report contains details pursuant to Executive Board decision 2008/13, specifically: (i) a table displaying unresolved audit recommendations by year and category; (ii) a list of the high-priority findings and the ratings contained in audit reports; and (c) an explanation of findings that have remained unresolved for 18 months or more.

2.   The year 2011 represents the fourth full year of operation for the Internal Audit and Investigations Group. During these four years, the Internal Audit and Investigations Group continued to significantly increase internal audit coverage of UNOPS as compared to prior years, enhancing the overall internal control environment of the organization.

3.   The Internal Audit and Investigations Group reports to the Executive Director of UNOPS and assists him with his accountability function. In this regard it provides assurance, offers advice, recommends improvements and helps to enhance the risk management, control and governance systems of the organization. It also seeks to promote and support accountability through conducting investigations into reports of violations of applicable regulations, rules, and administrative or policy directives. Additionally, the Internal Audit and Investigations Group endeavours to support management in the application of UNOPS general policies and objectives as described in the 2010-2013 strategic plan and the 2010-2011 biennium budget (contained in DP/2009/36 and DP/2010/09 respectively).

4.   The Internal Audit and Investigations Group continued to interact with the UNOPS Strategy and Audit Advisory Committee during 2011. In accordance with Executive Board decision 2008/37, the annual report of the Strategy and Audit Advisory Committee for 2011 is attached as Annex 2 to the present report.

II. Role and functions of the Internal Audit and Investigations Group

A. Mandate, functions and standards

5.   The UNOPS mandate for internal audit is described in the UNOPS Financial Regulations and Rules (DP/2009/4). Regulation 5.03 and Rule 105.06 define the role of the UNOPS Internal Audit and Investigations Group.

6.   The scope, responsibility, accountability and standards of the UNOPS Internal Audit and Investigations Group are contained in its Charter, issued by the Executive Director as Organizational Directive No. 25.

7.   The role of the Internal Audit and Investigations Group is further defined in Organizational Directive No. 2, "UNOPS Accountability Framework and Oversight Policies" and Organizational Directive No. 15 (rev. 1 – Addendum 1): "UNOPS Global Structure". In addition to providing internal audit services to UNOPS, the Internal Audit and Investigations Group leads the Executive Director's investigations into alleged fraud, corruption, waste of resources, abuse of authority or other misconduct and violations of UNOPS regulations, rules and administrative or policy directives.

B. Coordination with the United Nations Board of Auditors and other United Nations oversight bodies

8.   In 2011, the Internal Audit and Investigations Group continued to coordinate its internal audit work with and made its results available on an ongoing basis to the United Nations Board of Auditors. Further, the Group's annual planning process also included consultation with the Board of Auditors.

9.   As appropriate, the Internal Audit and Investigations Group continued to coordinate its activities with the Office of Internal Oversight Services of the United Nations and with the representatives of internal audit services of the United Nations Organizations (UN-RIAS) as well as with the Joint Inspection Unit.

III. Approved annual internal audit workplan for 2011

10.   The 2011 workplan was based primarily on the overall objective of assisting the Executive Director by providing him assurance that internal controls and procedures function as envisaged. The workplan contained detailed discussion of the planning approach, objectives, risk assessment, areas to be covered, nature of audit services, operating budget and transition arrangements. It was developed taking into consideration the recent issues affecting the UNOPS internal systems and business.

A. Risk-based internal audit plan

11.   The objective of audit risk assessment is to identify and prioritize potential audit areas that pose the greatest risk to the organization. This is done with due reliance on the existing risk-management system put in place by management. The output of the audit risk assessment enables the allocation of available internal audit resources to those areas that are most critical to the organization's success in reaching its goals. The result is documented in a risk-based internal audit workplan.

12.   In preparing its workplan for 2011, the Internal Audit and Investigations Group refined the model used in 2010 and 2009, to ensure consistency between internal audit priorities and the goals of UNOPS management. The Internal Audit and Investigations Group also relied on the existing components of the risk management system mandated in UNOPS financial regulation 4.01 and detailed in financial rules 104.01 and 104.02. Further, it was noted that UNOPS is in the process of strengthening its comprehensive organization-wide system of risk management (see paragraph 65 below).

13.   The 2011 audit workplan, based on the audit risk assessment outcome, reflected the diversity and range of UNOPS operations worldwide, as well as the objective of broadening the focus of the Internal Audit and Investigations Group: from assurance and compliance-based auditing to more performance-based auditing, within the limits of available internal audit resources.

B. Progress on implementation of annual workplan

14.   The progress made on the implementation of the 2011 workplan is shown in Table 1 below.

Table 1 - Status of implementation of workplan as at 31 December 2011

	IAIG Internal Audits	Project Audits	Programme audits (SGP/ Mine Action[a])	Total
Total of audits to be undertaken/ completed in 2011	**15**	**6**	**25**	**46**
Of which: carried over from 2010[b]	*5*	*6*	*22*	*33*
planned in 2011	*10[c]*	*[d]*	*3*	*13*
Total audit reports issued	**8**	**16**	**24**	**48**
Of which: from 2010 carry-over	*5*	*6*	*22 (SGP)*	*33*
from workplan 2011	*3*	*10*	*2 (Mine Action)*	*15*
Total audits carried over to 2012 *(Reports being finalized at year-end)*	**4[e]**	**2**	**1**	**7**
Total planned audit replaced by advisory activity – IPSAS support (no report)	**1**			**1**

[a] Small Grants Programme (SGP).

[b] The last report was issued in September 2011.

[c] Including two audits deferred to 2012.

[d] Number of project audits depends on project implementation phase.

[e] All reports were issued prior to 15 February 2012.

IV.   Highlights of audit activities during 2011

15.   As seen in above table, the Internal Audit and Investigations Group released 48 reports during 2011. This was as compared with 52 reports during 2010 and 61 in 2009. The results of its work are presented under three separate categories, reflecting the differences in approach, as follows:

(a)   Internal audit reports of audits conducted directly by the Internal Audit and Investigations Group (eight reports);

(b)   Internal audit reports of project audits conducted on behalf of, and under the supervision of, the Internal Audit and Investigations Group by third-party professional auditing firms or consultants, to fulfil project requirements (16 reports); and

(c)   Internal audit reports of audits of significant programmes managed and/or executed by UNOPS which were conducted either by the Internal Audit and Investigations Group, or on its behalf by third-party professional auditing firms or consultants (24 reports).

16.   The combined 2011 audit reports contained 629 audit recommendations for improving internal controls and organizational efficiency and effectiveness. Of these, 151 pertain to internal audit reports, 113 to project audit reports, and 365 to Small Grants Programme and Mine Action Programme audit reports.

A. Internal audit reports of audits conducted directly by the Internal Audit and Investigations Group

Internal audit reports issued

17. During the year that ended 31 December 2011, eight internal audit reports were issued by the Internal Audit and Investigations Group and submitted to the UNOPS Executive Director, as detailed in Table 2.

Table 2 - List of internal audit reports issued by the Internal Audit and Investigations Group in 2011

Organizational unit or function	Rating*
Regional Office for Africa	Partially satisfactory
Regional Office for Europe and Middle East	Partially satisfactory
Senegal Operations Centre	Partially satisfactory
Jerusalem Operations Centre	Partially satisfactory
Switzerland Operations Centre	Partially satisfactory
Kenya Operations Centre	Partially satisfactory
Information Technology Governance	Partially satisfactory
Haiti Operations Centre (Advisory)	Not rated

* As per the harmonized rating system applied by the internal audit services of United Nations Children's Fund, UNFPA, World Food Programme, UNDP and UNOPS effective 1 January 2010, "*partially satisfactory*": internal controls, governance and risk-management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity.

18. In 2011, the Internal Audit and Investigations Group adopted a new report format, composed of a short narrative and a table of observations, organized by functional areas aligned with UNOPS revised definitions.[1] Each observation includes the process in question, comparison criteria, facts observed and their impact, the root cause of the situation on hand, and the category of objectives at stake (strategic, operational, reporting or compliance). Recommendations are fewer and "SMART": Specific, Measurable, Achievable, Relevant, Time-bound. Overall, the new standardization system improved analytical reviews and monitoring of progress.

Analysis of internal audit recommendations issued in 2011

19. The number of internal audit recommendations issued decreased significantly from 279 in 2010 to 151 in 2011; so has the average number of recommendations by audit report, from 31 in 2010 to 19 in 2011, following the introduction of the new report format.

20. Pursuant to Executive Board decision 2008/13, the Internal Audit and Investigations Group analysed the recommendations issued by importance, cause (which may be multiple), and frequency of occurrence in a functional area.

Categorization by level of importance

---

[1] As defined in document DP/2011/38.

21.   Of the 151 audit recommendations issued, 53 (35 per cent) are considered to be of high importance, 93 (62 per cent) of medium importance, and 5 (3 per cent) of low importance, as shown in Table 3.[2]

Table 3 - Categorization of audit recommendations, by level of importance

Level of importance	Number of recommendations			Percentage of total		
	2009	**2010**	**2011**	**2009**	**2010**	**2011**
High	56	107	53	31	38	35
Medium	112	159	93	63	57	62
Low	10	13	5	6	5	3
Total	**178**	**279**	**151**	**100**	**100**	**100**

Root causes of audit issues

22.   While maintaining alignment with the definitions of causes presented in document DP/2007/38[3], the Internal Audit and Investigation Group identified for each audit issue the root cause and the underlying control objective. As a consequence, compliance was considered as an outcome of an underlying root cause and used as a control objective for audit issues, as explained in paragraph 26 below. As a result, there was a decrease in lack of compliance as a cause of audit issues in 2011.

23.   Thus, the two main root causes of audit issues raised in the 2011 internal audit reports were inadequate guidance or supervision (54 per cent) and the need for written procedures to guide staff in the performance of their functions (30 per cent), as shown in **Error! Reference source not found.**Chart 1. The other causes found were insufficient resources (9 per cent), failure to comply with prescribed UNOPS regulations, rules and procedures (6 per cent) and human error (1 per cent).

---

[2] Definitions per document DP/2007/38:
High: action considered imperative to ensure that UNOPS is not exposed to high risks (that is, where failure to take action could result in critical or major consequences for the organization).
Medium: action considered necessary to avoid exposure to significant risks (that is, where failure to take action could result in significant consequences).
Low: action that is considered desirable and should result in enhanced control or better value for money.
[3] Definitions (per document DP/2007/38):
**Compliance**: failure to comply with prescribed UNOPS regulations, rules and procedures.
Guidelines: absence of written procedures to guide staff in performing their functions.
Guidance: inadequate or lack of supervision by supervisors.
Human error: mistakes committed by staff entrusted to perform assigned functions.
Resources: insufficient resources (funds, skill, staff) to carry out an activity or function.

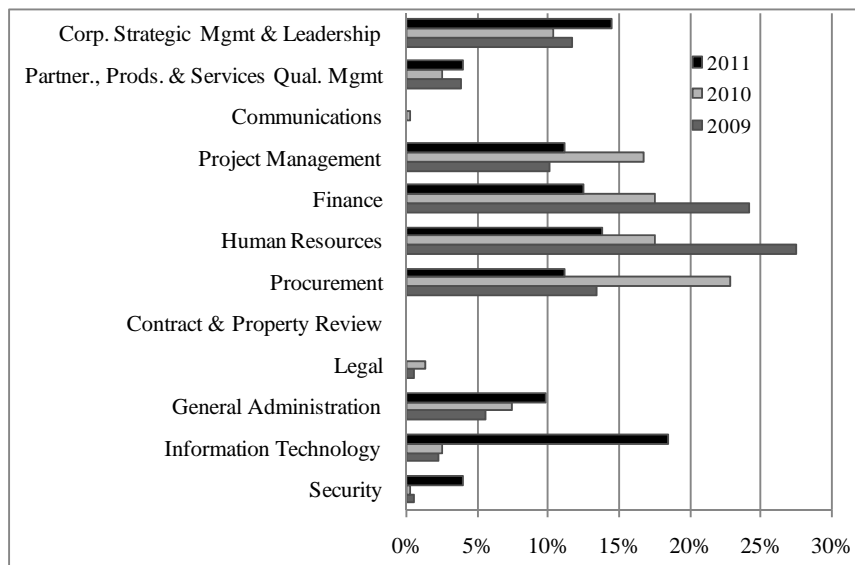**Chart 1 - Internal audit recommendations, by cause of audit issues**
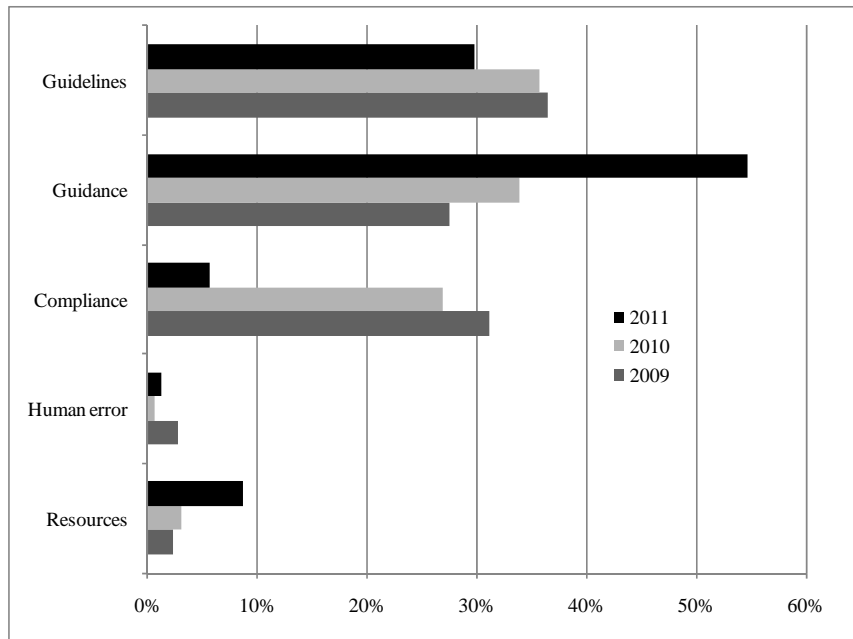
Frequency of occurrence of audit recommendations by functional area

24.   The analysis by frequency of occurrence and functional area, shown in Chart 2, revealed that the top areas were: information technology (18 per cent), corporate strategic management and leadership (15 per cent), human resources (14 per cent), finance (13 per cent) and procurement and project management (11 per cent each), It should be noted that this distribution is driven by the focus on risk assessment.

25.   Information technology (IT) and corporate strategic management and leadership issues showed an increase of 15 and 5 percentage points respectively in 2011 as compared to 2010. There is a significant decrease in procurement, project management, finance and human resources matters in 2011 as compared to 2010.

Chart 2 - Internal audit recommendations, by functional area

Key areas of improvement from internal audit reports issued in 2011

26.   To supplement the previous analysis, Table 4 below shows the number of recommendations by type of objective and functional area. It was noted that there were the most recommendations regarding operational issues (e.g. efficiency and effectiveness) and compliance, with strategic issues accounting for the second-highest total. A short summary of the nature of the recommendations follows the table.

Table 4 - Number of recommendations by type of objective

Functional Area	Strategic	Opera-tional	Com-pliance	Reporting	Total	Per Cent of total
Corporate strategic management and leadership	18	4			**22**	15
Communications					**0**	0
Partnerships and products and services quality management	5	1			**6**	4
Project management	1	9	7		**17**	11
Finance		7	7	5	**19**	13
Human resources	6	5	10		**21**	14
Procurement	1	7	9		**17**	11
General administration		4	11		**14**	10
ICT	4	19	5		**28**	18
Security			6		**6**	4
Total	**35**	**56**	**55**	**5**	**151**	**100**
Percentage of total	**23**	**37**	**37**	**3**	**100**	

Strategic matters

27.   Attention was called to matters which could impact the achievement of strategic objectives, organization-wide or at the level of a regional office or a centre.

28.   As regards corporate strategic management and leadership, several reports asked for clearer guidelines on the information necessary to make decisions about field office relocation or new cluster formation, or to develop or finalize a centre's strategy document in alignment with the UNOPS business strategy. On two occasions emphasis was laid on increasing business acquisition and formalizing a business development strategy aimed at securing a centre's long-term sustainability.

29. As regards partnership, attention was called on three occasions to the need to introduce a structured knowledge-management system in order to record activities of potential clients and help identify and track potential business opportunities, as well as to prevent the risk of loss of institutional memory.

30. In human resources, the creation of the consultant roster was urged, as was the revisiting of job descriptions in view of new organizational structures within regions or centres. In addition, in one report it was asked whether there was a need to review the use of a United Nations volunteer in a decision-making role. Actions to address the points raised involved a combination of guidelines and tools.

31. As regards information and communications technology (ICT), the key issues involved revisiting the ICT strategy plan to align it better with the 2010-2013 UNOPS strategic plan and improving the risk-management system in order to make it more explicit.

Operational matters

32. In the area of project management, attention was focused on: strengthening the oversight of centres' performance and project activities; developing a more structured approach to monitoring; reinforcing engagement procedures and project risk management; more systematically drawing lessons learned; and allocating support costs to projects in a more transparent manner. A combination of guidelines and more stringent monitoring should help address the issues raised.

33. In finance, the recommendations included improved guidelines for the disbursement of operational advances to project and portfolio managers in situations in which cash is managed using personal bank accounts. In some instances more proactive management of projects' financial closure, bank guarantees and petty cash was recommended, as well as updating the list of disbursing officers after a change of regional financial officer. A few additional guidelines, combined in some instances with closer supervision, should resolve the issues here.

34. In procurement, recommendations were made in one report to: improve monitoring and enhance transparency by making more information available to interested parties; introduce long-term agreements wherever possible to reduce transaction costs; and, in one instance, include people with more procurement skills on a project review committee. Selected guidelines and some guidance were called for.

35. The main objectives in human resources were to introduce a formal hand-over mechanism between past and new incumbents, to have positions filled and job descriptions up to date, and also to strengthen need-based training plans. A number of such actions had already been taken by year-end.

36. In the ICT area recommendations were made to enhance business continuity plans and data backup, as well as to maintain and safeguard IT equipment. A few recommendations involved improving the operations of the ICT organizational unit at Headquarters, especially as regards the implementation of the ICT strategic initiatives and documentation. Additional resources, together with better supervision (of centres), should address these issues.

Compliance matters

37. Recommendations to ensure better compliance with policies and procedures were made in seven reports, covered all but three functional areas,

and were often repetitive. The most critical recommendations in this regard relate to: ensuring compliance with the requirements for periodical internal assurance by regional offices of the performance of operations and project centres; improving vendor management; enhancing systematic procurement planning and monitoring its implementation, as well as improving documentation of procurement cases; compliance with personnel performance-management policy and strengthening documentation; improving business continuity planning in the centres; compliance with travel security requirements; and improving safety and security of staff and premises. More thorough guidance and supervision by management, coupled with better training, should address the points raised.

Reporting matters

38.   In four audit reports, recommendations were made to improve the quality of the financial and operational information provided. These included: introducing a multi-currency reporting functionality in Atlas to satisfy clients and partners by providing agreed upon reporting; improving alignment of expenditures and revenue at the activity level; and using available financial reporting tools to ensure correct use of the chart of accounts. A combination of improved tools, some guidelines and guidance should address the points raised.

B.   Internal audit reports of projects

Single audit principle

39.   The Internal Audit and Investigations Group continues to uphold the United Nations "single audit principle" as detailed in the UNOPS report on internal audit and oversight in 2007 (DP/2008/21).

40.   While management is responsible for meeting the requirements of project agreements, the Internal Audit and Investigations Group supports their efforts in fulfilling the requirements regarding audit clauses, where present. For that purpose, the Internal Audit and Investigations Group engages third-party professional auditing firms to conduct these audits. All the professional firms used have been pre-qualified by UNOPS to provide such services, and they adhere to the terms of reference approved by the Internal Audit and Investigations Group. All audit reports prepared by such firms are assessed for quality by the Internal Audit and Investigations Group before finalization.

Internal audit reports issued for projects

41.   During the year that ended 31 December 2011, 16 internal audit reports relating to specific projects were issued by the Internal Audit and Investigations Group and submitted to the UNOPS Executive Director.

42.   As seen in Table 5, of the 16 internal audit reports for projects issued in 2011, the majority expressed an audit opinion on the financial situation of the project as well as providing a rating of internal control compliance, according to the requirements of the partner and primary stakeholder(s) concerned.

Table 5 - Number of project audit reports issued during 2009-2011

	2009	2010	2011
Audit reports issued expressing an opinion on the financial situation and rating on the internal control environment	9	24	15
Audit reports issued expressing an opinion	7	1	1

on the financial situation only			
Audit reports issued expressing an opinion on internal control compliance only	1	0	0
Total	**17**	**25**	**16**

43.   In line with Executive Board decision 2008/13 and as shown in Table 6, by 31 December 2011 the proportion of project audits with an unqualified opinion on their financial situation improved to 81 per cent.

44.   The proportion of project audits with partially satisfactory rating for internal controls increased in 2011 to 53 per cent, and there was no unsatisfactory rating.

**Table 6 - Summary of project audit opinions and ratings
of internal controls for project audits, 2009 - 2011**

Type of opinion or rating	Number of audit reports			Percentage of total		
	2009	**2010**	**2011**	**2009**	**2010**	**2011**
Audit opinion on financial situation of project						
Unqualified opinion	12	20	13	75	80	81
Qualified opinion	4	5	3	25	20	19
Total	**16**	**25**	**16**	**100**	**100**	**100**
Rating of overall level of internal control						
Satisfactory	3	13	7	30	54	47
Partially satisfactory	7	10	8	70	42	53
Unsatisfactory	0	1	0	0	4	0
Total	**10**	**24**	**15**	**100**	**100**	**100**

Financial impact of project audits' findings in 2011

45.   The Executive Board in its decision 2010/22 requested that information on the financial impact of the audit findings be incorporated in future reports. For 2011 the cumulative financial impact of project audit reports with a qualified opinion amounted to $180,094 (0.19 per cent of the total audited project expenditure of $96.28 million).[4]

Project audit recommendations issued in 2011

46.   The 16 project audit reports issued generated 113 audit recommendations, as compared to 264 audit recommendations in the 25 audit reports issued in 2010. As project audits are client driven, the reduced number is due to a combination of reduced project audit requirements from clients, as well as an increased confidence in the quality of financial reports produced by UNOPS. These are analysed by importance, by cause and by frequency of occurrence in a functional area.

---

[4] Corresponding to expenditure having insufficient documentation.

Categorization of audit recommendations relating to projects by level of importance

47. As seen in Table 7, the proportion of highly rated audit recommendations is the lowest for the 2009 to 2011 period. This reflects improvements in the management of projects.

Table 7 - Categorization of project audit recommendations by level of importance

Level of importance	Number of recommendations			Percentage of total		
	2009	**2010**	**2011**	**2009**	**2010**	**2011**
High	79	64	16	32	24	14
Medium	140	134	85	56	51	75
Low	29	66	12	12	25	11
Total	**248**	**264**	**113**	**100**	**100**	**100**

Causes of audit issues[5]

48. Compliance as a cause of audit issues increased from 34 per cent in 2010 to 55 per cent in 2011, as shown in Chart 3. This indicates that, while UNOPS increased the policy guidance provided in support of its operations as compared to prior years, its compliance needs to be strengthened.

**Chart 3 - Project audit recommendations by cause of audit issues**
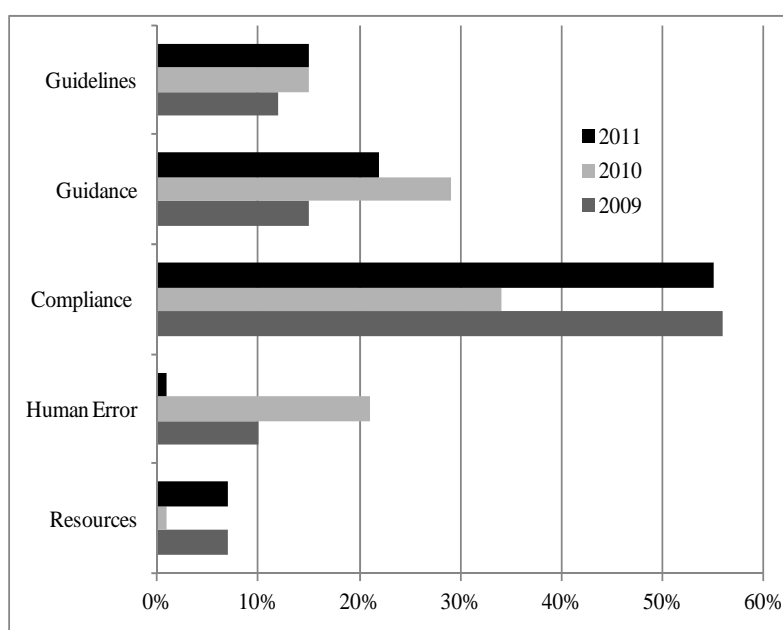
Frequency of occurrence of project audit recommendations by functional area

49. Further analysis of project audit recommendations by frequency of occurrence in each functional area in 2011 (as shown in Chart 4) indicates that

---

[5] Unlike with IAIG internal audits, there was no change in cause definitions used in previous years.

Chart 4 - Project audit recommendations by functional area

the most frequently mentioned functional areas were project management (33 per cent), finance (27 per cent), general administration (18 per cent), and
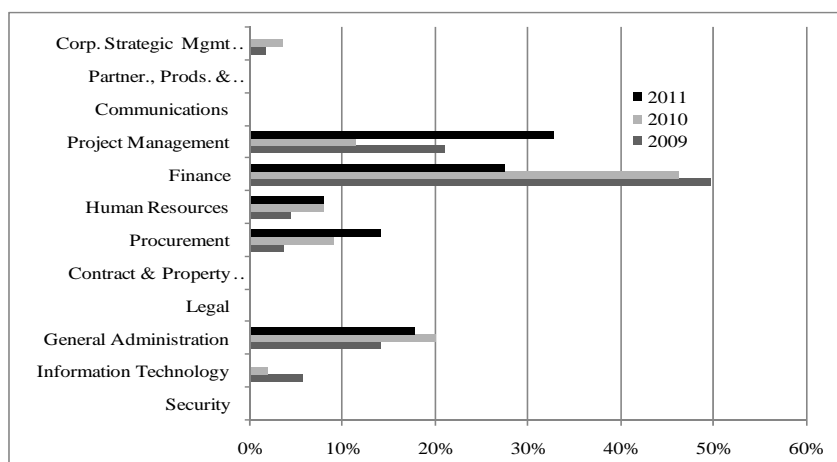
procurement (14 per cent).

Key areas for improvement identified in project audit reports

50.   Key areas for improvement included in the project audit reports issued in 2011 are detailed below. These improvements may apply to one or more projects and to varying degrees.

- *Project/programme management.* Ensure that reporting requirements are complied with, and that project budgets are thoroughly monitored to detect in a timely fashion any over-expenditure.

- *Finance.* Ensure that: original documentation supporting expenditures is available; scanned copies of original documentation are an exception; regular bank reconciliations are undertaken; and funds are committed to make eligible payments as per project agreements, and are properly documented.

- *Procurement.* Ensure that documentation of procurement activities is in compliance with the UNOPS procurement manual and that procurement plans are implemented and monitored.

- *Human resources.* Ensure that contractor engagement is managed in compliance with UNOPS guidelines.

- *Asset management.* Ensure compliance with project guidelines on asset management and transfer.

C.   Internal audit reports of significant programmes

51.   In its 2008 annual report (DP/2009/24), it was noted that the Internal Audit Office (now the Internal Audit and Investigations Group) should endeavour to expand its audit coverage of specific and significant programmes executed by UNOPS on behalf of its partners.

52.   Two programmes were identified, namely, the Small Grants Programme (SGP) funded by the Global Environment Facility (GEF) and the Mine Action Programme, which is funded by the United Nations Mine Action Service of the Department of Peacekeeping Operations.

Global Environment Facility Small Grants Programme

53.   The Small Grants Programme was created in 1992 and is implemented by the UNDP and executed by the UNOPS regional office for North America. UNOPS provides the following programme execution services: personnel recruitment, subcontracting, authorization of grant allocations and disbursements, budget administration and reporting, training and guidance to country-level staff, provision of legal advice, and internal oversight and audits. In 2011, the Programme was in operational phase 5 (2010-2014), which will be referred to later as OP5.

54.   Following the recommendation of a programme evaluation, the GEF requested that audits be conducted of all country programmes at least once during each operational phase. During 2009, the Internal Audit and Investigations Group, in consultation with the UNOPS Small Grants Programme management team, engaged through a competitive tender process a third-party professional audit firm with a global presence to carry out these audits on its behalf. The audit scope covered both compliance and functional management issues relating: to the governance process, to the grants management process, and to finance, human resources, procurement and asset management. The Internal Audit and Investigations Group provided quality control on the risk assessment of the units selected for audit, the audit work programme and the audit reports.

55.   Based on the risk assessment, each of the 80 Small Grants Programme country programmes was categorized as either very high, high, medium or low risk.

Internal audit reports issued for the Small Grants Programme

56.   In 2011, 22 country programme audits, started in 2010, were finalized, and related reports were issued, thereby completing the audit cycle for Operational Phase 4. This was as compared to the finalization and issuance of 17 such audits in 2010.

57.   All reports except two showed a satisfactory or partially satisfactory rating on either internal controls or financial operations or on both.

58.   The reports issued in 2011 contained 330 audit recommendations, of which 26 were categorized as high risk, 156 as medium risk and 148 as low risk. In terms of functional area, 170 (52 per cent) pertained to project management, 110 recommendations (33 per cent) related to finance, and the majority of the remaining 50 (15 per cent) related to human resources and asset management.

Key areas for improvement in the 2011 Small Grant Programme audit reports

59.   Key areas for improvement included in the SGP audit reports issued in 2011 are detailed below. These improvements may apply to one or more projects and to varying degrees.

- *Programme management.* Ensure that: grant commitments to individual beneficiaries and for knowledge-management and grantee-monitoring purposes does not exceed the prescribed thresholds; National Steering Committee (NSC) terms of reference are up to date; there is full access to project proposal details; documentation for grant approvals is complete; executed agreements meet all criteria listed within the standard operating procedures; grant instalment payments are released only upon receipt of progress reports; and the grant commitment level is thoroughly monitored within an operational year to avoid substantial under-commitment.

- *Finance.* Ensure that: actual administrative expenses do not exceed the administrative budget; reporting requirements are complied with in a timely manner; cost-recovery charges are billed to the country programme in a timely manner; and petty cash is properly managed.
- *Assets.* Ensure that inventory listing is complete and accurate, and all transactions related to assets are accounted for in a timely manner.
- *Human Resources.* Ensure that SGP personnel files, including recruitment process documents, are complete.

Mine Action Programme

60.   The North America Regional office (NAO) Mine Action Cluster implements mine action projects on behalf of United Nations Mine Action Services (UNMAS), an operational arm of the United Nations Department for Peacekeeping Operations (DPKO). UNMAS has the lead responsibility for clearing mines and unexploded ordnance in emergency peacekeeping settings, in accordance with mandates of the Security Council. UNMAS employs UNOPS to deliver rapid procurement, recruitment and management services to facilitate the provision of humanitarian aid and launch emergency mine clearance. Mine Action project field operations are carried out in 14 countries.

61.   Following the engagement in 2011 of a dedicated auditor, embedded in the Internal Audit and Investigations Group, the audit of the programmes in Somalia and Sudan were completed. The two reports showed a "partially satisfactory" rating on the overall level of internal controls. At the end of 2011, the audit of the Afghanistan programme was under way and the draft report was issued before year-end.

62.   The two reports issued in 2011 contained 35 recommendations of which 6 (17 per cent) were categorized as high risk, 28 (80 per cent) as medium risk and 1 (3 per cent) as low risk. The most frequently occurring functional area for the audit recommendations was: project management and general administration (29 per cent each). Six (17 per cent) of the recommendations related to procurement and the supply chain; four each to finance and human resources (11 per cent each); and one (3 per cent) to information and communications technology.

Key areas for improvement in the 2011 Mine Action Programme audit reports

63.   Key suggestions for improvement included in the reports issued in 2011 are detailed below. These improvements may apply to each programme in varying degrees.

- *Project management.* Ensure that: financial reports to clients are submitted in a timely fashion; management monitoring of programme support services is strengthened; and hand-over notes are prepared.
- *Finance.* Ensure that the operational advance reconciliation is carried out and that random surprise petty-cash counts are performed by someone independent of the petty-cash custodian.
- *Human resources.* Ensure that the documentation of individual contractor files is properly maintained, and that submissions to the headquarters contract and property committee for amendments of the contracts of existing individual contract holders is done well in advance of the contract expiry dates.
- *Procurement.* Ensure that procurement plans are prepared and implementation monitored, and that documents relating to procurement are complete as per the procurement manual.

- *General administration.* Ensure that: an up-to-date record of all assets is maintained and verified; the regular usage of the travel reporting tool used to record official travel on the UNOPS intranet; and the vehicle log to record mileage for motor vehicles is maintained.

- *Information and communications technology.* Develop a business continuity and recovery plan.

D.   Improvements to the UNOPS internal control system

64.   The Internal Audit and Investigation Group noted that in 2011 management introduced several measures to strengthen the internal control system. These measures will be taken into account during the development of the audit workplans in 2012 and beyond.

65.   Management either revised or issued new policies and procedures that address various audit recommendations in the following areas: (i) accountability framework and oversight policies; (ii) official travel management; (iii) record retention policy; (iv) resource planning for mine action; (v) revision to UNOPS global organizational structure; (vi) recruitment policy; (vii) system for merit rewards and recognition; (viii) performance management policy and procedures; (ix) talent management framework; (x) management of assets; (xi) revised guidance for engagement of contractors; and (xii) accounting policies compliant with the International Public Sector Accounting Standards (IPSAS). Management also made efforts to develop (xiii) rosters for the engagement of staff and consultants, and has prepared for (xiv) the implementation of IPSAS on 1 January 2012. In addition, management obtained (xv) the International Organization for Standardization (ISO) 9001 quality-management system certification. This made UNOPS the first United Nations organization to have its global management systems certified. Management also obtained (xvi) certification in procurement policies and procedures from the Chartered Institute of Purchasing and Supply (CIPS). This made UNOPS the only United Nations body to hold this certification at the present time. Management introduced (xvii) new contracts for infrastructure works based on those of the International Federation of Consulting Engineers (FIDIC). These contracts are tailored for use in a United Nations context, and provide clear, flexible mechanisms to suit all sizes of projects. UNOPS also jointed (xviii) the International Aid Transparency Initiative and made project data available in an open-source, machine-readable file, allowing users to take the information and analyse it as they wish. This reinforced the organization's commitment to transparency and accountability.

V.   UNOPS accountability framework

66.   In accordance with the UNOPS accountability framework and oversight policies, the head of the Internal Audit and Investigations Group reports to the Executive Board on the resources available and required for the implementation of the present accountability framework.

67.   The pillars of the UNOPS accountability framework and oversight policies that are internal to the organization include: the Strategy and Audit Advisory Committee, the Internal Audit and Investigations Group, the Ethics Officer, the Office of the General Counsel, the Appointment and Selections Panel, the Appointment and Selections Board, the Headquarters Contracts and Property Committee, the "balanced scorecard", and the implementation of UNOPS organizational directives and administrative instructions.

68.   The fundamental pillars of the UNOPS accountability framework and oversight policies that are external to the organization include the Executive Board, the United Nations Board of Auditors, the United Nations Joint

Inspection Unit, the Advisory Committee on Administrative and Budgetary Questions, and the Fifth Committee of the General Assembly.

69. The Internal Audit and Investigations Group limits its reporting on this matter to those resources required for the pillars internal to the organization. It is noted that all bodies mentioned in the UNOPS accountability framework and oversight policies were functional.

VI. Disclosure of internal audit reports

70. The Internal Audit and Investigations Group complies with Executive Board decision 2008/37 and the procedures approved therein which allow disclosure of internal audit reports when a request is received from a Member State.

71. Further, during 2011, the Executive Board as per its decision 2011/23, responded to the emerging demand for greater information disclosure. For internal audit reports pertaining to a given project in which the said donor is financially contributing, the Board gave donor intergovernmental organizations and the Global Fund to Fight AIDS, Tuberculosis and Malaria access similar to that of Member States. Further, the Executive Board allowed sharing of the statement of audit opinion and audited financial statements of projects, as well as executive summaries of internal audit reports of projects. The Board also allowed remote viewing of internal audit reports, with due respect for confidentiality.

72. UNOPS set up a remote access system that has been operational since November 2011. Additionally, since November 2011 UNOPS has been publishing on its public website all audit reports dealing with functional and thematic areas, as well as the list of all audit reports issued since 2008.

73. During 2011 UNOPS did not receive a request from any Member State or other authorized party to access an internal audit report. The statement of audit opinion and audited financial statements of projects were shared with clients as requested.

VII. Advisory services

A. Policies, procedures and agreements

74. Advisory services cover a wide range of issues relating to internal control concerns, policies, organizational directives, business processes, proposed agreements, and specific issues that management may request the Internal Audit and Investigations Group to look into. It is important to underscore that the Internal Audit and Investigations Group acts only in an advisory capacity and does not assume management responsibilities by participating in the implementation of any procedure.

75. During 2011 the Internal Audit and Investigations Group continued to render a number of such services, e.g. providing comments on several policies and procedures, including on the Financial Regulations and Rules, supporting IPSAS introduction (see paragraph 77 below) and risk-management activities.

76. Further, the Internal Audit and Investigations Group continued to assist in reviewing proposed project agreements containing audit clauses in order to ensure that such clauses are in accordance with Executive Board decisions and the Financial Regulations and Rules.

B. Implementation of the International Public Sector Accounting Standards

77.   During 2011, the Internal Audit and Investigations Group continued to support the International Public Sector Accounting Standards (IPSAS) implementation process through: (i) participating in an advisory capacity in the IPSAS implementation project board meetings; (ii) reviewing, upon request, IPSAS-compliant accounting policies; and (iii) supporting the user-acceptance testing of Atlas functionalities impacted by the introduction of IPSAS.

C. Enterprise risk management

78.   In 2011, the Internal Audit and Investigations Group provided advice as requested by management, in particular on risk-management activities related to write-offs.

79.   The Internal Audit and Investigations Group will continue its support in 2012, in accordance with the technical guidance provided by the Institute of Internal Auditors on the topic.[6]

VIII. Investigations

80.   With the issuance in 2010 of the UNOPS legal framework for addressing non-compliance with the United Nations standards of conduct, the Internal Audit and Investigations Group became the sole entity in UNOPS responsible for conducting investigations into allegations of fraud, corruption, abuse of authority, workplace harassment, sexual exploitation, retaliation and other acts of misconduct. In addition, the dedicated UNOPS investigation function commenced in June 2010 with the engagement of a lead investigator. In 2011 one assistant was also dedicated to investigations.

A. Complaint intake

81.   In 2011, the Internal Audit and Investigations Group received 49 complaints, 28 of which became cases and 21 were "for information".[7] This compares to 42 in 2010 (34 cases, 8 "for information").

82.   In addition, one case was carried forward from 2009 and 20 carried forward from 2010. The result was a total caseload of 49 cases in 2011, compared with 36 in 2010 (Chart 5).

Chart 5 - Number of cases 2009-2011

---

[6] E.g. "The Role of Internal Auditing in Enterprise-wide Risk Management", Institute of Internal Auditors, 2004.
[7] "For information" complaints require review and follow-up work, but may not evolve into a full case.

	2009	2010		2011	to 2012
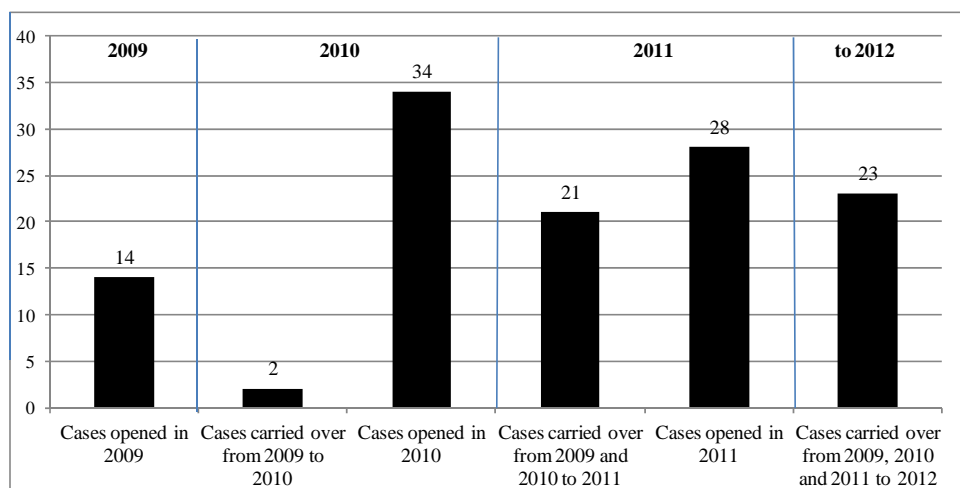
83.   Almost 30 per cent of the cases opened in 2011 were referred by management or personnel. Ten per cent came through the Internal Audit and Investigations Group hotline, and 60 per cent came via other means (e.g. from external organizations).

84.   Of the 28 cases opened in 2011, half (14 cases) involved some type of alleged fraud or financial irregularities (procurement fraud, entitlement fraud, theft and embezzlement, and misuse of UNOPS resources).[8] Almost 40 per cent of the cases involved external compliance (e.g. medical insurance fraud), while allegations of workplace harassment and abuse of authority constituted 10 per cent of the cases opened in 2011 (see Chart 6).

---

[8] Definitions**:**
  Fraud and financial irregularity: bid manipulation, collusion, corruption, bribes/kickbacks, entitlement fraud, procurement irregularities, waste/misuse of funds, forgery.
 **Harassment/abuse of authority**: hostile work environment, sexual harassment and exploitation, assaults/threats, nepotism.
  Conflict of interest: gifts/awards, non-compliance with financial disclosure, favouritism, external activities (employment, membership on outside boards).
  External compliance: violation of local laws, violation of privileges and immunities, medical insurance fraud.
  Whistleblower retaliation: retaliatory action against a whistleblower or a participant in protected activity (audit or investigation).

Chart 6 - Types of cases opened in 2011
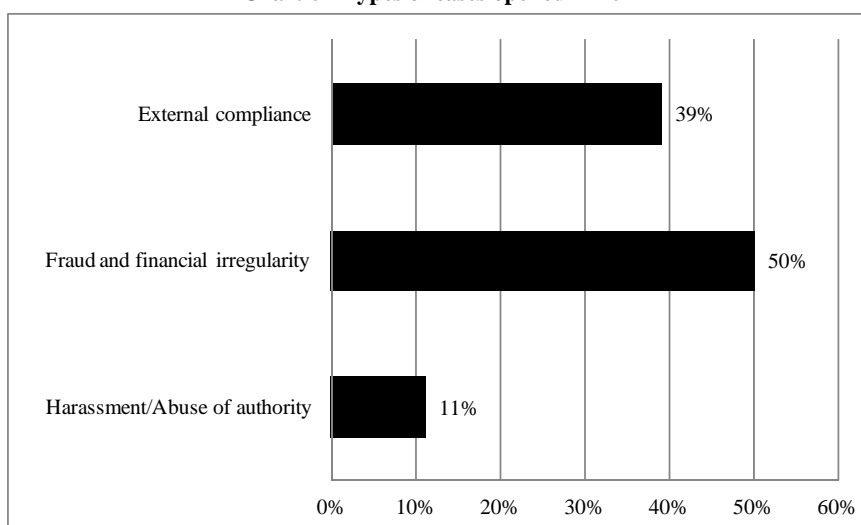
B. Outcome of investigations

85. An initial review of complaints received is undertaken to determine whether they fall within the Internal Audit and Investigations Group mandate or jurisdiction. If they do, a preliminary assessment is conducted. If this assessment reveals that wrongdoing may have occurred, the Internal Audit and Investigations Group conducts a formal investigation. If the allegations are substantiated, the Internal Audit and Investigations Group then submits an investigation report to the Human Resources Legal Officer for appropriate action.

86. In 2011, a total of 26 cases were closed, reducing the open caseload from 49 to 23 cases, or a reduction of 53 per cent (see Table 8).

Table 8 - Closing of investigation complaints in 2011

	2011	Per cent
Case carried over from 2009	1	2
Cases carried over from 2010	20	41
Cases received in 2011	28	57
Total caseload in 2011	**49**	**100**
Cases closed After initial review	4	15
After preliminary assessment	1	5
After investigation	4	15
Total cases closed with no further action necessary	*9*	*35*
After preliminary assessment	4	15
After investigation	13	50
Total cases closed recommending further action	*17*	*65*
Total complaints closed in 2011	**26**	**100**
Cases carried over to 2012	**23**	

87. As a result of the initial review or the preliminary assessment, five cases (20 per cent of cases closed) were found to be unsubstantiated and did not

require further investigation. Four more were closed after investigation without referral to the Human Resources Legal Office (15 per cent of cases closed).

88.   Seventeen cases were referred to the Human Resources Legal Officer, 13 after formal investigation (50 per cent of cases closed) and four after preliminary assessment (15 per cent of cases closed). The allegations were substantiated in these 17 cases and included the following:

- Fraud or financial irregularity (six cases).
- External compliance (medical insurance fraud) (11 cases).

89.   The Internal Audit and Investigations Group submitted 29 reports to the Human Resources Legal Officer and recommended disciplinary proceedings against 29 staff members.[9] In three instances the staff members had separated so management took no further action, but the matter will be addressed if and when the individuals are considered for future UNOPS positions. In one instance, no further action was taken. By end 2011, 11 cases were pending.

C.   Enhancing the investigative function

90.   In 2011, the Internal Audit and Investigations Group introduced on the UNOPS website a page dedicated to reporting wrongdoing as well as another page providing information on scams[10]. All are available to the public at large.

D.   Collaborating with others

91.   With the objective of enhancing its investigation function, the Internal Audit and Investigations Group collaborated with various UNOPS units, namely the Legal Practice Group, the Human Resources Practice Group, the Ethics Office and the Office of the Ombudsperson.

92.   Further, the Internal Audit and Investigations Group worked closely with the United Nations Office of Internal Oversight Services and the investigation services of the other funds and programmes, as well as increased its efforts to collaborate with the investigation offices of other international and national agencies to allow it to better identify fraud and to work collaboratively on cases of possible common interest.

E.   Outlook

93.   In view of its increasing caseload, the Internal Audit and Investigations Group is continuously exploring alternative ways to best use its investigative resources, e.g. through cooperation with other United Nations organizations. The Group is in regular dialogue with management on this issue. Further, the Internal Audit and Investigations Group will continue strengthening its internal processes, e.g. by developing its standard operating procedures and its plan to introduce a more advanced case management system.

IX.   Summary of follow-up of internal audit recommendations

A.   Implementation of audit recommendations issued in 2011 and prior years

94.   In line with the International Professional Practices Framework for internal auditing, which requires "a follow-up process to monitor and ensure that

---

[9] One case may lead to multiple reports, one by subject.
[10] Websites:
     Wrongdoing: http://www.unops.org/english/whoweare/Accountability/Pages/Report-wrongdoing.aspx
     Scams: http://www.unops.org/english/whoweare/Accountability/Pages/Scam-alert.aspx

management actions have been effectively implemented", and in order to address Executive Board decision 2006/13, the annual workplans of the Internal Audit and Investigations Group include allowance for such follow-up.[11] Management is required to provide updates on the status of implementation of recommendations made, and desk reviews are performed on actions taken and information provided thereon.

95. The Internal Audit and Investigations Group worked closely with management, which proactively used the monitoring tool included in the management workspace. This tool provides information on the status of recommendation implementation throughout UNOPS in real-time and on an ongoing basis. The efforts deployed by all, in particular to address recommendations older than 18 months, should be commended.

96. Table 9 shows the outcome, as of 9 February 2012, for all audit recommendations issued between 2005 and 2011. All but three recommendations issued in or prior to 2009 were implemented, as were 77 per cent of those issued in 2010 (versus 43 per cent reported in the 2010 activity report) and 51 per cent of those issued in 2011.

B. Unresolved recommendations for 18 months or more

97. As a result of these efforts, the number of unresolved audit recommendations that were issued more than 18 months before 31 December 2011, i.e. before 30 June 2010, dropped to 7 (1.4 per cent of the total outstanding recommendations), as compared to 82 (9.6 per cent of the total outstanding recommendations as reported in the annual report of the Internal Audit and Investigation Group for the year 2010 (DP/OPS/2011/2). Details as well as comments on their status are provided in Annex 1.

---

[11] Framework from Institute of Internal Auditors, Performance Standard 2500 – Monitoring progress.

Table 9 - Status as of 9 February 2012 of implementation of audit recommendations issued before 31 December 2011

Status	Under UNDP			Under the Internal Audit and Investigations Group													
	2005	2006	2007	2008	2009				2010				2011			
					IAIG Audits	Project Audits	SGP Audits	Total	IAIG Audits	Project Audits	SGP+ Mine Action Audits	Total	IAIG Audits	Project Audits	SGP + Mine Action Audits	Total
Implemented/ closed	**156**	**75**	**145**	**578**	176	248	754	**1,178**	223	263	129	**615**	39	72	207	**318**
in per cent	*100*	*100*	*100*	*100*	*99*	*100*	*100*	***100***	*80*	*100*	*51*	***77***	*26*	*64*	*57*	***51***
Under implementation	**0**	**0**	**0**	**1**	2	0	0	**2**	56	1	124	**181**	112	41	158	**311**
in per cent	*0*	*0*	*0*	*0*	*1*	*0*	*0*	***0***	*20*	*0*	*49*	***23***	*74*	*36*	*43*	***49***
Total	**156**	**75**	**145**	**579**	**178**	**248**	**754**	**1,180**	**279**	**264**	**253**	**796**	**151**	**113**	**365**	**629**
in per cent	*100*	*100*	*100*	*100*	*100*	*100*	*100*	*100*	*100*	*100*	*100*	*100*	*100*	*100*	*100*	*100*

Note: IAIG = Internal Audit and Investigations Group; SGP = Small Grants Programme.

X. Operational issues

A. Resources

98.   The budgeted Internal Audit and Investigations Group staffing includes: one Director (D-1 level), one Senior Internal Auditor (P-5 level), four Internal Auditors (one P-4 and three P-3 level, of whom one is dedicated to and funded by the Mine Action Programme), and one Investigator (P-4 level). The team is supported by an Audit Assistant and an Investigation Assistant, both local consultants. This structure is supplemented by the engagement of third-party professional firms and individual consultants.

99.   The new Director joined in January 2011. One Internal Auditor (P-4) left in September 2011 and was replaced in January 2012, by which time a P-3 position was vacant and the recruitment ongoing at year-end.

B. Involvement with professional bodies and other groups

100. The Internal Audit and Investigations Group maintained in 2011 its formal ties with the Institute of Internal Auditors, to whose International Professional Practices Framework it adheres. Further, the Internal Audit and Investigations Group actively participated in the fifth annual meeting and in the regular conference calls of UN-RIAS, as well as in the forty-second Meeting of Representatives of Internal Audit Services of the United Nations Organizations and Multilateral Financial Institutions.

101. The Internal Audit and Investigations Group also participated in the twelfth Conference of International Investigators, as well as the first informal meeting of the heads of investigations of United Nations organizations.

C. Strategy and Audit Advisory Committee

102. During 2011, the Strategy and Audit Advisory Committee continued to review the annual workplan, budget, regular progress reports and annual report of the Internal Audit and Investigations Group. It further provided advice to promote the effectiveness of both internal audit and investigation functions.

103. The Strategy and Audit Advisory Committee annual report for 2011 is contained in Annex 2.

———————