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

Annual session 2013
3 to 14 June 2013, New York
Item 15 of the provisional agenda
Internal audit and oversight

UNDP: Report on internal audit and investigations

Summary

The present report provides information on the activities of the Office of Audit and Investigations (OAI) for the year ended 31 December 2012. As requested by the Executive Board in decisions 2012/18, 2011/22 and 2011/23, this report contains information on: (a) titles of all internal audit reports issued in 2012; (b) details of OAI resources for audit, investigations and advisory services; (c) experience gained on joint audits; (d) cases of fraud and action taken in cases of misconduct; and (e) internal audit reports disclosed in 2012. As in the past, the management response to this report is presented separately (per decision 2006/13), and the annual report of the Audit Advisory Committee is appended to this report (per DP/2008/16/rev.1).

Elements of a decision

The Executive Board may wish to: (a) take note of the present report; (b) express its continuing support for strengthening the internal audit and investigation functions of UNDP; and (c) take note of the annual report of the Audit Advisory Committee.

Please recycle

Contents

Annexes (*available on the Executive Board web page*)

1. Charter of the Office of Audit and Investigations
2. OAI audit reports issued in 2012
3. Audit reports disclosed to Member States during 2012
4. Recommendations unresolved for 18 months or more

Appendix (*available on the Executive Board web page*)

Annual report of the Audit Advisory Committee for the calendar year 2012

Introduction

1.   The UNDP Office of Audit and Investigations submits to the Executive Board its annual report on internal audit and investigation activities for the year ended 31 December 2012.

2.   As requested by the Board in its decision 2012/18, this report includes: (a) the titles of all internal audit reports issued during the year, and (b) details on OAI resources for audit, investigation and advisory services. In accordance with past Board decisions 2011/22, this report also contains information on: (a) lessons learned and experience gained on joint audits, and (b) cases of fraud and action taken in cases of misconduct. Also, as requested in decision 2011/23, this report contains information on internal audit reports that have been disclosed. The management response to this report is presented separately (per decision 2006/13) and the annual report of the Audit Advisory Committee is appended to this report (per DP/2008/16/rev.1).

I.   Assurance in UNDP

Mandate of the Office of Audit and Investigations

3.   Several developments in 2012 called for a revision to the OAI Charter (see annex 1). The amendments mainly reflect: (a) the approval of the revised UNDP financial regulations and rules, which now fully describe the responsibilities not just for internal audit but also investigations in UNDP, and which also acknowledge the Charter defining the purpose, authority and responsibility of OAI; (b) the public disclosure policy adopted by the Executive Board; (c) the role of OAI in inter-agency audits; (d) the new investigative responsibility for social and environmental safeguards; (e) the role of OAI in the new vendor sanctions mechanism; and (f) the role of OAI in referrals of cases of criminal misconduct. These amendments were reviewed by the Audit Advisory Committee and approved by the Administrator. The revised version took effect on 1 December 2012 and coincided with the public disclosure of OAI audit reports.

4.   In accordance with the International Standards for the Professional Practice of Internal Auditing, OAI hereby confirms to the Board its organizational independence. OAI has in 2012 been free from interference in determining its audit scope, performing its work and communicating its results.

5.   To ensure its continuing effectiveness in carrying out its mandate, OAI maintains a quality assurance and improvement programme for both the audit and the investigations functions. This programme includes ongoing and periodic quality assessments. In 2012, OAI was again independently confirmed to be in general conformance with the international standards and code of ethics of the Institute of Internal Auditors. In 2009, OAI was assessed to be in compliance with generally accepted principles and standards for investigations in international organizations. The next external quality assessments for investigations and audit are scheduled for 2014 and 2017, respectively.

6.   Throughout 2012, OAI received strong support from UNDP senior management. As an observer, the OAI Director participated in the meetings of the Organizational Performance Group, which provided the Director an opportunity to give advice on control and accountability aspects of new policies and to comment on any emerging potential risk to UNDP. Also, as necessary, OAI continued to participate in meetings with Member States and with non-Member-State donors to brief them on UNDP oversight systems and to strengthen cooperation with counterparts in other organizations.

Independent external oversight

7.   The Audit Advisory Committee continued to provide advice to the Administrator to promote the effectiveness of internal audit and investigations functions of UNDP. In 2012, the Committee reviewed the annual work plan of OAI staffing and budget, quarterly progress reports, the annual

report for 2011, the proposed revisions to the Charter as well as the external quality assurance review report and the ensuing OAI action plan.

8.   The external auditors of UNDP, namely, the United Nations Board of Auditors (BOA), also monitored the progress of OAI in implementing the recommendations of BOA, aimed to improve OAI operations. The Board of Auditors continued to rely on the internal audits of OAI, as well as its quality assurance review processes for third-party audits of projects implemented by non-governmental organizations and national governments (NGO/NIM projects). With the change in BOA membership in 2012, the OAI Director met with the Comptroller and Auditor General of the National Audit Office of Tanzania, now in charge of the external audit of UNDP, in order to continue the strong working relationship between OAI and the Board of Auditors.

Coordination within the United Nations system

On audits

9.   OAI continued to actively participate in the annual meetings of the Representatives of Internal Audit Services of the United Nations Organizations and Multilateral Financial Institutions (UN-RIAS). In the September 2012 meeting, OAI proposed a risk assessment model and criteria for the identification of joint/coordinated audits and identified possible audit assignments for 2013 onwards.

10. Based on the audit frameworks earlier agreed upon with UN-RIAS members in 2007 (for multi-partner trust funds) and in 2011 (Delivering as One programme), OAI participated in the audit of a number of inter-agency audits in 2012 (see section V.B herein). OAI, as the auditor of the Administrative Agent of multi-partner trust funds and the resident coordinator system, is responsible for issuing all audit-related correspondence and serves as a repository of audit recommendations along with the follow-up on progress.

On investigations

11. OAI continued to be represented on the Organizing Secretariat of the Conference of International Investigators. OAI also worked collaboratively with counterparts in the Food and Agricultural Organization (FAO) and the World Health Organization (WHO) to establish a forum for the heads of investigation sections from across the United Nations system for the sharing and further development of best practices. This new initiative was commended by the Joint Inspection Unit in its 2011 report on investigations functions in the United Nations system (JIU/REP/2011/7), which was officially released to the General Assembly in July 2012.

12. OAI collaborated with the Food and Agriculture Organization and coordinated the 2nd Joint Investigation Training Course at the International Anti-Corruption Academy in Austria in March 2012. The course was attended by 23 investigators from various United Nations organizations and other international institutions.

**Basis for providing independent assurance to the Administrator**

13. To achieve the goal of providing assurance on governance, risk management and control systems, OAI audits cover an appropriate mix of business units, functions and activities at the headquarters, regional and country levels, including grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund), and directly implemented (DIM) projects.

14. In 2012, OAI issued 95 audit reports: 7 headquarters audits, 35 country office audits, 14 Global Fund grant audits, 35 DIM project audits, and 4 inter-agency audits (see figure 1). The 7 headquarters audits involved 2 headquarters business units, 1 regional centre, 2 corporate functions, and 2 Global Fund matters of corporate significance. The 35 country office audits consisted of 31 full-scope office audits, 2 follow-up office audits, and 2 functional audits. The four inter-agency audits were conducted jointly with one or more United Nations organizations – FAO,

United Nations Educational, Scientific and Cultural Organization (UNESCO), UNFPA, United Nations Children's Fund (UNICEF), United Nations Industrial Development Organization (UNIDO) and the World Food Programme (WFP). Annex 2 presents the titles of all internal audit reports issued in 2012.

15. Since most of the audit reports issued in 2012 covered operations and activities of UNDP offices during 2011, the audit outcomes generally reflect the status of operations in 2011. The 84 audits at the country level (35 country office audits, 14 Global Fund audits, 35 DIM project audits) covered about $2.5 billion (52 per cent) of some $4.8 billion of UNDP 2011 field-level expenditures, as recorded in the UNDP enterprise resource planning system, Atlas. An additional $2 billion in expenditures were covered by audits of NGO/NIM projects. Altogether, audits of headquarters, country offices, Global Fund grants, DIM projects, as well as the third party-audits of NGO/NIM projects, supplemented the other oversight mechanisms from which the Administrator and the Executive Board derive assurance on the efficient use of UNDP resources, and the effectiveness and adequacy of governance, risk management and internal control processes.

Figure 1. Number and type of audit reports issued in 2012
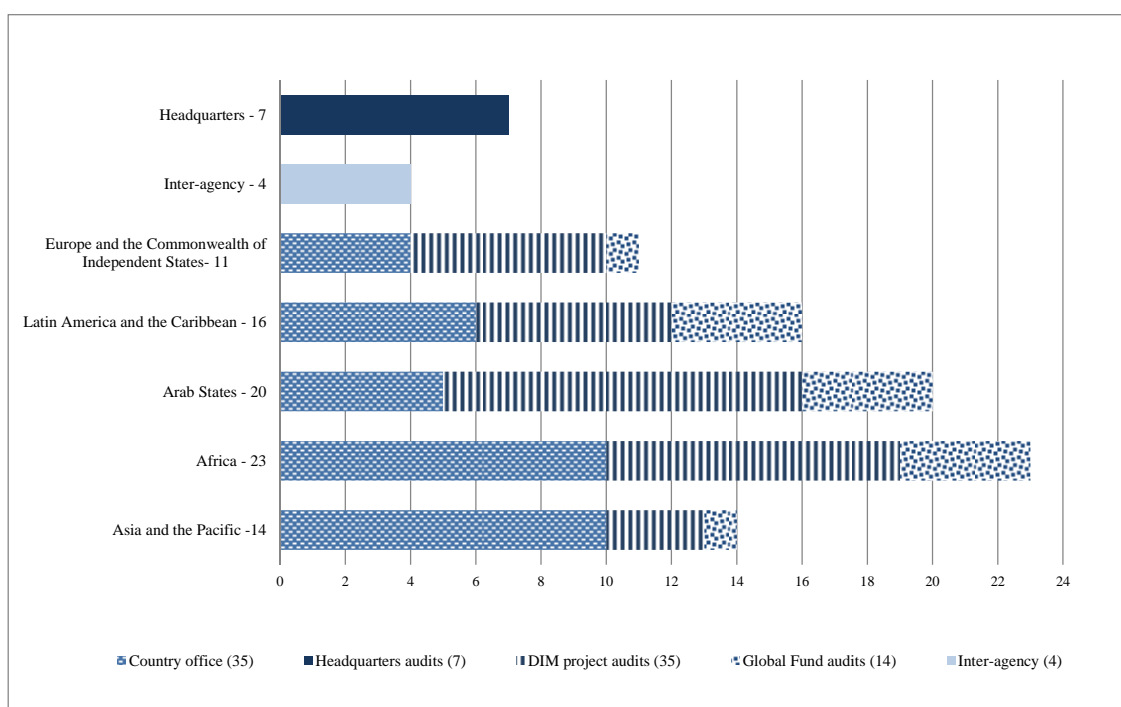
II. Disclosure of internal audit reports

16. In accordance with Board decision 2012/18, OAI publicly disclosed the executive summaries of all internal audit reports issued after 30 June 2012; and eventually, publicly made available all internal audit reports issued after 1 December 2012, while implementing the safeguards agreed with the Board. In pursuance of the same Board decision, OAI updated its standard operating procedures to ensure that, before disclosing an internal audit report that contains findings related to a specific Member State, OAI provides a copy of the report to the concerned Member State with adequate time to review and comment on the report. OAI has also strengthened its due diligence and quality assurance processes for draft reports to ensure the integrity and quality of information

disclosed and to maintain the confidentiality of any information deemed particularly sensitive or that may negatively reflect on a third party.

17. The public disclosure of OAI audit reports attests to the full commitment of UNDP to organizational transparency. As indicated by the Associate Administrator to UNDP managers, public disclosure underlines that UNDP publicly accounts for the funds entrusted to it, which will help to strengthen partners' and stakeholders' confidence in UNDP; public disclosure also means being open about areas where UNDP needs to improve and being ready to disclose challenges and problems, even where this may raise critical questions from our partners. The Associate Administrator further indicated that without such openness, UNDP's credibility would be at stake.

18. In 2012, at the request of the Governments of Sweden and the United Kingdom as well as the Global Fund and the European Commission, UNDP granted access to a total of 31 reports. Since the adoption of Board decision 2008/37, a total of 94 reports have been disclosed. In accordance with decision 2011/23, OAI hereby confirms to the Board that, in 2012, there was no request received from any organization not covered by this decision (not a Member State, a donor intergovernmental organization, or the Global Fund).

III.   Risk-based audit planning

19. As done in the past, OAI formulated the 2012 audit plan after it undertook an appropriate risk assessment of all its auditable areas, in consultation with senior management, relevant bureaux, and other stakeholders. The Board of Auditors was also consulted to ensure proper audit coverage of UNDP and to minimize duplication of efforts in providing assurance to the Administrator and the Board.

20. During the year, a new strategy for auditing DIM projects was endorsed by the Organizational Performance Group. This includes an appropriate risk assessment model specific to DIM projects and a mechanism to fund the related audit costs.

21. The draft audit plan benefited from the review and comments of the Audit Advisory Committee prior to its approval by the Administrator.

IV.   Staffing and budget

On staffing

22. As of 31 December 2012, OAI had 73 posts compared to 68 in 2011 (see figure 2). The variance in the number of posts includes: (a) two additional investigations posts approved for the biennium 2012-2013 (DP/2012/13/rev.1, paragraph 27); (b) one newly approved information technology associate post dedicated to support OAI investigators in their digital forensic work; (c) two new posts (a quality assurance officer and an editorial associate) established to strengthen the quality assurance capacities in preparation for the public disclosure of internal audit reports in December 2012; (d) one new national professional post to assist in the management of the audit of DIM projects in the North, West and central part of the African region; and (e) two audit posts abolished effective 1 January 2012 as a result of structural adjustments (DP/2012/13/rev.1). In addition, one Junior Professional Officer joined OAI in January 2012.

23. Of the 73 posts, 66 posts were encumbered and six posts were vacant at the end of December 2012. The recruitment against four vacant posts was completed in 2012 and they were encumbered in the first quarter of 2013. The recruitment process against the two remaining vacant posts was ongoing at the time of writing this report. In 2012, OAI had an average time of eight months for a person to occupy a vacant position.

On budget

24. In 2012, OAI had an overall budget of $17.5 million, which represents a $3.3 million increase over the 2011 budget. The funding of 66 per cent was secured from regular resources, and the

balance from other resources. Included in the 2012 budget is $1.4 million dedicated to the audit and investigations of activities related to projects managed by UNDP and funded by the Global Fund, as well as $1.5 million dedicated to the audit of DIM projects, a result of implementing the new OAI strategy for the audit of DIM projects (see paragraph 21). This also includes a one-time allocation of $0.2 million to address an increased caseload of high priority investigations.

Figure 2. OAI resources level in 2012

Function	2012	
	Approved posts	Budget (*in millions of United States dollars*)
Audit	47(a)	9.3
Investigations	12	3.1
Afghanistan audit	2	0.4
Global Fund audit and investigations	4	1.4
OAI management and support	7	1.7
Audit of DIM projects	1	1.5
Audit Advisory Committee	0	0.1
Total	**73**	**17.5**

(a) Includes one fully funded Junior Professional Officer.

V. Significant internal audit results

A. Headquarters audits

25. In 2012, OAI issued seven audit reports pertaining to headquarters business units and other corporate matters. These pertained to: (a) UNDP corporate procurement function; (b) proposal for write-off of loss of assets worth $14.2 million; (c) UNDP Asia-Pacific Regional Centre; (d) UNDP Regional Bureau for Latin America and the Caribbean; (e) UNDP Regional Bureau for Asia and the Pacific; and two reports relating to UNDP activities funded by the Global Fund, namely: (f) consolidated report on audits of UNDP country offices as principal recipients of grants from the Global Fund; and (g) UNDP corporate procurement functions for projects funded by the Global Fund.

26. Except for the two audits relating to Global Fund-related activities (see section V.D herein), the five headquarters audits resulted in 23 recommendations, of which 10 (43 per cent) were ranked high priority. Among these 10 recommendations, nine had corporate-wide impact. These included enhancing fast-track policies and procedures on crisis procurement based on office capacity; strengthening the procurement planning processes making use of improved systems, tools and policies; and developing comprehensive guidance on management of grants.

B. Inter-agency audits and experience gained thereon

27. Four reports were issued in 2012. Three pertained to the Harmonized Approach to Cash Transfers (HACT): (a) in Indonesia, conducted jointly with UNICEF; (b) in Pakistan, conducted jointly with UNFPA and UNICEF; and (c) the overall governance arrangements, conducted jointly with UNFPA and UNICEF. The latter took into account the results of the former two audits and pointed to the need to revisit the HACT framework for enhanced efficiency, effectiveness and potential for implementation. In particular, the instruments (macro-assessment, micro-assessment and joint assurance and audit plans) should be thoroughly reviewed.

28. The audit of the Delivering as One programme in Tanzania was conducted jointly with FAO, UNESCO, UNFPA, UNICEF, UNIDO and WFP; three other internal audit services (International

Labour Organization, Office of Internal Oversight Services of the United Nations Secretariat and WHO) supported the joint audit without directly participating in it. The audit highlighted the inadequate harmonization of programme business processes at the corporate level leading to duplication of efforts in terms of programing and reporting. In addition, the extent of the related cost reductions for the United Nations organizations had yet to be demonstrated and validated.

29. There was some similarity in the audits of HACT governance and the Delivering as One programme pertaining to a need for greater clarity in accountability lines. At the annual UN-RIAS meeting in 2012, OAI presented some lessons learned from joint and coordinated audits. The value of working together was highlighted with the need to further strengthen the coordination of audit planning, methodology and reporting ahead of time. The main challenge for the coordination of internal audit services throughout the audit was the uneven level of involvement of the United Nations organizations concerned. As more experience is gained on these joint audits, OAI will keep the Board duly informed in future reports. In the meantime, lessons learned so far will be formally discussed at the spring 2013 meeting of the High-Level Committee on Management of the United Nations Development Group.
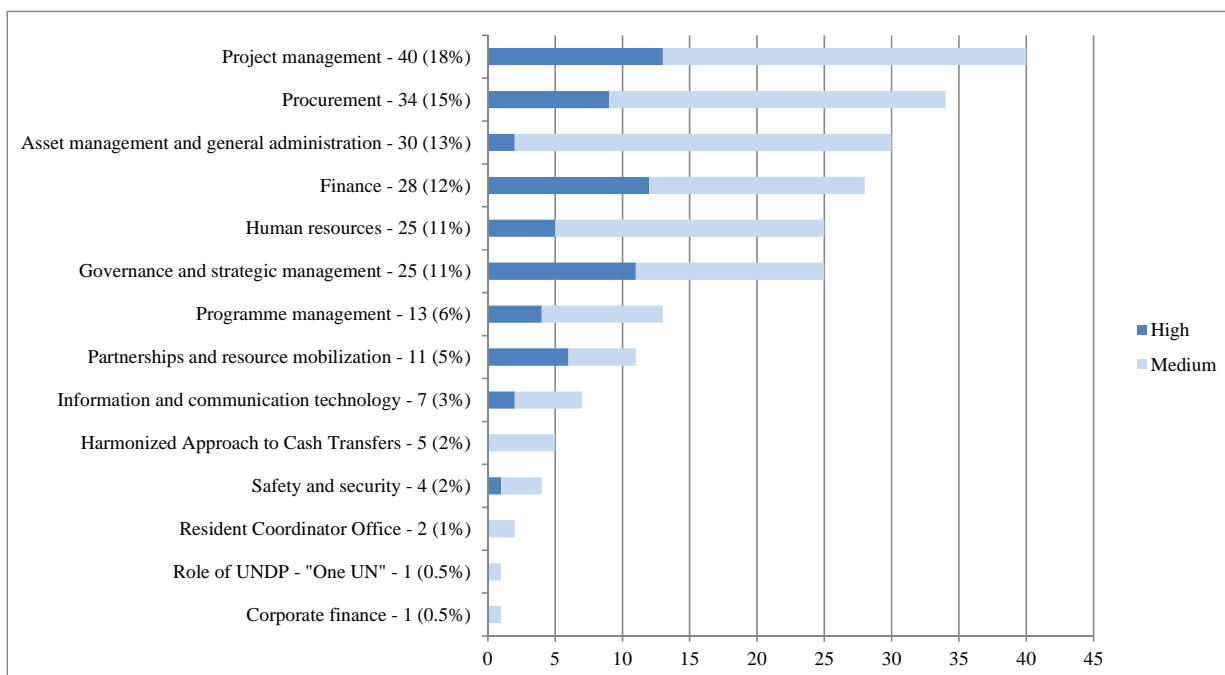
C. Country office audits

30. The scope of a country office audit generally covers activities related to: (a) governance and strategic management; (b) United Nations system coordination (development activities, resident coordinator office, the role of UNDP in the One United Nations initiative and HACT); (c) programme activities (programme management, partnerships and resource mobilization, project management); and (d) operations (human resources, finance, procurement, information and communications technology, asset management and general administration, and safety and security).

31. The 35 country office audit reports in 2012 comprised 31 audits with a general scope, two audits separately focused on human resources and asset management of one office, and two audits were a follow-up on the implementation status of prior audit recommendations. Altogether, these audits resulted in 226 recommendations, many in the areas of project management, procurement, asset management and general administration, which accounted for 58 per cent of the total recommendations (see figure 3).

32. A further analysis of the aforementioned areas disclosed some recurrence of issues: (a) inadequate project monitoring and oversight services, for example, inactive project boards and/or project appraisal committees, lack of project monitoring framework/plan, non-submission of reports to implementing partners (19 offices); (b) shortcomings in the procurement process, for example, inadequate procurement planning, inadequate evaluation of bids, non-submission to procurement committees, improperly constituted procurement committees (16 offices); weaknesses in asset management, for example, not updated asset lists in Atlas, physical inventory not performed, assets not tagged (12 offices); and (d) lack of controls over payment process, for example, insufficient documentation, non-review/approval of payment (10 offices).

33. At 31 December 2012, 90 of the 226 recommendations made in 2012 had been fully implemented within the same year, leaving 136 still outstanding, of which 20 pertained to reports issued in December. Of the 136 outstanding recommendations, 41 (31 per cent) were ranked high priority.

**Figure 3. Distribution and prioritization
of all country office audit recommendations in 2012 reports**
(*Total recommendations: 226*)

D. Global Fund audits

34. A total of 16 reports were issued in 2012 pertaining to Global Fund grants managed by UNDP as principal recipient. Fourteen audit reports covered 46 Global Fund grants in 13 country offices, specifically in Africa (four offices), Latin America and the Caribbean (four offices), Arab States (three offices), Asia and the Pacific (one office), and Europe and the Commonwealth of Independent States (one office). Furthermore, in 2012 OAI also issued a report on the audit of the corporate procurement functions for projects funded by the Global Fund and a consolidated report on the audits of 15 country offices covering a total of 88 Global Fund grants.

35. Except for the consolidated report, the 15 audit reports contained 69 recommendations, the majority in the areas of procurement and supply management, programme management and sub-recipient management, which accounted for 67 per cent of the total recommendations (see figure 4). Most of the weaknesses noted were in the management of stock (for example, poor or inaccurate record keeping, inadequate warehouse conditions) and in sub-recipient reporting (for example, delays in submission of quarterly reports, incomplete reports, non-submission of annual reports).

36. At 31 December 2012, 31 of the 69 recommendations made in 2012 had been fully implemented within the same year, leaving 38 outstanding recommendations, of which eight (21 per cent) were ranked high priority.

**Figure 4. Distribution and prioritization
of all Global Fund audit recommendations in 2012 reports**
(*Total recommendations: 69*)
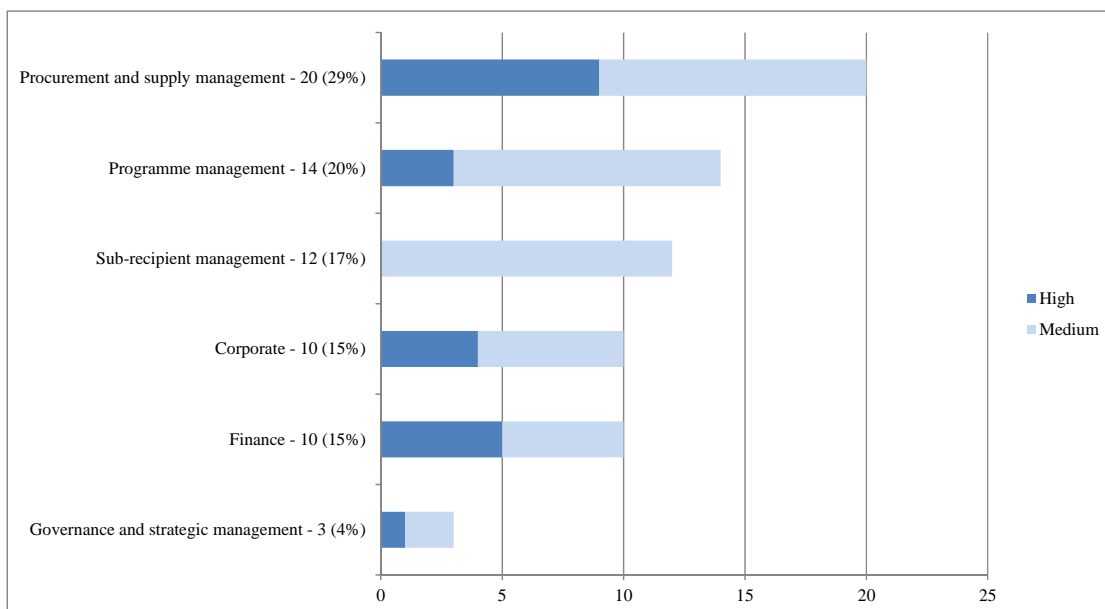
E. Project audits

37. DIM projects may be audited as part of the audit of a country office or other business unit, or they may be audited separately. Thirty-five separate DIM audit reports were issued in 2012. These pertained to 73 projects, with audited expenditure of $420 million. In terms of location, these 73 projects were implemented in 17 countries, as follows: 41 projects in Africa (seven countries), 18 projects in Europe and the Commonwealth of Independent States (four countries), six projects in Latin America and the Caribbean (two countries) and four projects each in Asia and the Pacific (two countries) and the Arab States (two countries).

38. The DIM audits resulted in 133 recommendations, mostly in the areas of finance and project management, which altogether accounted for 66 per cent of the total recommendations (see figure 5). Most of the issues pertained to inaccurate recording of project expenditures in the combined delivery report.

39. At 31 December 2012, 50 of the 133 recommendations made in 2012 had been fully implemented within the same year, leaving 83 outstanding recommendations, of which 36 (43 per cent) were ranked high priority.

**Figure 5. Distribution and prioritization
of all DIM audit recommendations in 2012 reports**

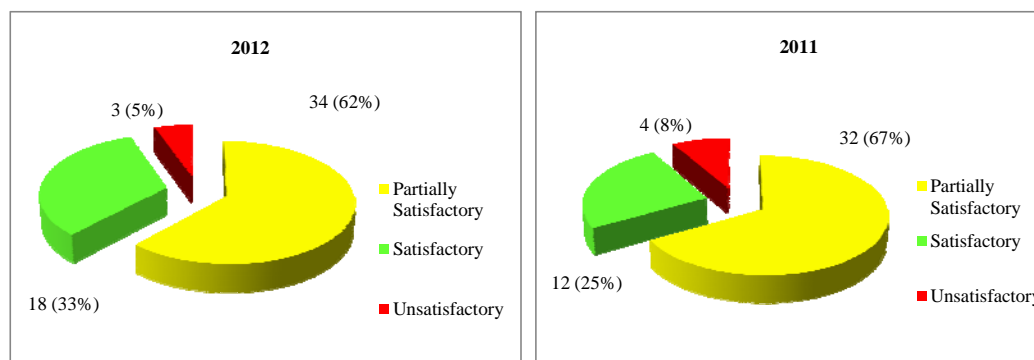(*Total recommendations: 133*)
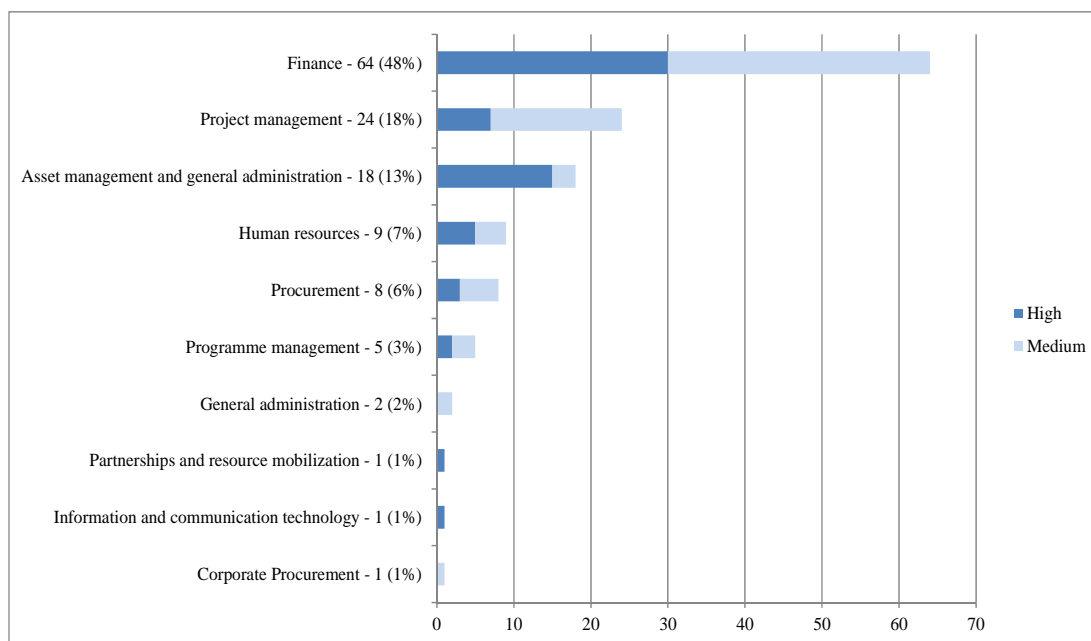
VI. Audit ratings

40. Based on the results of an audit, OAI generally assigns an overall audit rating, in terms of its assessment of the governance, risk management and control processes. Exceptionally, special audits, follow-up audits and consolidated reports do not provide an overall audit rating, as these are focused on specific areas with restricted audit objectives. Towards the last quarter of 2012, OAI changed its policy and is no longer giving an overall rating to financial audits of DIM projects, as these are restricted only to the financial statements. The DIM audits, with expanded audit scope covering the internal controls, continue to receive an overall OAI rating.

41. Out of 95 reports, 20 did not contain an overall rating. Of the remaining 75 reports, 31 reports (41 per cent) gave a 'satisfactory' rating, 40 reports (54 per cent) a 'partially satisfactory' rating, and four reports (5 per cent) an 'unsatisfactory' rating (see figure 6). The reports with an 'unsatisfactory' rating pertained to two inter-agency audits, one country office audit, and one DIM project audit.

**Figure 6. Audit ratings for headquarters, country offices
Global Fund, and DIM audits in 2012**

42. Excluding the 2012 DIM audits, there was an overall improvement in the 2012 audit ratings as compared to 2011 (see figure 7).

**Figure 7. Comparison of audit ratings for headquarters, country offices
and Global Fund audits (2012 versus 2011)**

VII. Follow-up on audit recommendations

43. At 31 December 2012, the overall implementation rate was 90.7 per cent. This covers all reports issued from 1 January 2010 to 30 November 2012. This period ends in November because it takes into account that after an audit report issue date, offices have one month to start updating OAI on progress made in the implementation of an audit recommendation. Starting with this 2012 annual report, the base period for the calculation of the overall UNDP implementation rate has been reduced from five to three years, considering that OAI will monitor actions on recommendations only up to a maximum period of three years. At that point, OAI will highlight to senior management and the Audit Advisory Committee any case of unacceptable level of residual risk.

44. At the end of 2012, 21 recommendations had been outstanding for more than 18 months without being fully implemented, which is less when compared to the 28 recommendations of 2011 (see annex 4). These 21 recommendations comprised 0.6 per cent of the total 3,634 recommendations issued since 2008. Among the 21 recommendations, however, were three recommendations that had been outstanding for over 36 months. These pertained to (a) implementing a software system to assist business units in procurement planning; (b) recovering implementation support services; and (c) auditing certain DIM projects of the United Nations Capital Development Fund. In these three exceptional cases, OAI will continue to monitor these recommendations.

45. Of the 21 recommendations, 13 (62 per cent) were ranked high priority. The reasons for the delayed implementation of the 21 recommendations included: inadequate action by the offices concerned (90 per cent), dependence on host governments (5 per cent), and dependence on another United Nations organization (5 per cent).

VIII. Advisory services

46. OAI continued to provide advice to all levels of management at headquarters, regional centres and country offices. The advice covered a wide range of subjects, including donor requests for information, set-up of internal control framework, recruitment processes, benefits and entitlements, procurement processes, and risk management and control self-assessment for offices managing Global Fund grants. OAI also regularly reviewed clauses in contribution agreements with donors.

47. To share lessons learned from audits and to enhance UNDP staff appreciation of audit findings and recommendations, OAI made presentations in regional workshops. In addition, OAI held webinars to provide clarifications and updates to country offices about the NGO/NIM audit exercise and on Global Fund sub-recipient audits.

48. In view of the significant increase in the number of medical insurance fraud cases referred for investigation, at the suggestion of OAI, the Associate Administrator released a message to all staff to raise awareness about the emerging trend and as a reminder of the consequences of submitting fraudulent medical insurance claims.

IX. Internal audit and investigation services for UN-Women

49. Based on a service agreement dated December 2011 between the Executive Director of UN-Women and OAI, OAI now provides internal audit and investigation services to UN-Women in accordance with the financial regulations and rules of UN-Women. In March 2012, OAI established a dedicated unit for the internal audit of UN-Women activities, based in New York.

50. As agreed, UN-Women will report and encourage its staff to report to OAI any allegations of fraud, corruption or other wrongdoing, including workplace harassment, abuse of authority, or retaliation on whistle-blowers, by UN-Women staff, other UN-Women personnel or contractors. For this purpose, in November 2012, OAI made a new investigations hotline operational for UN-Women.

X. Review of audits of projects executed by non-governmental organizations and/or national governments

51. A total of 1,268 NGO/NIM awards were planned for audit in 2012 based on the OAI audit risk assessment. These selected awards totalled $2.12 billion, representing 80 per cent of the $2.66 billion of NGO/NIM project expenditures in fiscal year 2011. The audits were conducted by audit firms or national audit institutions and were managed directly by country offices.

52. With the continued concerted efforts by OAI, the Office of Financial Resources Management of the Bureau of Management, the regional bureaux and the country offices concerned, the audit reports were again generally submitted on time. OAI received 1,123 audit reports by the established deadline (31 May 2012), representing 82 per cent of the total audit reports expected. By 31 December 2012, only one out of 122 country offices that planned to conduct NGO/NIM audits in 2012 was unable to submit the audit reports, as a result of the political situation in the country.

OAI review results

53. Of the 1,319 audit reports received, OAI selected 583 for in-depth review. The sample, representing 84 per cent of the audit expenditures (or $1.76 billion), included all reports with modified opinions. OAI reviews the NGO/NIM audit reports in terms of four aspects:

(a) *Audit opinion and net financial impact*: OAI measures the net financial impact of audit qualifications as a percentage of the reported project expenditure.

(b) *Audit outcome*: OAI reviews the audit findings and measures the corresponding risks for overall project implementation.

(c) *Audit scope*: OAI reviews the adequacy of audit coverage vis-à-vis the required audit terms of reference.

(d) *Audit administration*: OAI reviews how efficiently and effectively the audit was administered by the country office.

54. Most of the country offices (82 per cent) received a satisfactory rating from OAI in 2012, compared to 76 per cent in 2011 (see figure 8). OAI issues review letters drawing the attention of the country offices to areas requiring improvement.

Figure 8. Results of OAI assessment of the quality of NGO/NIM audit reports

Rating	Overall Rating			
	Fiscal year 2011		Fiscal year 2010	
	Number of country offices	%	Number of country offices	%
Satisfactory	98	82%	90	76%
Partially satisfactory	13	11%	22	18%
Unsatisfactory	8	7%	7	6%
Total country offices	**119***	**100%**	**119**	100%

* Two of the 121 country offices submitted reports after the cut-off date for OAI assessment and hence are not included in the statistics.

Key NGO/NIM audit issues and actions taken thereon

55. The NGO/NIM audit reports that were reviewed in detail contained 1,739 issues, the majority (74 per cent) of which were ranked 'medium' priority. Most of the issues pertained to financial management and record keeping systems and controls. Over the last two audit cycles, there was a slight increase in issues in the area of financial management, while the other areas did not show any significant variance.

56. OAI also monitors the actions that country offices took or plan to take to implement the NGO/NIM audit recommendations. Of the 1,739 audit issues, 77 per cent had already been adequately addressed.

Audit opinions and net financial impact

57. On 95 per cent (or $2.0 billion) of the total audited expenditures of $2.12 billion, the NGO/NIM auditors expressed an 'unqualified' opinion, finding the project financial expenditures to be fairly presented on the project financial statements. Nonetheless, OAI analysed all the reports with modified opinions (namely, qualified opinion, adverse opinion and disclaimer of opinion), and quantified the net financial impact for fiscal year 2011 to be $11.7 million (0.6 per cent) of the total audited expenditures. This represents a substantial decrease compared to the $39.7 million (1.9 per cent) of fiscal year 2010, when there was an exceptional case of destruction and loss of documents following political crisis in Egypt. The net financial impact this time is mainly due to outstanding advances being recorded as expenditure, lack of supporting documentation, and differences between project and UNDP records.

HACT audits

58. In 2012, seven country offices planned HACT audits of implementing partners. OAI received 36 audit reports from four of the seven country offices and noted that the majority of the audit reports indicated that the implementing partners had satisfactory systems and had received an unqualified audit opinion.

XI.   Investigations

Caseload

59. During 2012, OAI opened 289 new cases. This represented a 45 per cent increase over the number of complaints OAI received in 2011. OAI also carried over 107 cases from 2011, bringing the caseload to 396.

60. Of the 396 cases, 232 were finalized by OAI in 2012, a 10 per cent increase over 2011. At the end of 2012, 164 cases were carried over to 2013 (see figure 9). This represents an increase of 53 per cent in the open caseload at the start of the year.

Figure 9. Caseload in 2012

Caseload	
Carry-over as of 1 January 2012	107
Intake during the year	289
Total cases during the year	**396**
Closed (from cases carried over)	74
Closed (from intake)	158
Total closed	**232**
Carried forward as of 31 December 2012	164

Type of complaints

61. Complaints relating to financial irregularities (procurement fraud, theft and embezzlement, misuse of UNDP resources and entitlements fraud) continued to be the largest category of cases, constituting 58 per cent of the total number of cases handled by OAI in 2012 (see figure 10). This is almost identical to 2011, when financial irregularities constituted 59 per cent of the total number of cases received.

Figure 10. Types of complaints received in 2012
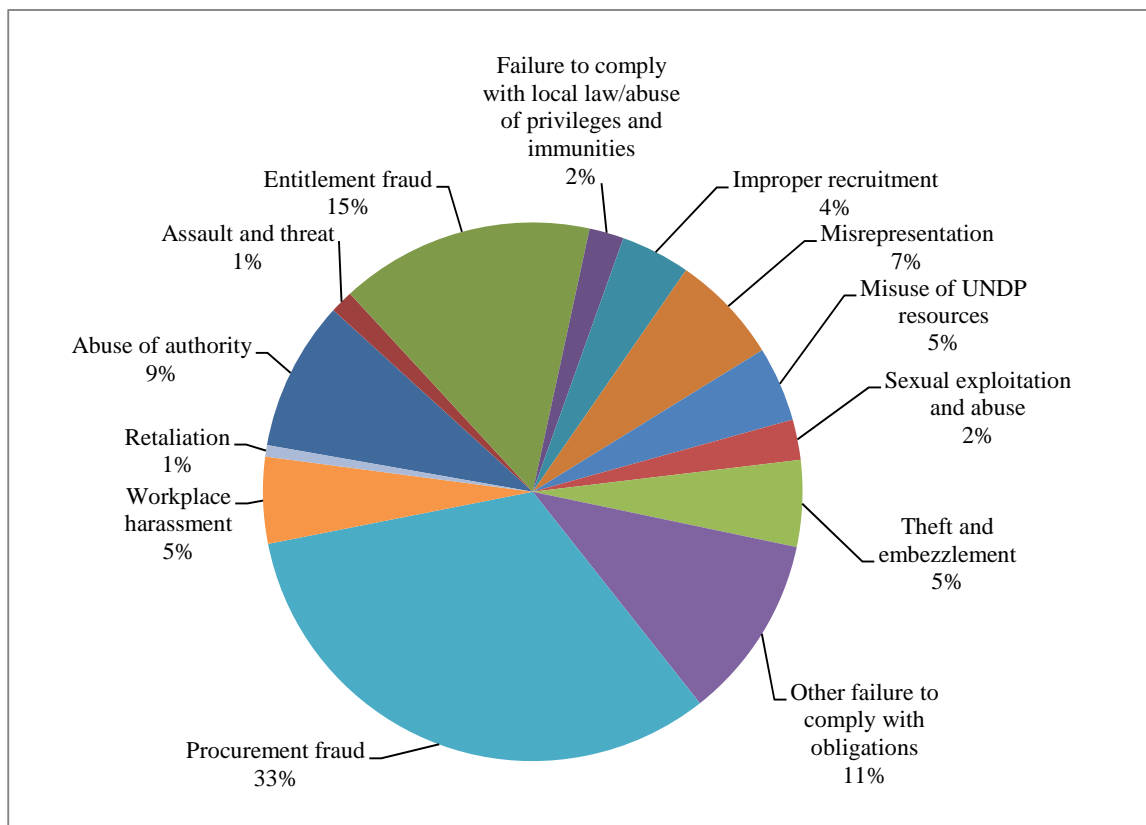
Processing of cases

62. A total of 148 cases (64 per cent of the cases finalized) were closed after assessment, owing to insufficient available evidence or in cases where a formal investigation by OAI was not warranted. Sixty-four more cases (28 per cent) were finalized after a full investigation. Of those investigated, 45 (69 per cent) resulted in an investigation report establishing evidence of misconduct. Twenty cases (31 per cent) were found to be unsubstantiated. Nineteen cases were referred to other offices within UNDP for appropriate action (see figure 11).

63. At the end of 2012, 33 cases were still under assessment, while 131 cases were under investigation. The total number of investigation reports issued by OAI in 2012 (45 reports) was double the number of investigation reports issued in 2011 (22 reports).

Figure 11. Disposition of cases in 2012

Actions Taken	Number of cases
After assessment	
- Closed, investigation not warranted	148
- Referred to other offices within UNDP	19
After investigation	
Closed (not substantiated)	20
Closed *(substantiated)*	
- Submitted to Legal Support Office	25
- Submitted to country offices	13
- Submitted to Vendor Review Committee	3
- Submitted to other organizations	1
- Other investigation reports	3
Total cases closed during the year 2011	**232**
Total investigation reports issued	**45**
Management letters issued	3

Disciplinary measures and other sanctions taken

64. In 2012, OAI recommended the referral of 11 cases to national authorities for criminal investigation and compiled all relevant evidence to support the prosecution of appropriate cases. This represents an increase of 57 per cent over referrals in 2011.

65. With regard to the new procedure to submit to the Vendor Review Committee, in 2012 OAI submitted the first three investigation reports for appropriate action against 13 UNDP vendors.

66. When an investigation reveals weaknesses in internal controls, OAI issues a management letter to the office concerned, recommending how to strengthen controls. In 2012, OAI issued three management letters at the conclusion of investigations. In addition, in the most serious cases investigated by OAI, appropriate briefings on lessons learned were also provided to the bureau/office concerned.

*Strengthening of investigations capacity*

67. OAI continued to further enhance its investigative capacity, more particularly so in view of the additional mandate now incorporated in the revised Charter (see paragraph 3 herein). Some of the measures undertaken in 2012 are described below:

- The revised Investigation Guidelines were released in November 2012 following a comprehensive review of the process and inputs from the Ethics Office, Legal Support Office, Office of the Ombudsman for the United Nations Funds and Programmes, and the Staff Council. The new version incorporates relevant policy developments, such as the new anti-fraud policy and vendor sanction procedures of UNDP, changes to the methodology on proactive investigations, and the development of a comprehensive set of internal standards for operating procedures. The revised Investigation Guidelines provide detailed guidance while continuing to define the high level of procedural safeguards in OAI investigations.

- Given the high percentage of allegations on procurement irregularities, OAI enhanced its expertise for effective assessment and investigation of these cases, through training and certification on public procurement.

- OAI attended the 9th Annual Meeting of Independent Accountability Mechanisms, hosted in Luxembourg by the European Investment Bank. This is the primary forum for the social and environmental accountability mechanisms of international and regional financial organizations. The acceptance of OAI into this network is an important step in the introduction of social and environmental policies and procedures and the associated compliance review mechanism in UNDP.

- OAI continued to interact with other investigation offices and international organizations to facilitate the exchange of fraud intelligence. OAI attended: (a) the 13th annual Conference of International Investigators hosted in Luxembourg by the European Investment Bank and coordinated a workshop on "Fraud in Aid and Reconstruction Programmes" with participants from the counter-fraud units of the United States Agency for International Development, the Department for International Development of the United Kingdom, and the Foreign Service Control Unit of Norway; (b) the 5th UNDP Anti-Corruption Community of Practice Meeting, chairing at that meeting a high-level panel that included the Comptroller General of Brazil, the Chair of Transparency International, and the President of the Central Commission for Corruption Prevention of Morocco; and (c) the 15th International Anti-Corruption Conference in Brasilia.

68. The average number of investigation cases per investigator remains very high at around 29 cases per investigator in 2012. This represents a significant increase from 2005 (see figure 12), and the trend is expected to continue in 2013. Even with the recruitment of two investigators in 2012, the projected increase, combined with the additional investigation requirements placed on OAI – (a) vendor sanctions investigations, see paragraph 63; (b) referrals to national authorities, see paragraph 62; (c) investigation services for UN-Women, see paragraph 48; and (d) Social and Environmental Compliance Review, see paragraph 3 – indicates that an increase in resource requirements for investigations may be required.

Figure 12. Number of investigative staff handling investigations and assessments from 2005 to 2012
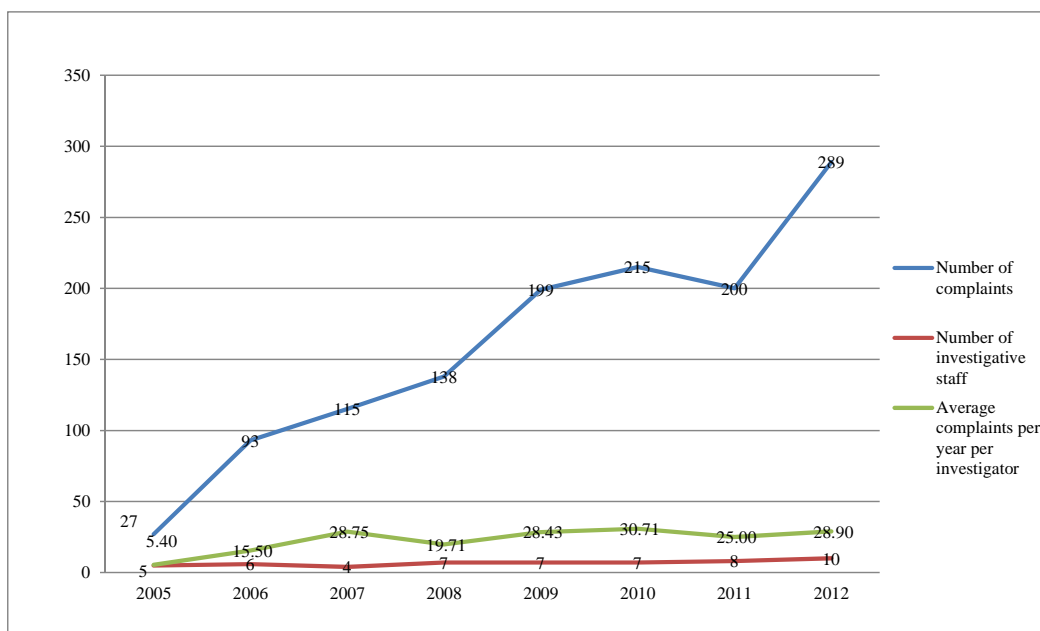
XII. Overall conclusion

69.   The overall results of the various audits and the responsiveness of audited offices in taking action to address issues in the audit reports in 2012 are positive indications of the effectiveness of UNDP governance, risk management and control processes. Through the continuing support of senior management, the Audit Advisory Committee and the Executive Board, OAI was able to successfully carry out its mandate.

70.   The public availability of UNDP internal audit reports enables OAI to contribute to furthering the accountability, transparency and credibility of UNDP.