

# United Nations Office for Project Services

## The UNOPS management response to the 2022 annual reports on internal audit and investigations, ethics, and the Audit Advisory Committee

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## **I. Introduction**

1. The United Nations Office for Project Services (UNOPS) offers the following management response to the 2022 annual reports of the Audit Advisory Committee (DP/OPS/2023/3 - Annex 7) in accordance with Executive Board decision 2008/37; the Internal Audit and Investigations Group (DP/OPS/2023/3) in accordance with Executive Board decision 2005/19; and the Ethics Office (DP/OPS/2023/4) in accordance with Executive Board decision 2012/9.

## **II. The UNOPS Audit Advisory Committee**

2. In 2022, the UNOPS Audit Advisory Committee (AAC) operated with Terms of Reference developed in accordance with Executive Board decisions 2015/4 and 2015/12. The roles and responsibilities of the Committee are consistent with those of United Nations agencies that are under the purview of the Executive Board.

3. The Committee provides external, independent, senior-level advice regarding the organization's oversight, financial management and reporting, internal audit and investigation, external audit, risk management, systems of internal control and accountability, and application of best practices and industry standards for strategy implementation. The Committee has an advisory role and assists the Executive Director in fulfilling his/her responsibilities.

4. Management is pleased to note the significant contributions provided by the Committee in 2022. During the year it fulfilled its regular functions while acting as an executive sounding board for measures to address the S3i crisis. Management notes that the Committee adopted more independent practices for its interface with internal oversight functions as well as with the Executive board. Management is in concurrence with the observations reflected in the Committee's annual report, 2022 (DP/OPS/2023/3 – Annex 7).

5. In 2022, the Committee engaged in an extensive process of self-reflection, and undertook a comprehensive self-assessment for identification of possible measures to enhance its mandate and working practices for it to be better placed to detect and react to potential future issues. Management strongly supports the range of measures to enhance the Committee's independence, including its unhindered access to the Executive Board, and has endorsed the revised terms of the references.

6. Management affirms the benefit of the Committee's advice and its continued substantive engagement with the organization. Finally, management would like to extend its appreciation to the current and past members of the Committee.

## **III. Internal audit**

### *Overview*

7. Management recognizes the important role which the Internal Audit and Investigation Group (IAIG) plays in providing assurance, offering advice, recommending improvements, and helping to enhance the organization's risk management, control, and governance systems.

8. The IAIG internal audit function issues three main types of reports: a) internal audits that carry a rating and may result in recommendations; b) thematic reviews and advisory engagements, that carry no ratings and may include recommendations; c) project audits that carry a rating and may result in recommendations in cases where the scope includes internal controls. Management notes that the number of reports may fluctuate between years, due to normal variations in the number of client requests and reporting requirements as per project agreements.

9. Management notes the efforts undertaken by the IAIG to meet a number of requests from the Executive Board issued to the function during 2022 in response to the S3i crisis, including the preparation of a self-assessment of the IAIG independence, and the implementation of

recommendations resulting from the same. It also takes note that the IAIG in 2022 gave priority to a range of measures focused on re-establishing trust through targeted stakeholder engagement.

### *Opinion*

10. Management notes the elements that form the basis of the opinion, and that these in 2022 also included the results of two third party reviews<sup>1</sup> and of the IAIG self-assessment. Management takes note of the overall opinion on the adequacy and effectiveness of UNOPS governance, risk management and control processes is “partially satisfactory (major improvements needed)”. Pursuant, management has pursued aggressive implementation of actions in a comprehensive strategic response plan for strengthening of the organization’s governance, risk management and control processes.

### *Reports and recommendations in 2022*

11. Management takes note of the reports issued by the IAIG during 2022, the associated ratings, and the observations and recommendations, including related priorities, contained therein. It further notes the distribution of recommendations by functional area, and that these over time tend to be driven by the scope of audit engagement, as defined through an overall risk assessment as part of the IAIG annual work planning.

12. Management notes with appreciation that the IAIG has taken into consideration the impact of the S3i crisis on auditees, as these undertook efforts to respond to the concerns of partners and other stakeholders in their specific contexts.

13. Management notes that the number of reports and recommendations issued, as well as the associated ratings, are indicative of generally adequate levels of internal controls in the organization’s implementation activities. In 2022, all but one rated audit report yielded a satisfactory or partially satisfactory rating, or an equivalent audit rating.<sup>2</sup> Management notes the summary of key issues by functional area identified in 2022.

### *Management action and progress on the recommendations from internal and project audits*

14. Management undertakes concerted efforts to proactively manage risks and pre-empt audit observations by strengthening its strategic response and enhancing its governance, risk management practices and internal controls, as well as the overall compliance with its prescriptive content throughout its operational activities; and is continuously pursuing closure of recommendations during the year.

15. To facilitate the follow-up and coordination with relevant business units on the systematic and timely action and implementation of all recommendations, management classifies all oversight recommendations by functional area. If the primary responsible business unit is different from the business unit in charge of policy and control in the functional area, the latter is typically assigned as secondary responsible. This, to ensure that a substantively appropriate response is provided.

16. In 2022, following a request by the Executive Board,<sup>3</sup> management undertook a dedicated effort to fast track implementation timelines for all outstanding oversight recommendations. To facilitate this, management deployed temporary additional personnel resources and a bespoke IT tool. Significant progress was reported to the Board at its second regular session 2022.

17. Management further engaged in an informed manner with responsible owners of recommendations to facilitate timely implementation, including by making available additional resources for supportive measures.

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<sup>1</sup> These included a review of the UNOPS oversight mechanisms for S3i; and a review of UNOPS internal control systems, risk management and overall governance structures.

<sup>2</sup> For project financial audits, IAIG considers an “unmodified” audit opinion a “satisfactory” audit rating; and a “modified” audit opinion an “unsatisfactory” audit rating.

<sup>3</sup> [Decision 2022/13](#)

18. Management is pleased that its efforts yielded positive results, as evidenced by relevant underlying indicators. The overall implementation rate of internal audit recommendations increased to a record high of 98 per cent, compared to 97 per cent in 2021. This is well above the target of 90 per cent. During 2022, management implemented and closed 210 recommendations, compared to 160 in 2021.

19. Management maintains its commitment to a coordinated drive for the timely implementation of all oversight recommendations, facilitated by the ongoing monitoring of progress through established organizational performance management processes. This includes the one internal audit recommendation which by the end of 2022 had been open for more than 18 months, compared to four in 2021.

#### *Advisory engagements*

20. Management notes that the IAIG in 2022 continued its support for oversight of the major project for the acquisition of medicines in Mexico (“PharmaMx”). It conducted quarterly risk assessments and provided advice and follow-up on risk management processes and high-risk issues identified; and also developed two dedicated data analytics tests for results monitoring.

21. Management also takes note that four advisory engagements initiated in 2022 are scheduled to be completed in 2023. It also notes that responsible business units continue to address relevant items identified in the advisory root-cause analysis developed by IAIG in 2021, with due consideration to other organizational priorities and requirements.

#### *Strengthening of the audit function*

22. Management takes note of the outcome of the IAIG self-assessment, developed upon the request of the Executive Board as part of the response to the S3i crisis. It welcomes the timely action taken to strengthen the IAIG in line with the recommendations identified therein. Management further is pleased to note that the IAIG subsequently confirmed its organizational independence.

23. Management notes with appreciation that the IAIG ensured continuity in its work in 2022, by deploying a hybrid approach combining remote and *in situ* audit activities, including contracting local third parties for verifications; continuing the use of project management and productivity tools; leveraging its continuous auditing and data analytics activities; and closely collaborating with auditees.

24. Management takes note of the continued use of IT tools and data analytics for the purposes of facilitating the efficient and effective function of the IAIG; and of substantively supporting the IAIG work in the areas of detecting fraud, non-compliance, and conflicts in segregation of duties; continuously assessing risks; and making available risk assessments to management to inform decision-making.

25. Management notes that the IAIG continues to pursue external and internal quality assessments and benchmarks for the purpose of continuous improvement, maintaining the highest rating as provided by the International Standards for the Professional Practice of Internal Auditing and with the Institute of Internal Auditors’ Code of Ethics, respectively.

26. Management notes the continued maintenance of certifications, as well as internal knowledge sharing and professional development activities pursued by members of the IAIG team.

#### *Partnerships, coordination and collaboration*

27. Management notes the IAIG continued involvement and engagement with relevant internal and external stakeholders, coordination mechanisms, and partnerships.

#### **IV. Investigations**

28. Management takes note of the case-related statistics, including the increase in both the number of complaints received and the cases closed. It also takes note of the distribution across case categories and geography; as well as the outcomes of investigations.

29. Management appreciates the efforts of the IAIG to work with legal officers, senior managers, the People and Culture Group, the Ethics Office, and the Vendor Review Committee to deter and reduce recurrence of issues resulting from fraud, retaliation, misconduct and prohibited conduct.

30. Management notes that the IAIG continued its efforts to substantiate financial losses in investigations cases; and remains committed to taking action, including in the sanctioning of vendors, disciplinary action for personnel up to and including separation, and recovery of defrauded or lost amounts.

31. Management notes that following the outcome of the 2022 IAIG self-assessment also the investigations function saw a significant strengthening, in line with recommendations contained in the self-assessment.

32. Management notes with appreciation the continued operation of a confidential hotline for individuals wishing to report misconduct.

33. Management notes the continued deployment of a victim-centric approach in the context of protection against sexual exploitation, abuse and harassment; and the IAIG continued engagement in an internal working group on the prevention of sexual exploitation and abuse as well as in an inter-agency screening tool ('Clear Check') to prevent the rehiring of offenders.

34. In this context, management also noted IAIG collaboration with the UNOPS Coordinator for Protection from Sexual Exploitation, Abuse and Harassment, appointed in 2022; and the IAIG collaboration with six other United Nations entities for a global inter-agency training of focal points for preventing sexual exploitation and abuse.

35. Management remains committed to the timely implementation of recommendations resulting from IAIG investigations.

#### **V. Ethics**

36. In 2022, the terms of reference of the Ethics and Compliance Officer were reviewed and subsequently reset to focus its scope on ethics. A new Director of the Ethics Office was appointed in November, following an interim period after the departure of the previous Ethics and Compliance Officer in early 2022.

##### *Overview*

37. Management notes that 2022 was a challenging year for the Office, with day-to-day operations fully re-established only late in the year; and expresses its appreciation for the Office's continuous efforts to nonetheless be responsive to and available for all personnel in relation to activities covered by its mandate.

38. In the context of the S3i-related events and crisis, management notes a number of actions prioritized by the Office; and remains committed to lending its full support to the Office to ensure it can perform its mandated functions independently and effectively going forward.

39. In relation to Executive Board decision 2022/16, management welcomes that the Ethics Office has strengthened its direct and unhindered communication with the Bureau of the Executive Board and the Audit Advisory Committee.

40. Management welcomes the Office's continued efforts to coordinate and collaborate with relevant internal stakeholders in the context of its mandated activities, including the People and Culture Group, the IAIG, and the Management Team.

*Mandated activities in 2022*

41. Management takes note of the mandated activities undertaken by the Ethics Office in 2022, including the related breakdown of matters and trends, as well as the Office's assessment thereof. Management welcomes that the trends seem to indicate an enhanced awareness within its workforce of the services available to them.

42. In relation to the area of policy and standard setting, management notes the Ethics Office's engagements in a number of efforts, including for the creation of a role of Victim Support Specialist within the People and Culture Group (PCG); the enhancement of the Individual Contractor Modality (ICA); and the guidance for personnel of hosted entities. It further notes the completion of a review of UNOPS due diligence procedures, and the resulting recommendations.

43. In relation to the area of confidential advice and guidance, management takes note of trends for personnel employed as 'retainers', i.e. not full-time; and of the Office's continued efforts to provide confidential advice also in cases that do not fall within its mandate, such as workplace harassment.

44. In relation to the area of training and awareness raising, management takes note of a mandatory new 'Standards of Conduct' e-learning course; the development and planned roll-out of a global awareness-raising campaign on ethics, integrity and accountability; the development of content on a number of ethics-related topics; the Office's engagement in joint trainings on standards of conduct, with the PCG and the IAIG; and in Ethics-focused induction session for new senior leader in UNOPS.

45. In relation to protection against retaliation, management notes that the related policy has been revised under consideration of inputs from the Ethics Panel of the United Nations (EPUN) and good practices, with a particular view to strengthening the victim-centred approach and mechanisms in support of ensuring duty of care; and welcomes the ongoing efforts to strengthen the related process.

46. Management notes the completion of the 2021 financial disclosure and declaration of conflicts of interest programme in September 2022, for all 1,065 personnel who were required to file a financial disclosure and conflict of interest statement. It further notes that the review of submissions from 1,023 filers for the 2022 programme is ongoing. For both instances, management welcomes the 100 per cent filing rate.

47. Further in relation to the financial disclosure and disclosure of conflicts of interest programme, management notes that the Office, following a recommendation by the Joint Inspection Unit (ref. JIU/REP/2021/5), will conduct a review of the programme's efficiency and effectiveness.

*Collaboration with external parties*

48. Management notes the continued collaboration and coordination of the Office with external stakeholders, including ENMO, the Ethics Panel of the United Nations (EPUN), the Joint Inspection Unit (JIU), the Office of the Ombudsman, the United Nations Development Programme (UNDP) and the United Nations Population Fund (UNFPA).

49. Management welcomes the Office's engagement in a working group under the EPUN with a focus to strengthen the system-wide collaboration to enhance a 'speak-up' culture; and develop guidance on outside activities.

### *External independent review of independence*

50. Management notes that an independent third-party review of the independence and impartiality of the Ethics Office was initiated in October 2022, with two Ethics Offices of the Ethics Network of Multilateral Organizations (ENMO) acting as review panel members.

51. The conclusions of the review were shared with management in April 2023. Management supports implementation of the six key recommendations:

- a. Adopt standalone Terms of Reference for the Ethics Office to define and limit the scope of its mandate;
- b. Further strengthen the link to EPUN and consider for an interim period of 12 months the introduction of an additional substantive reporting line to the Director of the UN Ethics Office and Chair of EPUN;
- c. Discontinue any doubling of functions (the Compliance function has already been removed from the Ethics Office);
- d. Ensure that additional checks and balances are built into future recruitment processes for the Head of the Ethics Office by way of involvement of the Audit Advisory Committee (AAC) and/or the Executive Board;
- e. Ensure there is a clear accountability mechanism for the Head of the Ethics Office and a “dotted” reporting line to the Executive Board and the AAC;
- f. Ensure requests for Ethics advice and guidance are strictly confidential and not shared, unless with express prior consent of the person seeking advice and guidance. Reassess participation in Navex system.

52. Management would like to take this opportunity to thank the members of the external independent review panel for the swift completion of the review. It would also like to express appreciation for the foresight of the AAC, which has recommended a new procedure for selection and appointment of members, and in the recommended revisions of its terms of reference included provisions to address recommendations ‘d’ and ‘e’ above.

### **VI. Strategic management response**

53. Management is committed to improving the organization’s governance, risk management and internal controls, including in response to the external independent third-party reviews. It has pursued aggressive implementation of actions in a comprehensive strategic response plan for strengthening of the organization’s governance, risk management and control processes.

54. The fast-tracked midterm review of the strategic plan, 2022-2025, has provided comprehensive situational analysis as a basis for rebuilding internal and external trust pursuant to the S3i crisis. It has, *inter alia*, served to provide a stocktake of the implementation of the comprehensive response plan, as well as to identify risks, challenges and lessons learned.

55. The restated strategic plan, 2022-2025, builds on the stocktake in the midterm review. The plan identifies four areas of longer-term strategic changes the organization will pursue to mitigate associated strategic risks:

- a. Reinforced management structures and capacity;
- b. Rebuilt trust and organizational culture;
- c. Implementation of digital transformation programme; and
- d. Transparent cost recovery for net zero revenue.