

Third-party review of the internal control systems, risk management and overall governance structures of the United Nations Office for Project Services

KPMG Oy Ab

28 November 2022

1 Key Findings

Scope

In August 2022, the United Nations Office for Project Services (UNOPS) commissioned two independent external advisory reviews at the request of the Executive Board. The third-party reviews stem from concerns raised by reported irregularities, potential financial losses, and alleged misconduct linked to the S3i investments. The first review is backward looking and focuses on identifying the root causes and institutional vulnerabilities within UNOPS that led to the failures associated with the Sustainable Investments in Infrastructure and Innovation (S3i). The second, forward-looking review focuses on UNOPS' mandate, governance, risk management and internal control systems, performance management and accountability, and includes an assessment of the portfolio and cost structures. The two reviews have separate but inter-related Terms of References (ToRs).

KPMG Finland (KPMG) was selected as the independent external party to conduct the reviews and has consequently prepared two review reports. This report is the forward-looking review and should be read in conjunction with the backward-looking review report. This report is prepared for the purposes noted above and defined in the ToR and is not suitable for any other purposes.

A draft Preliminary Key Findings document and later a draft report were submitted for factual checking to UNOPS management and the Working Group of the Executive Board simultaneously, and the comments received have been incorporated into this report. This report was submitted to UNOPS and the Working Group of the Executive Board in November 2022. The key findings should be read in conjunction with the full reports. UNOPS management, staff and stakeholders participated in the review with an open and supportive attitude.

Methodology and Approach

KPMG's methodology for the assignment focused on obtaining a comprehensive view of UNOPS' internal control systems, risk management and overall governance structures. This was conducted through the review of a significant amount of documentation, including meeting minutes and supporting documents, manuals and guidelines, internal and external reports, publicly available information, and etc. that was made available by UNOPS for our review. The review was supported by close to 100 interviews conducted with current and previous UNOPS personnel and the Working Group and representatives of the Executive Board. The assignment was carried out during a relatively short time frame in September – November 2022.

The assignment was not a forensic investigation and KPMG's review procedures are limited to the scope outlined above as defined in the ToR, and we do not accept any responsibility relating to adequacy of areas included in the ToR or the adequacy of the report for the purposes of the recipients of the report. We have performed the procedures based on the material available and are not able to assess the completeness and accuracy of the documentation. We have not tested the documents to exclude the possibility of manipulations or to confirm the authenticity of those or any third-party documents. KPMG had an interview with representatives of the Office of Internal

Oversight Services (OIOS) during the assignment. However, an investigation report of S3i by the OIOS, which has been publicly mentioned, has not been shared with KPMG.

The procedures that we have performed do not constitute an audit or a review made in accordance with any generally accepted standards on auditing or any generally accepted standards on review engagements and, consequently, no assurance will be expressed. Had we performed an audit, other matters might have come to light that would have been reported.

The interpretation of legal consequences of our findings is solely a responsibility of UNOPS and the Executive Board. Our review was not performed in order to investigate the acts of individuals but rather to review UNOPS procedures and controls. The report may not be disclosed, copied, quoted or referred to in whole or in part for the purposes of disciplinary proceedings without our prior written consent. It should be noted that our final written report shall take precedence over any draft, and that no reliance should be placed by UNOPS or the Executive Board on any draft other than at their own risk.

Mandate & Strategy

UNOPS provides infrastructure, procurement, and project management services, including human resources and financial management, for UN agencies, international financial institutions, governments and other partners around the world. UNOPS also hosts and offers secretariat services for international projects and shared services. UNOPS serves the UN and works with the private and public sectors to ensure that their partners and clients maximise the positive impact of their peace and security, humanitarian and development projects. UNOPS is known for its flexibility and ability to deliver.

Since the appointment of the former Executive Director (ED) in 2014, the mandate of UNOPS gradually changed. The changes were primarily driven by top management's ambition to increase the visibility of UNOPS and pursue a role in impact investing. The management prioritised a plan to use the Agency's accumulated reserves to invest in inclusive sustainable infrastructure and accelerate progress towards Agenda 2030. The impact investing development process, which led to the creation of S3i, was encouraged by the Executive Board. The UNOPS Strategic Plan 2018-2021 was still rooted in its core mandate for project services, including infrastructure, procurement, project management, human resources, and financial management services. However, the new approach of direct engagement in financing activities shifted operations significantly towards an area in which UNOPS had little prior experience or core expertise. Impact investing split the UNOPS mandate in two, a demand-driven development agency and a risk-taking investment agency. The S3i initiative, driven by the excess reserves, together with the growth of operations, received a high priority from UNOPS management.

UNOPS' role in supporting the implementation capacity of UN agencies, governments, and country partners to contribute to the Sustainable Development Goals (SDGs) is still valid and very relevant. The UNOPS Strategic Plan 2022-2025 provides commitment and direction to expanding the capacity and resource base for countries to achieve the SDGs by applying its technical expertise in quality infrastructure and public procurement and helping to attract financing for sustainable investments in infrastructure and innovation. However, considering the significant organisational turmoil resulting from the

reported failures of S3i, there is need for a broad review of management priorities as well as the overall strategic direction and mandate of UNOPS.

Recommendations:

- **Revisit the Strategic Plan 2022-2025** and engage the broader organisation and relevant governance bodies in the process.
- **Refocus on the original mandate** as a demand-driven UN organisation providing services to the UN system, governments and other partners, and clearly define the extent and form of engagement with the private sector.
- **Refocus the strategic priorities** and establish key performance indicators (KPIs), including quality of service delivery, pricing and level of operational reserves, to respond to a strategic roadmap approved by the Executive Board.

Governance structure

The Executive Board of UNOPS is responsible for governing three UN agencies. The framework for the Executive Board of UNDP, UNFPA, and UNOPS is provided in Rules of Procedure dated January 2011. The Executive Board may establish sub-committees or ad hoc working groups. However, the Executive Board has not established a sub-committee for Audit and Risk Management or any other function. In an organisation of this size, it is critical that the governing body has a dedicated function to support the oversight of financial reporting and disclosures as well as risk and control environments. The Executive Board receives a significant amount of information from management and other stakeholders and, without functioning sub-committees, there is a risk that the Executive Board may not be able to effectively analyse and respond to all these aspects in a timely and accurate manner.

We recognise that Board meetings can be burdensome, especially when taking place over a five-day period three times a year. Effective Board meetings require diligent preparation, receipt of information well in advance, and an analysis of the information. An effective Board also requires the right framework and composition to respond to the business model of the organisation. As the governing body for three large and operationally distinct agencies, the Executive Board of UNOPS has a structural risk built into its wide mandate of providing effective oversight to all three of them.

Recommendations:

- **Establish an Audit and Risk Committee** as a sub-committee of the Executive Board supported by sufficient capacity. The role of a typical Audit and Risk Committee is to assist the governing body in supervising the management, financial controls and reporting, and overseeing risk management, strategy, policies and governance.
- **Consider the risks to effectiveness** and efficiency inherent in the Executive Board's governing three UN agencies.
- **Benchmark the Board's functionality** and composition against other agencies and similar actors.

Internal Audit and Investigations Group (IAIG)

During our review we observed weaknesses in the independence and functionality of the UNOPS oversight bodies.

In addition to providing internal audit services to UNOPS, IAIG is responsible for investigating allegations of fraud, corruption, sexual misconduct and other forms of misconduct committed by UNOPS personnel, contractors or other parties. As per the IAIG Charter, the investigative function of IAIG should be free of any interference. The IAIG Director has been reporting directly to the ED of UNOPS.

UNOPS conducted an internal assessment on the independence of the audit and investigations functions and reported the conclusions at the second regular session of the Executive Board in 2022. Based on our review, we concur with the findings of that report, which noted that IAIG should have an unobstructed communication channel to the Executive Board and should report regularly to the Executive Board on the implementation plan stemming from the internal assessment. Independent reporting to the Executive Board has not functioned in practice and the new 2022 IAIG Charter has been changed to include a direct reporting line to the Executive Board.

IAIG personnel, including at the Director level, have been employed to a significant degree under short-term contracts. Similarly, most investigators and auditors have been employed under consulting agreements, which do not carry the same security as fixed term contracts. IAIG operational capacity also relies on the annual approval of budgets by the ED, and the former ED delegated this budget process to the level of senior managers, who fall under the IAIG investigation mandate. These administrative arrangements for staffing and budget approval indicated that IAIG was not in a position to perform its duties independently.

Audit Advisory Committee (AAC)

The stated purpose of the AAC is to advise and assist the ED on systems of internal control, accountability, risk management, policies, financial rules, and financial statements, as well as to review and advise on matters from IAIG and the UN Board of Auditors (UNBoA). The Financial Rules and Regulations of UNOPS outline the requirement to establish an AAC to advise the ED on any significant risk management issues and provide advice to the Executive Board on the soundness of the risk management systems of UNOPS.

The name of the AAC and its actual work to date has created confusion among several stakeholders. In practice, the AAC does not perform a supporting role to the Executive Board (despite being the intended purpose), it does not oversee the role of the ED or Executive Office (EO), and it does not provide a direct reporting line to the IAIG. The role of AAC has mainly focused on advising the ED.

During the S3i period the members of the AAC were appointed by the ED. Based on our review procedures, it appears that the information flow to the AAC focused on progress updates, and there is little evidence to suggest that key risks and challenges were raised to the AAC. Based on our information, the AAC had limited authority to challenge the decisions taken by the Executive Office. The fact that the role of the AAC to advise the ED, based to a large extent on information received from the ED, represents an inherent structural weakness.

Recommendations:

- Ensure the **independence and sufficient capacity of oversight functions**, especially internal audit and investigation, and ethics functions.
- Conduct a **comprehensive review of the AAC ToR** in light of the findings of S3i. In this respect a change in the ToR should consider the establishment of an Audit and Risk Committee under the Executive Board.

Management

UNOPS has had several different forms of leadership and management groups during the past five years.

From the early 2000s to August 2019, the Corporate Operations Group (COG) was the functional management group of UNOPS. Its mandate was to share information, discuss and align priorities, and provide advice for decisions by the Executive Office. In practice, it was seen as an advisory body due to its large size (20 members), which made it difficult to prioritise discussion and reach consensus. According to information received during our review, the COG did not meet on a regular basis during the last few months of its operations.

On 14 August 2019, the ED announced the establishment of a Senior Leadership Team (SLT), with just six members, to lead UNOPS with immediate effect and with a new ToR. Based on our interviews, the aim of the former ED was to have a small senior leadership team that would allow for greater consistency and increased coherence, which would make UNOPS stronger. The members of the SLT were the ED, the Deputy Executive Director (DED), the Director of Implementation Practices and Standards (IPS), the Chief Financial Officer (CFO), the Director of Regional Portfolios (RP), and the General Counsel (GC).

In mid-2022, a new Management Team (MT) was formed to advise and support the ED ad interim in the management of UNOPS. The MT acts as a collaborative leadership forum with a similar mandate to the former COG, to share information, align priorities and provide specific advice for decisions by the interim ED. The purpose of creating the MT was to involve more senior directors in UNOPS decision-making. For example, the Regional Directors were excluded from the SLT but are members of the MT. In total, the MT has 15 members, including the interim ED. The interviews indicate that, as with the COG previously, it has been difficult to form a consensus.

The changing structure and composition of the management teams have reduced accountability and contributed to an increased institutional vulnerability within UNOPS. In the UNOPS organisational structure, the decision mandate is highly concentrated at the top. In the case of S3i in particular, the same people in the Executive Office were proposing projects and involved in deciding on the same projects. In addition, the management of S3i did not enable the finance, legal, HR and procurement offices of UNOPS to effectively support its operations.

Individual Contractor Agreements (ICAs) and short-term contracts are widely used in UNOPS. In October 2022, UNOPS had 5,279 personnel out of which approximately 88% are ICA holders and the rest UN staff contracts. This can impact the ways of

working and commitment of UNOPS staff. The use of ICAs and short-term contracts in UNOPS is understandable in the project-based activities.

The S3i events and decision-making indicated a broader lack of accountability that goes deep into the management culture of the organisation. Rebuilding and strengthening compliance and accountability mechanisms must be linked to reforms in both the management structure and principles, as well as the culture of ethics and integrity of operations.

Similarly, the S3i reported failures indicate a low capacity within the management at that time to respond to risks and red flags, as key oversight and operational procedures were not performed or not performed at a reasonable standard of quality.

Recommendations:

- Ensure a robust **management structure** with clear reporting lines and sufficient division of duties in respect of finance, legal, HR and procurement.
- Ensure the **competence and capacity** of the management team, and a structure with clear accountability in respective areas.
- Create a **management team** with a functional size and clear mandate, with an emphasis on segregation between operational and risk management, including ethics and compliance.
- Increase the number of **DED roles to two** (at a minimum) with clear separation between operational and risk management.
- Revise the **management and organisational culture** towards broader engagement and less of a top-down and hierarchical approach.
- Strengthen **regional and functional** input and participation in key decision making.

Ethics and Compliance

Our review indicates that there has been a high turnover in the Ethics Office in the past few years, which has led to partial records and insufficient handover of ongoing cases.

In June 2018, UNOPS management added a compliance function and changed the name to Ethics and Compliance Office. However, the compliance part was removed from the mandate at the Annual Board session in June 2022 in order to align the office with comparable offices in other UN agencies. Apart from the compliance activities that fall under the Ethics Office's mandate, the responsibility for broader compliance activities is unclear as the remit has not yet been situated elsewhere. Interviews indicate that it is currently not clear to personnel in the organisation where the broader compliance and due diligence functions are located and who are responsible for the activities within UNOPS.

Reports by the Joint Inspection Unit (JIU) in 2010 and 2018 previously pointed out the lack of independence (term limits, reporting arrangements, position of the head of the office, contractual modalities for the post, appointment processes for the office, and the lack of resources) of the Ethics Office. According to the later JIU report, ethics reports were presented to the Executive Board by the UNOPS General Counsel from 2016 to

2018. There is no evidence in the available documentation of the Ethics Officer having formal or informal access to the Executive Board, which would have helped to safeguard the independence of the Ethics Office.

The S3i reported failures led the Executive Board to request an independent review of the ethics function in 2022, to ensure the independence and impartiality of the work. The review will be conducted by partners from the Ethics Network of Multilateral Organizations (ENMO), which comprises over 40 multilateral organisations. The review will start in Q4 2022 and end in Q1 2023.

As alluded to earlier in the report, we recognised situations where the independence of the compliance functions was impaired. We observed a situation during our review period (2014-2022) where a director of a compliance function was under a review but still responsible for leading investigations. This type of situation significantly compromises the position of the compliance function, when a director who is responsible for leading investigations is also subject to an investigation or review. There has been an absence of a clear protocol and procedure at UNOPS of what to do in such situations.

Suspected wrongdoing can be reported via an UNOPS Speak Up channel, which is supposed to act as a secure, confidential and independent hotline, maintained by an external service provider. The channel is available to all UNOPS personnel as well as to people outside of UNOPS. Reports of wrongdoing submitted via the Speak Up channel are forwarded to the appropriate compliance team within UNOPS for further action. The specific team will review the allegation of wrongdoing to determine if it falls within its mandate and, if not, will normally refer it to the relevant reporting unit. Whilst this process provides flexibility in terms of choosing the right unit to investigate the matter, it increases risks in terms of preserving the confidentiality of the investigation reports and files, as well as the anonymity of the whistleblower within the organisation. Our interviews indicate there has been limited trust within the organisation on confidentiality of the whistleblowing process. However, the interviews indicated positive signals to rebuild trust since the new interim ED took over.

An external study was conducted on UNOPS' reporting of wrongdoing and grievances management (made available to the SLT in January 2022). According to the report, there is no common understanding of confidentiality or of acceptable and non-acceptable behavior between the different teams. Furthermore, there is no central case management tool in place that is used by all units involved in case handling.

Recommendations:

- **Overhaul the whistle-blowing process** and establish clear protocols and rules for confidentiality.
- Create **protocols for dealing with complaints and investigations**, especially involving Director levels or above.
- **Strengthen coordination and collaboration** among the units handling cases.

Organisational Culture

Based on the significant number of interviews KPMG conducted, it seems that the organisational culture of UNOPS has been authoritative. This was highlighted in relation to S3i but also more broadly. There is a general feeling among staff that they have not

been listened to and have thus been discouraged to take full responsibility over activities. The UNOPS DED (who was also appointed Chief Executive of S3i) dominated many aspects of decision-making and investment formulation in relation to S3i and more broadly across the Agency. Whistleblowing mechanisms have been in many ways ineffective (e.g., lack of clarity of processes, lack of confidentiality, non-action on complaints) and whistleblowers have felt a threat of retaliation. Many interviewees noted that a culture of fear had been instilled in the organisation. Since the reported failures of S3i came to light and UNOPS started a process of recovery, steps have been taken to remedy the organisational culture. There is still a lot to do but the increased communication and transparency since mid-2022 are gradually taking UNOPS in the new direction.

Recommendations

- Change the **tone from the top** and work to instill UN values.
- **Encourage open engagement** and differences of opinion through regular “pulse” surveys, discussion forums and frequent sharing of information.
- Engage in **closer collaboration with other UN agencies** and relevant external parties around HR and Ethics practices.
- Develop the performance management process and **strengthen accountability**.

Risk Management

The UNOPS risk management framework has been under development in different respects since 2016. This includes defining a risk management framework as part of the three lines of defence model, defining positions and roles, and hiring specific risk management personnel. We observed that there was an ambition to develop a risk management plan, but it was not put into action in 2016 or later on. There was never a systematic process to identify, analyse and report risk in relation to S3i to the AAC or the Executive Board. There was an absence of an adequate number of designated risk officers, thorough risk analysis, and risk reporting. These gaps in the risk management process led to a situation where varying risks were elevated at various times but there was limited consistency in risk reporting.

In 2022, we observed that UNOPS is renewing its focus on the risk management framework. There have also been developments in the design and application of risk control matrices. UNOPS has developed processes for collecting information, categorising risks, and planning mitigation. There are improvements in terms of risk and control tests, managed and coordinated by internal control specialists, risk specialists, and finance.

We highlight that UNOPS has a treasury investment portfolio amounting to USD 4.7 billion (end of 2021 figure). During 2022, the investment portfolio has incurred losses of over USD 100 million (market value is lower than book value). Considering the financial market uncertainties and trend in 2022, and negative expectations for 2023, the portfolio might be impacted by further losses.

Recommendations:



- Make **risk management an integral part of all important decision processes** and include reporting of portfolio risk in standard quarterly reporting.
- Conduct a **thorough assessment of the portfolio** and potential hidden risks.
- Ensure frequent reporting to top management on the status of the treasury portfolio.

S3i

Going forward, UNOPS must decide in what form and to what extent the activities of S3i will continue and be developed. UNOPS has invested a lot of time, resources and management focus in the preparation of S3i, but the value-addition and additionality of operations are still somewhat unclear. We also find that S3i lacks identity and an integration into the broader UNOPS, and is a relatively small vehicle to leverage larger changes in the markets where it is intended to work. It will require more in-depth analysis from UNOPS to update the understanding of the relevant markets (compared to 2016 and 2017) and where S3i could find a fit. A more pressing matter is to establish a management and legal procedure to resolve the earlier investments. There are a number reputational, financial and operational risks connected to the S3i investments made.

Recommendations:

- Make sure the **value-addition of S3i** is clearly understood and create structures to support the value-addition within UNOPS broader operations.
- Focus on **activities close to what UNOPS** has been seen to do well, such as efficient project execution in challenging circumstances.
- Clarify responsibilities on **S3i management** and assess the current team and capacity.
- **Comprehensively review all available information** and investigation reports and take the necessary steps to resolve legal, financial and exit matters in relation to the S3i portfolio.
- **Continue the risk assessment of the broader portfolio** in order to understand if there is systemic failure still to be addressed.
- Perform a thorough **review of the costs and implementation activities** of the previous DED and the EO.



Contact us

Anders Lundin

Partner

T +358 20 760 3000

E anders.lundin@kpmg.fi

Lauri Tuomaala

Partner

T +358 20 760 3000

E lauri.tuomaala@kpmg.fi

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

www.kpmg.fi

© 2022 KPMG Oy Ab, a Finnish limited liability company and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.