

# **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

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## Glossary

<b>AAC</b>	Audit Advisory Committee
<b>ACABQ</b>	Advisory Committee on Administrative and Budgetary Questions
<b>CEB</b>	Chief Executives Board for Coordination
<b>CFO</b>	Chief Financial Officer
<b>CIO</b>	Chief Information Officer
<b>CMDC</b>	Centrally Managed Direct Cost
<b>CO</b>	Country Office
<b>COG</b>	Corporate Operations Group
<b>DD</b>	Due Diligence
<b>DED</b>	Deputy Executive Director
<b>DoA</b>	Delegation of Authority
<b>EA</b>	Engagement Addition
<b>EAC</b>	Engagement Acceptance Committee
<b>ECR</b>	Europe and Central Asia Region
<b>ED</b>	Executive Director
<b>ENMO</b>	Ethics Network of Multilateral Organizations
<b>EO</b>	Executive Office
<b>ERA</b>	Engagement Revenue Addition
<b>FFR</b>	Financial Regulations and Rules
<b>GC</b>	General Counsel
<b>GIR</b>	Growth and Innovation Reserve
<b>GLM</b>	Global Leadership Meeting
<b>GMM</b>	Global Management Meeting
<b>HLCM</b>	High-Level Committee on Management
<b>HLCP</b>	High-Level Committee on Programmes
<b>HQ</b>	Headquarters
<b>HSSE</b>	Health and Safety, Social and Environmental
<b>IAIG</b>	Internal Audit and Investigation Group
<b>ICA</b>	Individual Contractor Agreement
<b>IICA</b>	International ICA
<b>IPAS</b>	Integrated Practice Advice and Support
<b>IPMG</b>	Infrastructure and Project Management Group
<b>IPS</b>	Implementation Practices and Standards
<b>IPSAS</b>	International Public Sector Accounting Standards
<b>ISA</b>	International Standards on Auditing
<b>ISAE</b>	International Standards on Review Engagements
<b>JIU</b>	Joint Inspection Unit
<b>KPI</b>	Key Performance Indicator
<b>KPMG</b>	KPMG Oy Ab
<b>LCR</b>	Latin America and the Caribbean Region
<b>LICA</b>	Local ICA
<b>LMDC</b>	Locally Managed Direct Costs
<b>MBR</b>	Monthly Business Review
<b>ME</b>	Middle East Region
<b>MoU</b>	Memorandum of Understanding
<b>MT</b>	Management Team
<b>NER</b>	Net Engagement Revenue
<b>NR</b>	Net Revenue
<b>NYSC</b>	New York Service Cluster
<b>OD</b>	Operational Directive



<b>OI</b>	Operational Instruction
<b>OIOS</b>	Office of Internal Oversight Services
<b>OPMO</b>	Organizational Portfolio Management Office
<b>oUP</b>	oneUNOPS Projects
<b>PAC</b>	Policy Advisory Committee
<b>PAR</b>	Protection Against Retaliation
<b>PMM</b>	Project Management Manual
<b>PMI</b>	Project Management and Infrastructure
<b>PCG</b>	People and Change Group
<b>PPG</b>	People and Performance Group
<b>QBR</b>	Quarterly Business Review
<b>RP</b>	Regional Portfolios
<b>S3i</b>	Sustainable Investments in Infrastructure and Innovation
<b>SDG</b>	Sustainable Development Goals
<b>SHS</b>	Sustainable Housing Solutions
<b>SLT</b>	Senior Leadership Team
<b>SOP</b>	Standard Operating Procedure
<b>ToR</b>	Terms of Reference
<b>UNBoA</b>	United Nations Board of Auditors
<b>UNOPS</b>	United Nations Office for Project Services
<b>UNFPA</b>	United Nations Population Fund
<b>UNDP</b>	United Nations Development Programme
<b>WATO</b>	We are the Oceans



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# 1 Executive Summary

## 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. 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.

## 2 Mandate and Strategy

### 2.1 Purpose of UN Office of Project Services

UNOPS provides infrastructure, procurement, and project management, including human resources and financial management services for a more sustainable 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 customers maximise the positive impact of their peace and security, humanitarian and development projects. UNOPS' origins trace back to 1973, and until 1994 it was part of the UN Development Programme (UNDP). By decision of the UN General Assembly, UNOPS became a separate, non-programmatic, demand-driven, project-based, self-financing entity within the UN development system on 1 January 1995. Since 1995, through resolutions and decisions, the UN Member States have evolved the UNOPS mandate, particularly with respect to the nature of project services and the types of partners. In 2017, UNOPS reviewed and revised its internal policy framework. The UNOPS headquarters (HQ) in Copenhagen, Denmark provides technical expertise to countries in the implementation of the SDGs and the Paris Agreement on Climate Change. UNOPS supports projects in more than 80 countries and, in 2021, it reported delivering USD 3.4 billion in peace and security, humanitarian and development projects. UNOPS currently has approximately 5,000 personnel. Additionally, UNOPS has approximately 7,000 personnel recruited on behalf of its partners spread across 80 project countries.

### 2.2 Mandate and Strategy

The General Assembly resolutions and the Executive Board decisions stipulate the mandate of UNOPS. Furthermore, the Strategic Plan 2022-2025 outlines the strategic framework, purpose and focus of activities. UNOPS is mandated to expand implementation capacity across peace and security, humanitarian, and development efforts. Through its project services, including infrastructure, procurement, project management, human resources, and financial management services, UNOPS supports governments, the UN, and other partners in achieving Member States' Global Goals, and local objectives of people and countries.

Acting as an operational resource for Member States and the Secretary-General, UNOPS has technical expertise in infrastructure, procurement and project management, and acts as a non-programmatic resource for implementation, which has developed based on resolutions and decisions taken by governance. The Strategic Plan further outlines the strategic role, focus, priorities and plans. UNOPS' business model is self-financed and demand-driven, which differs from other UN organisations. UNOPS provides services in exchange for a fee and it does not receive significant direct contributions from donors.

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 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 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 actions taken under 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.

## 2.3 Strategy and Performance

### 2.3.1 Strategy

UNOPS Corporate Strategy, or Strategic Plan, is a 4-year business strategy that is approved by the Executive Board. The Strategic Plan of UNOPS is formed and drafted by the Corporate Strategy function in consultation with a wide range of stakeholders including the Board Members. Corporate Strategy Officers sit under the Office of the CFO and Director of Administration function. The Corporate Strategy unit was detached from the Executive Office during the previous ED's term. Beyond the Executive Board and regional engagement, the Strategic Plan's basis is defined through a consultation at the Global Leadership or Management Meetings (GMM or GLM), which are arranged every second year for the management level office holders across UNOPS. The meeting and the workshops arranged at the GLM are also the main preparational forums for the mid-term review process of the on-going strategy. UNOPS' special role in the UN system (as an on-demand organisation) also gives it a unique position to define its own strategy. UNOPS' current strategy is a business-minded and customer-focused plan that works as an umbrella for the regions, projects and initiatives.

According to the UNOPS Strategic Plan 2022-2025, UNOPS is committed to supporting the building of a sustainable, resilient and inclusive future. UNOPS has a comparative advantage for implementation in the UN system, with technical expertise in infrastructure, procurement and project management. The Strategic Plan of UNOPS is rather general in nature, which means that the regions may structure and develop their own activities that might not align with the broader strategy. In practice, this means that the regions can rather freely decide how their regional portfolio is structured, based on the types of projects they want to deliver or what the partners are requesting.

Interviews indicate that there is an ongoing discussion regarding the strategic direction of the organisation. Some UNOPS personnel consider it would be useful for the whole organisation to have a corporate strategy in which the focus areas are defined more closely together by HQ and the regions for each strategy period/year. These annual strategy roadmaps should be drawn from the longer organisational strategy. With this focus, UNOPS would be balancing real-world demand and strategic decisions, inevitably leaving some service requests deprioritised. To this end, according to the interviews, UNOPS is planning to identify relevant strategic areas where UNOPS personnel have gathered significant knowledge and capabilities and recognise the areas with the most demand from the partners' side.

### **2.3.2 Financial Performance and Operational Reserve**

UNOPS has grown significantly in the period of 2014 – 2022. The delivery, which is a key indicator of the total volume of operations and size of portfolio, has grown from USD 1.2 billion to USD 3.4 billion (an increase of 182%). During that time the annual surplus has grown even more from USD 9.9 million to USD 90.4 million (+903%). See the table below for reference. During this period, management was encouraging growth with less emphasis on risks, as indicated by the limited investments in supporting structures, the focus on financial KPIs and the high growth numbers.

UNOPS has two types of revenue: agent and principal delivery revenue. The agent revenue refers to projects in which UNOPS delivers services on behalf of its partners and the partner retains the significant risk of ownership. The principal revenue refers to projects where UNOPS delivers services and retains the significant risk of ownership. In UNOPS' official financial statements, the statement of financial performance (Statement II) includes only the principal delivery and the management fee of the agent delivery. This is according to the International Public Sector Accounting Standards (IPSAS) that UNOPS adopted in 2012.

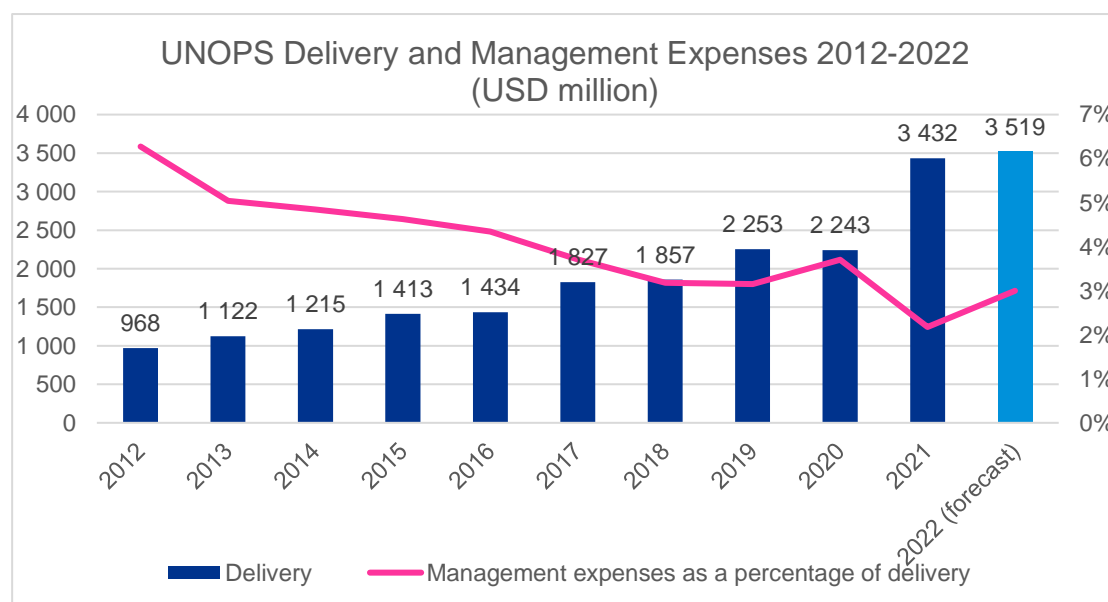


	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Delivery (million USD)</b>	1 215	1 413	1 434	1 827	1 857	2 253	2 243	3 432	3 519 (forecast)
<b>Revenue in Official Financial Statements (Statement II)</b>	674	683	790	834	942	1 212	1 169	1 209	N/A
<b>Management expenses</b>	58,9	65,4	62,3	67,8	59,1	71,0	83,0	74,7	N/A
<b>Surplus for the period (million USD)</b>	9,9	14,3	31,3	29,0	38,4	47,1	39,5	90,4	N/A

**Table 1: UNOPS Delivery, Revenue, Management Expenses and Surplus 2014-2022**

Despite the significant growth of operations, administrative costs have not increased in the same proportion (+27% increase in seven years). Additionally, the table above presents how UNOPS did not implement its target of zero net revenue as directed by the Advisory Committee on Administrative and Budgetary Questions (ACABQ) and Financial Regulations and Rules (FRRs). UNOPS' actual reserves increased considerably between the years 2016-2021, with a substantial net surplus each year.

The table below presents the proportion of management expenses compared to total delivery during 2012-2021. The decreasing proportion of management expenses shows how there has been little internal investments in the capacity building and organisational development of UNOPS.



**Figure 1: UNOPS Delivery and Management Expenses 2012-2022**

## Operational Reserves

UNOPS (FRRs, EOD/ED/2017/04) defines the basis, content, minimum level and use of its operational reserves. The minimum requirements for the operational reserves were updated by the Executive Board in 2013 (2013/33) and in 2021 (2021/21). UN organisations have recently embarked on a system-wide comparison of reserves and working capital funds. The results of this analysis are expected shortly. The net assets consist of several different items represented below. The figures for years 2020 and 2021 are audited whereas the figures for June 2022 are unaudited and may be subject to change.

UNOPS Net Assets	31 December 2020 (USD million)	31 December 2021 (USD million)	30 June 2022 (USD million) unaudited
Actuarial gains/(losses)	4,8	9,7	9,7
Fair value of financial assets available for sale	11,1	-10,3	-107,9
Minimum reserve	22,0	138,8	136,5
S3i reserve	N/A	N/A	63,0
Growth and Innovation reserve	124,3	111,1	0,0
Operational reserve (accumulated surpluses)	124,3	111,1	224,0
<b>TOTAL</b>	<b>286,5</b>	<b>360,4</b>	<b>325,3</b>

**Table 2: UNOPS Net Assets 2020-2022**

Net assets take into account the impact of actuarial gains/losses on post-employment benefits. The fair value of financial assets available for sale is discussed in more detail in [chapter 6.2](#). UNOPS has established two specific reserves, the Growth and Innovation reserve and the S3i reserve, which are described in [chapter 2.3.3](#). The remaining part of net assets is operational reserve (accumulated surpluses), which should be above the minimum level requirements established by the Executive Board.

According to the UNOPS FRRs, the decision to draw from the reserves rests solely with the ED who shall report all drawdowns to the Executive Board. The ED may also establish other reserves with the approval of the Executive Board.

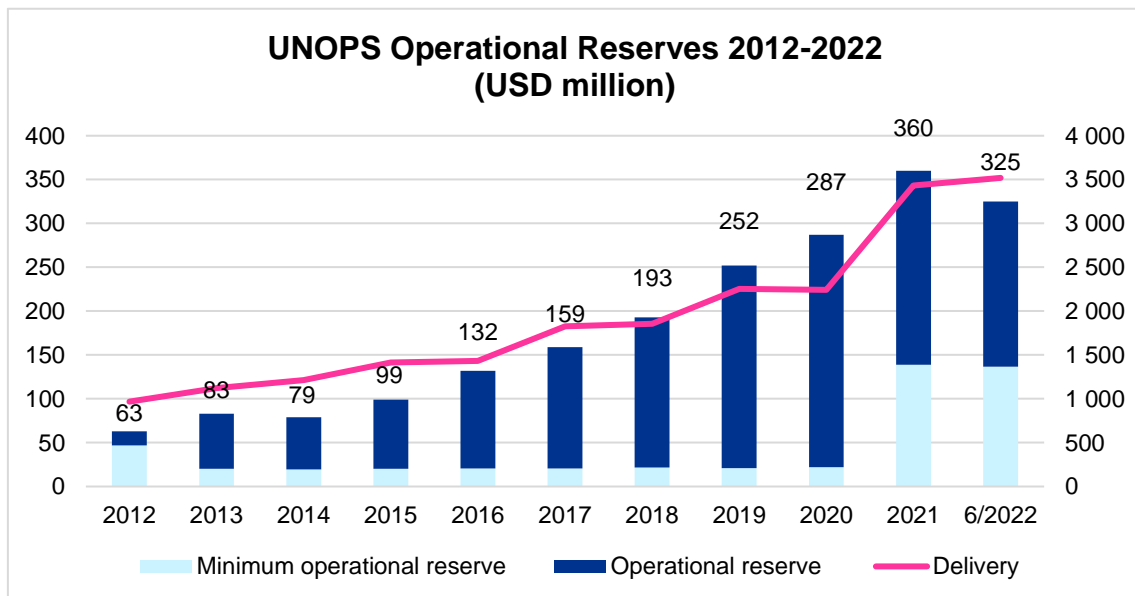
### 2.3.3 Minimum Reserves

The minimum reserve is the minimum level of the total operational reserves that should be maintained in UNOPS to allow for continued operations, taking into account operational risks. The 2013 requirements (DP/2013/33) set the minimum operational reserve level at 4 months of the average of the previous three years' expense under the UNOPS management budget, leading to an approximate minimum operational level of USD 20 million.

In the Report of the Board of Auditors of 2019, the Board recommends UNOPS to review its required minimum operational reserves so that the risks arising during the course of its operations are effectively met and surpluses are not accumulated over and above the realistically assessed operational reserves. A conference room paper was then prepared

by UNOPS in May 2020 (DP /OPS/ 2020/CRP.1) which concluded that it would only review the minimum operational reserve formula in 2023. After this, the Executive Board requested UNOPS to conduct a detailed study on its minimum operational reserve level in July 2020 (DP/2020/19, decision 2020/8 paragraphs 6-10). An external review on the level of minimum reserves started in December 2020 and was finalised in March 2021. This was conducted due to the significantly different nature of operations in 2021 compared to 2013. During these years, UNOPS had grown significantly in terms of size of operations and complexity. This then led to the renewal of the minimum reserve requirements at year-end 2021.

The decision (number 2021/21) adopted by the UNOPS Executive Board approved the change of the minimum requirement for the operational reserve. The new method calculates the minimum reserve as 25% of the infrastructure service line expenses, 5% of expenses for other service lines, and 33% of administrative cost, with a weight of 50% for the current year, 30% for the previous year, and 20% for the year prior. This increased the minimum level to approximately USD 140 million. As can be seen from the figure below, UNOPS' total net assets have been significantly higher than the official required minimum level during the years 2012-2021. (The 6/2022 figures are unaudited and may be subject to change.)



**Figure 2: UNOPS Operational Reserves 2012-2022**

UNOPS needs to have an adequate risk buffer to continue operations even if operational risks materialise. The size of the minimum reserves should therefore consider the size of operations and the level of risk. In addition, and especially considering the reported failures of S3i, UNOPS should be able to clearly communicate the level of required minimum operational reserves. Therefore, in our view a simplified formula based on the size of operations could be clearer.

Adequate reserves are needed for operational and legal risks as well as associated potential claims. As an example, USD 100 million has been the largest individual claim

so far for UNOPS. The current fair-value losses from investment (not materialized) are approximately USD 100 million. The external review in 2021 noted that the losses due to claims experienced by UNOPS from 2012 to 2020 amounted to USD 33.6 million, with annual average losses being USD 3.7 million. Approximately 60% of the losses from claims are related to infrastructure projects.

According to our interviews, the Finance team has made several attempts to increase the level of minimum reserves since 2014, which were not taken up by management. There was a strong management agenda to increase reserves available for impact investing and increasing the minimum reserves would have limited the amount available.

### Reasons for the increase of the reserves

The reserves increased significantly during the past 10 years. This is due to deliberate efforts of UNOPS' top management to increase the reserves. The following were the primary ways to increase the reserves:

1. No updates made to the costing and pricing methodology between 2014-2021. See [chapter 6.1](#).
2. Low investments in the management and administrative capacity of the organisation as presented in Table 1 in [chapter 2.3.2](#). Limited willingness to use financial resources for much requested technical expertise in the regional offices or any other matter in regional offices or for IT-development of the organisation. Several positions were kept vacant, and a large portion of personnel had dual titles and were working two or more jobs simultaneously.
3. Wide use of the Individual Contractor Agreement (ICA) modality, rather than the UN staff modality created in 1945. In 2008, UNOPS created a more modern, more agile modality for short-term needs. This modality was then taken into use also for UNOPS core jobs. Today, approximately 88% of UNOPS staff is ICA contracted personnel. See [chapter 3.2.2](#). As ICA contracted personnel do not have the same benefits as UN staff, and as administering staff contracts is significantly more expensive than administering ICA contracts, these might result in savings in personnel costs.
4. The financial income arising from the financial investment portfolio managed by Treasury Unit has been a large contributor to the UNOPS surplus creation over the past years. This is described in [chapter 6.2](#).

### 2.3.4 Growth and Innovation and S3i reserve

The Growth and Innovation Reserve (GIR) is provided for under regulation 22.02 of the UNOPS FRRs, which were approved by the Executive Board in 2012. As per the FRR, the aim of GIR is to invest in the future revenue generating ability of UNOPS. Pursuant to the FRR, the reserve was formally established by the ED in 2019 and, in decision 2020/8, the Executive Board subsequently welcomed the establishment of the GIR. The value of the Growth and Innovation Reserve was set at 50% of the excess operational reserves.

In addition to the GIR, a separate S3i reserve was established in early 2022. A proposal to the Executive Board to establish a designated UNOPS S3i reserve was first presented in Annex II of the UNOPS budget estimates for the biennium 2022-2023 (2021/6). In decision 2021/21, the Executive Board requested UNOPS to present an assessment and rationale for the proposal to create a separate S3i reserve. This was published in December 2021. The S3i reserve was subsequently established in February 2022 through the Executive Board decision 2022/5/3.

According to the above-mentioned decision, the initial level of the S3i reserve is USD 105 million and future transfers to the reserve will be limited to 50% of the excess operational reserves. Contrary to the general UNOPS FRRs, all changes to the S3i reserve are subject to Executive Board approval (DP-2022-14-EN).

### Reserves frozen as a reaction to the S3i crisis

As a temporary transitional measure to the S3i reported failures, the Executive Board froze all further transfers of funds out of the operational reserve to any other use than daily operations in June 2022 (DP/2022/13/8). In the same decision, the Executive Board requested UNOPS to move all non-committed funds from other reserves to the operational reserve. As per this decision, the GIR was zero at end of June 2022 and the S3i reserve was decreased to USD 63 million, which is the actual total amount of commitments made.

The Executive Board also requested a special working group of UNOPS to present alternatives for the appropriate use of the UNOPS reserves in the following regular session. KPMG has reviewed the draft paper of the Working Group, dated 22 August 2022, which proposes a new concept of the maximum reserve and also several alternatives for the use of the excess reserve. The alternatives include distribution of funds to paying entities or member states, providing rebates to project partners and using the funding for internal capacity building, emergency needs or in support of the UN development system.

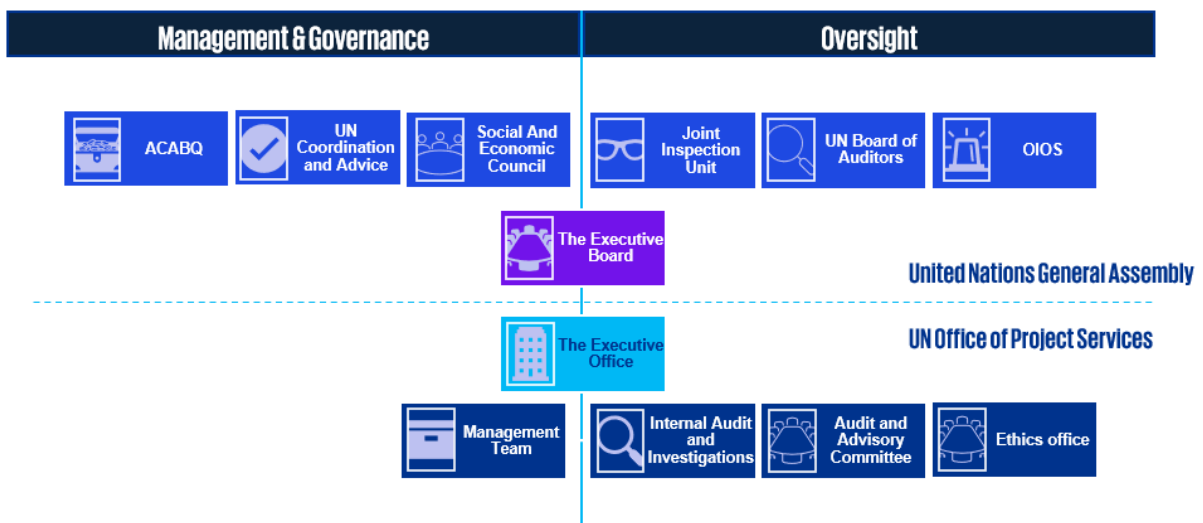
**Recommendation:** When deciding on the use of operational reserve, the Executive Board should take into account the financial investment risk and related recent fair value changes ([chapter 6.2](#)) as well as the need for internal organisational development at UNOPS.

### 3 Governance and Management

#### 3.1 Governing Bodies

Since 2006, UNOPS has undergone a series of structural, operational, financial, and accountability reforms. This includes designing a governance and management structure, establishing internal audit and investigative functions, policy and implementation framework, and employing resources. In 2008, UNOPS adopted a governance structure approved by the General Assembly that allowed UNOPS to make host country agreements.

Under the previous Executive Director during 2014-2022, UNOPS underwent several changes in its management structure. These included the establishment of new management level committees and the restructuring of risk management framework. The structure in which UNOPS operates is illustrated in the below figure.



**Figure 3: Governance, Management and Oversight functions of UNOPS under the UN System at the time of the review**

The Executive Board function is described below in [chapter 3.1.1](#). UN external oversight bodies are described in [chapter 3.1.2](#). and their functioning is analysed more in-depth in [chapter 3.2](#). The Executive Office and Management Team and other internal oversight bodies are described in [chapter 3.2](#).

##### 3.1.1 The Executive Board

As stated on the Executive Board’s website, the Board provides intergovernmental support and supervision for the activities of UNOPS, UNDP and UNFPA, in accordance with the policy guidance of the General Assembly, the Economic and Social Council, and the United Nations Charter.

The UNOPS Legislative Framework comprises United Nations Instruments Applicable to UNOPS, Executive Office Directives and Instructions, Operational Directives and Instructions (OI), and Guidance and Informational Documents. The United Nations Instruments are promulgated by organs of the United Nations with authority over the UNOPS ED, such as the General Assembly, the Economic and Social Council, UNOPS' Executive Board, and the Secretary-General. All of UNOPS' Legislative Instruments therefore comply with United Nations Instruments applicable to UNOPS. The ED is accountable to the Secretary-General and the Executive Board for all aspects of UNOPS' financial activities and day-to-day management.

The Economic and Social Council elects members of the Executive Board every year. The Executive Board is comprised of representatives from 36 countries who serve on a rotating basis. The Executive Board Bureau is comprised of one President and four Vice Presidents and is elected by the members at the first regular session each year, taking into account the need for equitable geographical representation.

The Rules of Procedure of the Executive Board of the UNDP, UNFPA, and UNOPS dated January 2011 provides a framework for the functionality of the Executive Board. It includes details on the sessions, agenda and documentation, representation, bureau, working groups, Executive Board Secretariat, meetings, reports, decision-making, etc.

The Executive Board shall meet in an annual session, at a time and duration it determines. The Executive Board shall meet in regular sessions between the annual sessions at the times and durations it determines at the beginning of each year in order to accomplish its work as set out in its annual work plan, taking into account the time needed to produce documentation. The Executive Board may hold special sessions in addition to the regular sessions, with the agreement of a majority of members of the Board. Our review highlights that the Executive Board has convened annual sessions and multiple first, second and special sessions over the last few years. The UNOPS website includes UNOPS-related annual reports, document sessions, and Executive Board decisions, reports and statements from 1994 to this date.

The Executive Board may establish ad hoc working groups as and when it deems necessary. One observation at this stage is that the Executive Board has not established a sub-committee for Audit and Risk Management. In an organisation of this size, it is critical that the governing body has a dedicated function to support with an analysis of risk and audit related matters. The Executive Board receives a large number of different types of information from different stakeholders. This includes reports from the ED, organisational updates, reports from external and internal oversight bodies, management responses to audit reports, evaluations, work plans, AAC reports, ethics reports, and other updates. The large amount of information creates a risk that the Executive Board may not be able to effectively analyse and respond to all of these aspects.

The establishment of a sub-committee for Audit and Risk Management would create benefits for the governance of UNOPS. The role of a typical Audit and Risk Committee is to assist the governing body in supervising the management, financial controls and reporting, as well as overseeing risk management, strategy, policies and governance. A typical committee would comprise a minimum and maximum number of members formed under a defined ToR. In UNOPS, the membership could comprise the Chair of the Executive Board together with other independent members with backgrounds in audit,

finance, legal, ethics, risk, investments, HR, etc. The role in practice could include responsibilities for assessing audit, investigation and evaluation reports, reviewing the financial statements on behalf of the Board, assessing risk registers, and approving the annual financial statements. There should be a direct communication line to relevant oversight bodies (including the Ethics Office) and a direct reporting line from the IAIG. The responsibility would also include a systematic oversight of the Executive Office, an oversight of the implementation of audit recommendations, and to serve as a mechanism to challenge assumptions and decisions taken by management. The committee would review and make recommendations for the Executive Board.

The meeting agenda for the annual session 2022 was comprehensive and included a range of areas covered over a 5-day period. The agenda included organisational matters, a joint segment on an update on implementation efforts on the repositioning of the United Nations development system, internal audit and investigation, ethics, protection against sexual exploitation and abuse and sexual harassment. It also included separate segments for UNDP, UNFPA, and UNOPS. Additionally, the second regular session 2022, held in New York over the period 29 August 2022 to 1 September 2022, included organisational matters and a separate segment for UNFPA, UNDP, and UNOPS. The agenda also included financial, budgetary and administrative matters, and updates on oversight matters.

Board meetings can be overwhelming, especially when taking place over a 5-day period three times a year. An effective Board meeting requires diligent preparation, receipt of information well in advance, and an analysis of the information. It also requires the right kind of framework and a board composition that can respond to the business model of the organisation. In addition, it requires a concentrated effort to create a working agenda with a link to the issues raised in the prior meeting and the facilitation of a collaborative and practical meeting, to ensure the right information is presented, discussed and concluded upon.

The agenda at the Executive Board meetings appears to be quite standard from session to session. The agenda is sent out well in advance, documents are shared ahead of time, meeting minutes are maintained, and documents are published on the UNOPS website. However, the Executive Board is responsible for governing three separate UN agencies. This is a risk given the individual sizes of these UN agencies.

### 3.1.2 UN Supporting and Oversight Functions

In the UN system, the major functions of the Advisory Committee on Administrative and Budgetary Questions (ACABQ) are to examine and report on the budget submitted by the Secretary-General to the General Assembly, to advise the General Assembly concerning any administrative and budgetary matters referred to it, to examine on behalf of the General Assembly the administrative budgets of the specialised agencies and proposals for financial arrangements with such agencies, and to consider and report to the General Assembly on the auditors' reports on the accounts of the UN and of the specialised agencies. In relation to UNOPS, the ACABQ serves an advisory role, providing comments and recommendations on proposed biennial budgets and financial regulations prior to review and decision by the Executive Board.

The Executive Director coordinates with UN peers and takes external advice from different senior level bodies. United Nations Coordination and Advice is organised for



example through the Chief Executives Board for Coordination (CEB). The CEB provides broad guidance, coordination and strategic direction for the UN system as a whole in areas under the responsibility of executive heads. Focus is placed on inter-agency priorities and initiatives while ensuring that the independent mandates of organisations are maintained. Since 2016, UNOPS has been a full and equal member of the CEB. The CEB carries out its role through two mechanisms: the High-Level Committee on Programmes (HLCP) and the High-Level Committee on Management (HLCM). The HLCM identifies and analyses administrative management reforms with the aim of improving efficiency and simplifying business practices. The Committee is composed of senior administrative managers from the member organisations of the United Nations system who meet twice a year. UNOPS' Executive Director acted as Chair of the HLCM from 1 September 2019 until mid-January 2022.

The United Nations Board of Auditors (UNBoA) was established by the General Assembly of the United Nations in 1946, to provide external audit to the UN and its funds and programs. Since then, three heads of the Supreme Audit Institutions of the Member States of the UN have been appointed by the General Assembly to conduct independent audits, based exclusively on the audit evidence obtained in accordance with the International Standards. The UNBoA has an essential duty to contribute to enhanced accountability, transparency and governance of the UN and its funds and programs.

The External Joint Inspection Unit (JIU) of the United Nations System is the only independent external oversight body mandated to conduct evaluations, inspections and investigations systemwide. Its mandate is to look at cross-cutting issues and to act as an agent for change across the United Nations system. The JIU works to assist the legislative bodies of numerous United Nations organisations in meeting their governance responsibilities. JIU provides support in the context of these agencies' oversight function regarding human, financial and other resources. In its reports and notes, the JIU identifies best practices, proposes benchmarks and facilitates information-sharing throughout the organisations of the UN system.

The Office of Internal Oversight Services (OIOS) is the internal oversight body of the UN. The Office assists the Secretary-General in fulfilling his/her oversight responsibilities in respect of the resources and staff of the UN through the provision of internal audit, investigation, inspection and evaluation services. The mandate of OIOS is derived from relevant General Assembly resolutions and decisions.

### Recommendations:

- Consider the risks to effectiveness and efficiency inherent in the **Executive Board's governing of three UN agencies**.
- **Benchmark the Board's functionality** and composition against other agencies and similar actors.
- **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.

## 3.2 Management & Human Resources

### 3.2.1 Management Arrangements

At the writing of this report, the **Executive Office** consists of Acting Executive Director (ED) and his supporting staff. Normally, the EO would consist of the Executive Director (ED) and the Deputy Executive Director (DED) and supporting staff. Earlier, the office also hosted the Corporate Strategy function. Over the years, the Executive Office has been supported and advised by a number of committees. The ED and his office, under the authority of the Secretary-General, is responsible for the management of UNOPS. The ED reports to the Secretary-General and the Executive Board.

UNOPS has had different forms of Leadership and Management Groups over the years. Established during the second ED's leadership, until August 2019, the **Corporate Operations Group (COG)** was the functional management group of UNOPS. Its mandate was to make recommendations and decisions, but in practice it was seen as an advisory body and it was difficult to make decisions due to its size (20 members). According to information received during this 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 the **Senior Leadership Team (SLT)** to lead UNOPS with immediate effect and with new terms of reference. The SLT replaced the COG. The objective of the ED was that a small SLT (6 members) would allow for greater consistency and increased coherence to make UNOPS stronger. The members of the SLT were the ED, the DED, the Director of Implementation Practices and Standards (IPS), the Chief Financial Officer (CFO), the Director of Regional Portfolios and the General Counsel (GC).

Several interviews indicated that the creation of the SLT was a surprise and announced without any prior discussion in the COG. Several reporting lines were also amended, which raised questions, and two directors' positions were reduced from HQ in this reform.

A newly-formed **Management Team (MT)** started work in May 2022. The MT is responsible for advising and supporting the ED in the management of UNOPS. This includes assisting the ED in driving strategy in accordance with UNOPS' mandate. The MT supports the ED in keeping the organisation fit for purpose, while addressing opportunities and threats. The MT acts as a collaborative leadership forum to share information, align priorities and provide specific advice for decisions of the ED. The purpose of creating the MT was to re-involve more senior directors in the decision-making of UNOPS. The Regional Directors, for example, are members of the MT after being excluded from the SLT. In total, the MT has 15 members, including the ED. The interviews indicate that with such a large group of people it is challenging to reach consensus. Thus, the MT is primarily seen as an advisory body, similarly to the COG.

The **Audit Advisory Committee (AAC)** assists the UNOPS Executive Director in fulfilling his/her responsibilities regarding oversight, financial management and reporting, internal audit and investigation, external audit, risk management, and systems of internal control and accountability. The AAC also advises on strategy related matters. The Executive Office Instruction (Ref. EOI.ED.2019.02) on the AAC establishes the terms of reference for the AAC. This Executive Director Instruction is promulgated under the

Executive Office Directive for the organisational principles and governance model by the Executive Director on the basis of authority under UNOPS Financial Regulations, as issued by the Executive Board.

The Executive Director has another advisory body called **the Client Board**. Its purpose is to liaise directly with key partners and clients from the UN and elsewhere, and advise on operational matters and strategic partnerships. It also works as a sounding board for management and its agenda is formed from the partner survey findings. The Client Board meets annually in two segments, once with UN partners and once with other partners. It was established in 2019 with a decision of the Secretary-General and replaced an advisory body called the Policy Advisory Committee (PAC).

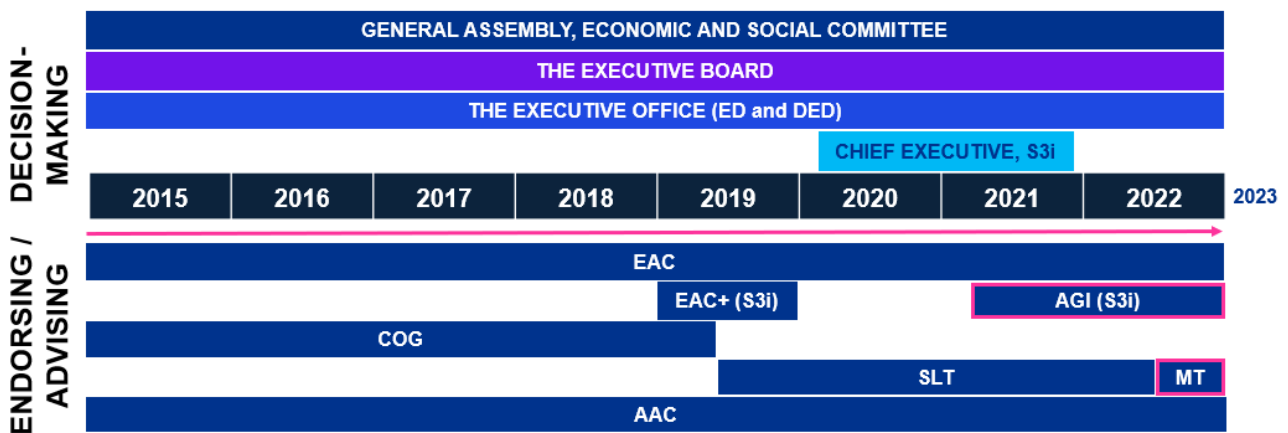
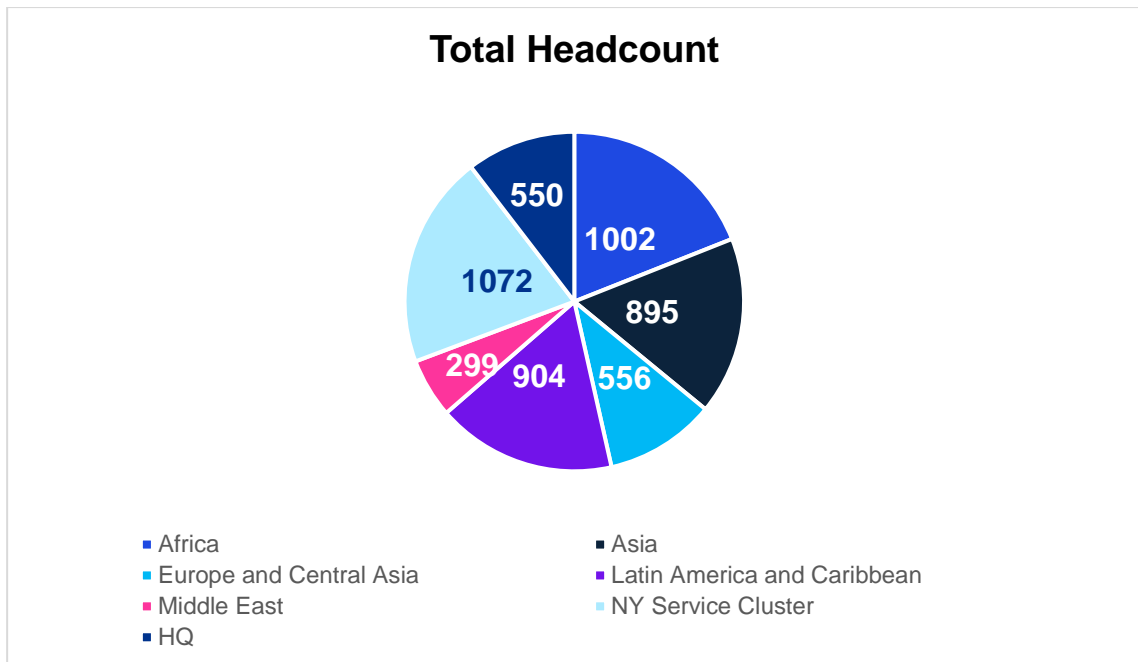


Figure 4: Central decision-making and governing bodies and committees of UNOPS

### 3.2.2 Human Resources and Employment Contracts

UNOPS has two types of personnel positions: (a) staff member posts, to be filled by a staff member holding a letter of appointment issued under the United Nations Staff Regulations and Rules; and (b) any other position to be filled by individuals retained under a UNOPS-specific contractual modality such as Individual Contractor Agreements (ICA), Internship Agreements, and Volunteer Agreements.

As of 24 October 2022, UNOPS had 5,279 personnel out of which approximately 88% are Individual Contractor Agreement holders (ICAs) and the rest UN staff contracts. Besides these, UNOPS has approximately 7,000 personnel recruited on behalf of its partners spread across 80 countries.



**Figure 5: UNOPS Total Headcount as of 24<sup>th</sup> October 2022**

Based on KPMG’s interviews, clear explanations are not always available on why a position is an ICA and not staff. For example, it is unclear to personnel why there are so many ICA positions in HQ and senior management roles unless this is done only to save costs. The initial purpose to use ICA contracts was to hire contractors for projects that are short-term. However, according to UNOPS’ policies, the ICA modality can be used for four years before a functional review is required to determine if the use of the ICA is still appropriate. Therefore, it seems that the current usage of the ICA modality has developed rather far from the original purpose, which was to hire project-based personnel for various short-term assignments around the world. The wide use of the ICA model across the organisation, especially in HQ where the work is less project-based than in the field, might cause insecurity and contribute to a culture of fear among personnel who have short-term contracts (which are reviewed on an annual basis), even though the same work and tasks are required in the long-term.

ICA holders are the main resource for UNOPS and its partners in terms of headcount. The ICA modality was created in 2008 in order to provide one unified non-staff contract. Prior to this UNOPS had a number of different contract types with different durations, benefits and entitlements. One of the aims was to simplify and align non-staff contracts. The other aim was to provide an efficient contract modality that was suited to a project-based organisation, as the UN staff contract reform had also reduced the range of staff contracts that previously had been used for this purpose.

Individual contractors are not recruited under United Nations Staff Regulations and Rules and UNOPS offices must ensure that the treatment of individual contractors is consistent with the ICA Policy and their status. An ICA may be awarded for a short-term or an ongoing basis. Upon reaching the maximum of four years under the same contract and ToR, a functional review shall take place to determine if the use of the ICA modality is still appropriate.

There are two types of ICAs, depending on the scope of functions and the place of work: Local ICA (LICA) and International ICA (IICA).

- A local ICA holder performs support or administrative functions in their home country or place of residence. Normally, completion of secondary-level (high school) education or equivalent is required.
- A local ICA Specialist performs specialist, expert or advisory functions. Normally, at least a bachelor's degree or equivalent educational background is required.
- An international ICA holder may perform any function other than inherently-UN functions. Normally, a university degree or equivalent educational background is required.

The terms and conditions of the ICA differ from the terms and conditions applicable to UNOPS staff members appointed under the UN Staff Regulations and Rules. The above notwithstanding, there are provisions that apply to the entire population of UNOPS personnel, ICA and staff alike, such as the policies on protection against retaliation and most parts of the Code of Conduct. Individual contractors are excluded from participation in the United Nations Joint Staff Pension Fund and After-Service Health Insurance. However, UNOPS provides access to a Provident Fund scheme for local individual contractors. For international ICA holders, UNOPS provides a competitive all-inclusive fee.

An ICA enhancement was conducted in 2022. The enhancements focus on fee setting and fee increments, cost of living, mobility support for international ICAs, PER rebuttal mechanism, and management evaluation to strengthen UNOPS Speak Up and accountability culture.

According to UNOPS, an ICA is appropriate to engage personnel not performing inherently-UN functions, and particularly appropriate to engage an individual, e.g., when undertaking the performance of specific task(s) or delivery of piece(s) of work for the implementation of project(s) or other operational activities of a business unit for a defined period of time; when the services require specialised technical, peculiar or unique skills that are not readily available amongst staff members or needed long-term by UNOPS; and as a temporary replacement for a staff member or when temporary or seasonal increases in workload warrant additional assistance for support and administrative functions. Based on UNOPS' guidelines, the ICA should not be used to reinstate a staff member whose previous post/function of similar nature has been abolished or as a means of applying a probationary period to candidates prior to offering them a staff appointment.

The use of ICA holders has been regularly audited by the UNBoA, with a recommendation issued to UNOPS in the last review. The recommendation requested UNOPS to create a list of positions that must be established as staff positions and UNOPS is in the process of implementing the recommendation.

### 3.2.3 Portfolio and Regions

UNOPS supports partners across the globe and its operations are based on geographical areas rather than service lines or types of services. This is due to the mandate of UNOPS implementing projects based on the demand and needs of its

partners. Through its mandate granted by the Executive Board, and as a UN organisation, UNOPS undertakes projects in locations where most actors are not able to operate. UNOPS has the following six regions:

- **Africa:** The Regional Office is managed from Copenhagen, Denmark. The region has five multi-country offices based in Ghana, Senegal, Kenya, Ethiopia and DR Congo. There are 1,002 employees in 30 countries working on 196 engagements in the region. The portfolio value in terms of delivery to date is USD 375 million (as of 12 October 2022).
- **Asia:** The Regional Office is managed from Bangkok, Thailand. The region has three multi-country offices (South Asia, Southeast Asia and the Pacific) and two standalone country offices in Myanmar and Afghanistan. Currently, there are 896 employees working in various projects in 20 countries. The portfolio value in terms of delivery to date is USD 274 million (as of 12 October 2022).
- **Europe and Central Asia (ECR):** The Regional Office is managed from Geneva, Switzerland. The region has other offices in Serbia, Austria and Ukraine. There are currently 556 personnel working in projects in 11 countries. The portfolio value in terms of delivery to date is USD 301 million (as of 11 October 2022).
- **Middle East (ME):** The Regional Office is managed from Amman, Jordan, which also serves as the multi-country office of the region. The second standalone office is based in Jerusalem. There are also project offices located in Iraq, Lebanon, Yemen and Syria (two offices). As of October 2022, there are 299 employees working on various projects in 10 countries. The portfolio value in terms of delivery to date is USD 220 million (as of 11 October 2022).
- **Latin America and the Caribbean (LCR):** The Region is managed from Panama City, Panama. The region has four national offices in Guatemala, Haiti, Nicaragua and Mexico and four multi-country offices in Panama, Honduras, Argentina and Peru. There are 904 people working in 13 countries for various projects in the region. The portfolio value in terms of delivery to date is USD 1172 million (as of 11 October 2022).
- **New York Service Cluster (NYSC):** This is not a geographic region but it concentrates on interregional cross-country programs that are driven by UN partners located in New York. Locally-driven projects are implemented by other regions, depending on the project location. NYSC has two pillars: peace & security cluster and sustainable development cluster. It has 25 offices around the world and 1,072 people working on projects in 100 countries. Delivery to date is USD 241 million (as of 13 October 2022).

UNOPS has the following five main services that are offered throughout all regions:

1. Infrastructure
2. Fund management (financial management/portfolio management)
3. Procurement (health procurement is one of the biggest procurement areas)
4. Project management
5. HR services

Each region is led by a Regional Director. All Regional Directors were part of the COG. When the SLT was created in August 2019, Regional Directors were not included. One Director was selected to lead all of the Regional Portfolios and all other Regional

Directors reported to him. This person also represented all of the regions in the SLT. Currently, all Regional Directors are members of the new Management Team that was created in May 2022. At the same time, the Director of Regional Portfolios role was removed and the person moved back to the Africa Regional Director role, as pre-August 2019.

According to the interviews, there seems to be limited interaction and coordination between the regions. This was especially the case during the time of the SLT when only one person was representing all regions. There is also limited cooperation to harmonise project monitoring structures or share best practices and lessons learned among the regions. There seem to be diverse cultures at UNOPS - each region has its own approach and works rather independently. At an organisational level, monitoring structures do exist with a standardised approach.

**Recommendation:** The Regional Directors should meet on a regular basis to discuss and develop common understanding and ways to work towards UNOPS' goals across the regions, as well as to share best practices and lessons learned.

### 3.2.4 Project Management and Reporting

In 2018, UNOPS developed an internal Project Management Manual (PMM) that contains requirements applicable to all UNOPS projects. All UNOPS personnel involved in projects shall comply with the mandatory requirements to ensure a standardised framework for the delivery of UNOPS projects. According to the PMM, the Project Executive shall be responsible for ensuring that the Business Developer, Project Manager and Closure Manager use mandatory UNOPS systems and templates as per applicable UNOPS Organizational Directives and Organizational Instructions.

For project management and tracking, UNOPS uses the oneUNOPS Projects (oUP) system that is interfaced with the oneUNOPS ERP system. oUP has been developed in-house. According to the interviews, oUP is not utilised by the regions as intended. In the interviews, the system was described as too complicated and not fitting to the needs of project management in the regions. None of the regions use oUP as their main project management tool and each region has instead created and developed their own spreadsheets that are used by project managers on a day-to-day basis.

Each region has regular internal meetings (e.g., on a weekly, monthly and quarterly basis) to discuss the status of projects and possible issues with the Regional Director. On an organisational level, the MT has Monthly Business Review (MBR) as well as Quarterly Business Review (QBR) meetings where the focus seems to be on the financial performance of the regions as well as the balance scorecard of targets and progress.

There is ongoing discussion related to the development or procurement of a new tier 2 ERP system for UNOPS. It is not clear what kind of mechanisms and modalities the system should include to provide effective support to all types of service lines across the regions. Further specifications are needed on several aspects, such as recruitment, accounting, project and programme management, prior to making any decision.

**Recommendation:** UNOPS should define what kind of operating system is required to support project and programme management, project delivery needs and key corporate functions of the organisation across all regions. The regions should be engaged in the process from the start.

## 4 Risk Management and Control Environment

### 4.1 Risk Management Framework

The 28<sup>th</sup> session of the UN High-Level Committee on Management convened a meeting on 8 October 2014 on the reference for a risk management, oversight, and accountability model for the UN system. The driver for this reference was derived from a specific request from the HLCM Strategic Plan. A Finance and Budget Network was delegated responsibility for following up on this and, as a result, they created a working group to determine the key governance elements, identify a common governance baseline, and recognise best practices in oversight. The working group comprised representatives of UNOPS and other UN agencies. We make this historical observation as the developments and expectations from this meeting eight years ago are still being addressed in many respects, as further discussed below.

The minutes of the meeting noted the clear expectation that all UN agencies require robust governance and oversight and therefore must, at the very least, adhere to effective standards of governance and oversight. As a minimum, to ensure an effective level exists, this should include various mandatory elements with well-defined responsibilities and clear lines of accountability. These elements include a credible governing body, senior management and independent assurance functions covering internal audit, investigation and evaluation. Given the range of organisational mandates across UN agencies, it was not possible to mandate a single approach for how governance and oversight should be administered. The determination of what an appropriate level of oversight should be and what resources are required, depends on the organisation's size, mandate, complexity, maturity and business model. Based on the analysis performed at that time, there was a recommendation for UN system organisations to continue strengthening financial reporting, control, oversight and accountability, to ensure effective oversight functions, and to endorse the Institute of Internal Auditors' "Three Lines of Defence Model". This includes defined functions that own and manage risks, functions that oversee risks, and functions that provide independent assurance. The meeting noted several practices considered to be effective, including having an independent audit committee, an organisation-wide internal control framework, a risk management framework, and an independent ethics function. Additionally, it was noted as mandatory that the assurance elements for internal audit, evaluation, and investigations should be independent. Based on our review procedures below, these expectations have not been met.

UNOPS operates in accordance with its legislative framework comprised of Directives and Instructions. Examples of Executive Office Directives and Instructions includes the EO Directive on Principles and Governance and the EO Instruction of Delegation of Authority and Accountability Framework. Directives are organisation-wide policies that govern actions within UNOPS and its external relations. Instructions explain procedures and business processes for the implementation of Directives, as well as UN legislation applicable to UNOPS. These documents cover areas such as policies and culture, legal, due diligence, IT, safety and security, risk management, internal audit and investigations charter, and communications. Based on our review, many of these directives and instructions have been created many years ago and revised from year to year. In September 2022 for example, UNOPS issued a new operational instruction for risk



management, others have been recently changed. Other directives and instructions are undergoing a review process as at the date of this report. Several directives and instructions have not been adequately designed or implemented in a way that meets the expectations of the 2014 HLCM meeting or the UN system in having robust governance and oversight. These elements are further described below.

The Operational Directive (Ref. OD.FG.2018.03) for Risk Management is promulgated by the Director of Finance Group on the basis of a delegation of authority (DoA) from the ED. It states that the ED is responsible and accountable to the Executive Board for risk management in UNOPS. UNOPS executive and senior leadership shall ensure that a risk-aware culture is cultivated at all levels, and they are responsible for monitoring risks that UNOPS is exposed to and for ensuring that appropriate responses are implemented. All UNOPS personnel in the context of their roles and responsibilities shall abide by the enterprise risk management framework and engage in regular risk management. UNOPS' Finance Group is designated as the custodian for corporate risk management. This directive was supported by way of an Operational Instruction (ref. OI.FG.2018.06) for risk management. This provides instructions to operationalise and implement the risk management principles set out in the Operational Directive and how risk management is implemented in practice. It outlines the specific roles for risk management, including the Executive Board, Executive Office, and other bodies. It also specifies tolerance levels for identified types of risks, i.e. thresholds or specific criteria that, when exceeded, require risk response(s) and/or escalation.

In September 2022, UNOPS revised and replaced this with the Operational Instruction (ref. OI.FG.2022.02) for Risk Management. This was revised as a result of an audit recommendation to align UNOPS' risk management with its strategic direction regarding corporate risk management, until a more comprehensive revision is undertaken. Based on our procedures, there have been several events that indicate that the fundamental principles of risk management were not adhered to, and we refer to KPMG's S3i review report for examples. This includes ineffective risk identification, responses, escalation and communication protocols. An effective risk management framework is established by a clear tone from the top.

The ultimate responsibility for risk management rests with the highest-level governing authority of UNOPS. In this respect, the Executive Board ensures that UNDP, UNFPA and UNOPS remain responsive to the evolving needs of programme countries, and supports UNOPS' efforts to share expertise in infrastructure, procurement, project management, financial management and human resources. The Executive Board has provided UNOPS with support and oversight functions since UNOPS separated from UNDP and became an independent, self-financing organisation in 1995. The Executive Director of UNOPS reports directly to the UN Secretary-General and the Executive Board. UNOPS' governance was organised around key bodies, including external oversight from UN bodies (UNBoA, OIOS, and JIU), internal oversight (IAIG and Ethics), executive office oversight, operations management, risk, compliance and financial controllership, and assurance.

The ED is responsible and accountable to the Executive Board for defining UNOPS' governance model and its organisational structure, defining roles, responsibilities and accountabilities, defining the legislative framework, establishing control mechanisms, implementing the strategic plan endorsed by the Executive Board, determining the risk

appetite, and establishing a risk and quality framework. The ED, via the organisational structure instruction, is responsible for the hierarchical arrangements of reporting lines, duties and communications, which determine how standards, roles, accountabilities and responsibilities at UNOPS are established, controlled, overseen and coordinated. Furthermore, the ED has the authority to define the delegations of authority framework.

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. The recruitment of a dedicated Chief Risk Officer was not implemented until 2021. 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 designated risk officers, 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. Many of these changes are in response to the absence of internal controls and procedures when S3i investments were made.

#### 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.
- Review the design and functionality of the current risk management framework.
- Undertake a review of risk management policies and procedures.

## 4.2 Oversight Arrangements

The Executive Office, through the ED, is held to account by the Executive Board. The Executive Board provides support and supervision for the activities of UNOPS. The Executive Board is comprised of representatives from 36 countries who serve on a rotating basis. The Executive Board meets three times a year. UNOPS-related Annual Reports, document sessions, and Executive Board decisions, reports and statements are presented on the UNOPS website. The Board is supported by the various oversight bodies. However, the Executive Board does not have a sub-committee for Audit and Risk Management or a body that specifically supports in the oversight.

An Audit Advisory Committee does exist within UNOPS, but it is not a body that directly supports the Executive Board. The existing AAC is effectively an advisory body to the ED. This is an oversight gap and risk in the UNOPS governing model.

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.

#### 4.2.1 Internal Audit and Investigation Group

As at the date of this report, the IAIG composition consists of 13 staff members. This includes a director, five internal auditors, five investigators, and two data analytic specialists. In line with the recommendations adopted in the IAIG's 2022 self-assessment report of its independence, the quantity of staff is expected to increase to 21. This includes for example two new intake investigators and a new senior investigator, and two new internal audit specialists. The former Director of IAIG resigned in December 2021 and a new Director was appointed in May 2022.

##### IAIG Charter

On 23 August 2022, an Operational Directive was issued in response to strengthening the independence of IAIG in accordance with the Executive Board Decision's resolution at its Annual Session in 2022. The original Charter of 3 pages was expanded to 10 pages to refine and clarify the mandate, role, and responsibility of the IAIG. The Operational Directive follows a series of recommendations stemming from an IAIG 2022 self-assessment report on its independence. The revised Charter aims to better protect its independence from management interference, and to clarify reporting lines. The revised Charter states that the Director of IAIG shall report independently and exclusively to the ED of UNOPS and shall also have free and unrestricted access to the Executive Board and the AAC. These changes are fundamental to an effective IAIG unit, and the absence of these aspects, especially during the S3i timeframe, created risks in terms of the effectiveness of IAIG's oversight. KPMG concurs with the proposed changes.

Our review procedures indicate that the IAIG rules and procedures evolved in such a way as to create a reporting line to the ED, which was in effect for the most part the former ED's time in the lead of UNOPS. There were also other operational, budgeting, and contractual employment challenges that impacted the independence of IAIG. Based on our understanding, the IAIG operational budget and internal audit plan required approval by the ED and this budgeting process was further delegated down to managers who were under IAIG's audit and investigation mandate. Additionally, the IAIG fixed term personnel were awarded one-year employment contracts based on the annual budget approval by UNOPS management. Prior to the changes in 2022, these independence issues impacted IAIG's ability to act as an effective oversight mechanism.

In the context of the recent developments of S3i and UNOPS' organisational changes, the Executive Board requested the new Director of IAIG to provide an assessment report of the independence of IAIG at the second regular session 2022. The Executive Board requested the Director of IAIG to provide a pathway on recommendations, and also an update on the status of investigations related to S3i. The final assessment report put forward 11 recommendations. Examples include recommendations to revise the Charter

and clarify reporting lines, increase staffing and budget, roll out trainings, and increase the term of employment contracts.

The Status Update on the UNOPS Action Plan dated 22 August 2022 and issued by the interim ED to the Executive Board highlights that the IAIG independence assessment and S3i update has been completed. The IAIG self-assessment report and the update were shared with the Executive Board before the second regular session in August 2022. Furthermore, a new IAIG Charter was issued on 23 August 2022. However, IAIG has not prepared a documented action plan that outlines the implementation status of the proposed recommendations.

As at the date of this report, it is too early to conclude on the capacity and implementation effectiveness of the proposed changes arising from the IAIG's self-assessment report. Operational changes and ways of working take time to implement. The proposed changes and their implementation require regular oversight.

### **Mandate and Work of IAIG**

IAIG conducts internal audits to evaluate the adequacy and effectiveness of UNOPS governance, risk management, and controls. It is mandated to undertake internal audit and investigation work. IAIG is required to provide independent and impartial assurance and advice to improve UNOPS operations.

The original IAIG Charter and way of working required that the IAIG Director report to the ED. Pursuant to the IAIG Charter, IAIG is supposed to have "free and unrestricted access to the Executive Board and the AAC". Based on our review, this mechanism did not function in practice and has since been changed in the new 2022 IAIG Charter. The dynamics of the UNOPS risk management and oversight frameworks, including IAIG, has been developing since 2014. At that time, there was an expectation that IAIG would perform its role with functional independence from management, and it was expected that IAIG would be protected from management interference and external pressure in determining the scope of its audits and investigations.

JIU completed a management and administration review of UNOPS in 2018 and a UN system-wide review of Audit and Oversight committees in 2019. The reports recommend that UN organisations, including UNOPS, should review the terms of reference or charter of their IAIG and AAC bodies to include specific references to their independence and reporting line to their legislative and/or governing bodies. Based on our review, this recommendation was not actioned by UNOPS in a timely manner. This is further described below.

IAIG is the principal channel for receiving allegations of misconduct and is responsible for conducting investigations into all reports of alleged wrongdoing. IAIG is the sole office in UNOPS mandated to conduct investigations. IAIG investigates procurement fraud, corruption and bribery, sexual harassment, misuse of UNOPS resources, misrepresentation, improper recruitment, retaliation against whistleblowers, workplace harassment, abuse of authority, and any other misconduct. Based on information received from several sources, IAIG is not mandated to investigate matters against the

ED or DED. This created uncertainty in how to deal with certain matters received to IAIG since 2019.

The Director of IAIG submits its internal audit plan for approval after review by the AAC to the ED. The internal audit plan is developed based on a risk-based methodology. The Director of IAIG is responsible for implementing the approved plan. On an annual basis, the IAIG submits an annual report on internal audit and investigations activities and the audit and advisory reports to the Executive Board. These reports include, among other aspects, an opinion, based on the scope of work undertaken, on the adequacy and effectiveness of the framework of governance, risk management and control, and a concise summary of work and the criteria that support the opinion.

The 2020 report highlights that the opinion of IAIG is that the adequacy and effectiveness of UNOPS' governance, risk management and control processes were partially satisfactory (some improvement needed). This means that they were generally established and functioning but needed some improvement.

The 2021 report to the Executive Board highlights that the mandate and functions for IAIG within UNOPS were approved by the ED. The opinion of IAIG is that the adequacy and effectiveness of UNOPS' governance, risk management and control processes were partially satisfactory (some improvement needed). This means that they were generally established and functioning but needed some improvement. The issues identified do not significantly affect the achievement of the objectives. The report presents an analysis that shows 3 internal audits and 49 project audits were satisfactory. However, 4 internal audits and 2 project audits were either partially satisfactory or unsatisfactory.

#### Recommendations:

- Ensure the **independence and sufficient capacity of oversight functions**, especially internal audit and investigation, and ethics functions.
- Prepare a documented action plan in response to the IAIG self-assessment report recommendations. The action plan should list all the recommendations, proposed action plans, expected date of completion, status update, and an accountable person. The IAIG should report regularly to the Executive Board and the Audit Advisory Committee on the implementation plan.
- The Executive Board should consider engaging an external and independent specialist to review the implementation measures taken in relation to the IAIG self-assessment report, and the respective findings of KPMG's review reports.

#### 4.2.2 Audit Advisory Committee (AAC)

In 2014, advisory bodies to the ED existed including an Audit Advisory Committee and a Strategic Advisory Group of Experts. Both bodies consisted of external experts, who were mandated to advise and support the ED. At this time, the governance model of UNOPS was undergoing transformation in the context of the UNOPS business model and the development of the risk management framework. The current AAC was formally established in 2015 in accordance with Executive Board decisions 2015/4 and 2015/12. The AAC is composed of members who are external to UNOPS. In 2015, a decision was taken to combine the previously separate Audit Advisory Committee and the Strategic

Advisory Group to form a new AAC to perform the functions set out by the Executive Board in the UNOPS financial regulations.

The stated purpose of the AAC is to advise and assist the ED on systems of internal control, accountability, risk management, policies, financial rules, financial statements, and review and advise on matters from IAIG and BoA, as well as on strategy related matters. The ToR states that the ED is responsible for appointing three to seven members who are independent and external to UNOPS. The term for members is three years, and renewable once. Members are not remunerated. The AAC is required to meet three to four times per year. The AAC is required to prepare a report on its work during the previous calendar year for presentation to the ED and to be made available to the Executive Board at its annual session. The establishment of the AAC was building upon the three lines of defence model recommendation from 2014.

The name of the AAC and its actual work to date has created confusion among several stakeholders. In practice, the AAC does not work in direct support of the Executive Board, 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 the AAC has mainly focused on advising the ED.

The members of the AAC are appointed by the ED. KPMG reviewed relevant AAC annual reports and minutes of AAC meetings since 2015. The minutes of the AAC meetings indicate the inclusion of an update from the ED and a review of reports shared by the ED. Additionally, the AAC annual reports submitted to the Executive Board noted their review and provision of advice on relevant governance reports and followed the outcomes of UNOPS' official reporting to the Executive Board. The AAC convened three remote based meetings in 2019, 2020, and 2021. Our interviews and a review of the minutes of the AAC meetings indicate that a general overview of S3i, including updates on the progress of S3i from the ED and DED, were part of the AAC meeting agenda. It appears that the information flow to the AAC was focused on progress, 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 role of the AAC to advise the ED was based to a large extent on information received from the ED, and this represents an inherent structural weakness.

The 2019 AAC annual report to the Executive Board highlights the continued progress of S3i. The AAC noted that 2018 had been a breakthrough year, with the engagement in a renewable energy initiative in Mexico, and in social housing initiatives sponsored at the highest levels of government in Ghana and Kenya. In relation to the latter, it noted that UNOPS, following a rigorous due diligence process, had formed a strategic partnership with Sustainable Housing Solutions Holding (SHS).

We identified that the AAC had certain pieces of information, elements of risks, and red flags in relation to the S3i initiative since 2015. In 2018, the minutes of the AAC included agenda points for a social and impact investing update from the DED and the UNOPS risk picture on access to new funding in social impact investing initiatives. The AAC meeting on 24 March 2021 noted the preparation of the strategic plan for 2022-2025 and the ongoing effort to manage the assets and reserves. The AAC also noted that a provision was made for USD 22 million for S3i. The AAC meeting on 22 June 2021 noted the UNBoA findings, including risk exposure in a S3i investment, which led to an

emphasis of matter. The AAC also had information about the strategic partnership creation with SHS in 2019 and the provisioning of the S3i investment in 2021.

On 7 October 2022, we understand that the AAC convened a special meeting to discuss the mandate of the AAC. UNOPS has already taken certain steps, for example creating a new IAIG Charter and other actions stemming from the 2022 IAIG self-assessment report of its independence. In our view, concrete changes are also required at the AAC level.

#### Recommendation:

- 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.

### 4.2.3 United Nations Board of Auditors

The United Nations Board of Auditors (UNBoA) was established by the General Assembly of the United Nations in 1946, to provide external audit to the UN and its funds and programmes. Since then, three heads of the Supreme Audit Institutions of the Member States of the UN have been regularly appointed by the General Assembly to conduct independent audits, based exclusively on the audit evidence obtained in accordance with the International Standards. The UNBoA has an essential duty to contribute to enhanced accountability, transparency and governance of the UN and its funds and programmes.

The UNBoA provides independent audit opinions through audit reports, makes recommendations to the auditees, follows up on the status of implementation of the recommendations made, and reports and responds to matters raised by Member States, the General Assembly, the Advisory Committee on Administrative and Budgetary Questions and other stakeholders. The auditors are appointed for a maximum of 6 years, with a new member normally entering in two-year intervals.

The UNBoA website presents the issued audit reports, audit opinions, applicable management letters and the audited financial statements for each respective UN organisation, including UNOPS. The UNBoA is mandated to perform an annual statutory audit of the financial statements of UNOPS in accordance with International Standards on Auditing. The financial statements of UNOPS comprise the statement of financial position, statement of financial performance, statement of changes in net assets, statement of cash flows, statement of comparison of budget and actual amounts, and notes to the financial statements.

We note that the auditor report for the financial years 2020 and 2021 were unqualified. The 2020 auditors report dated 22 July 2021 contains an emphasis of matter paragraph drawing attention to a USD 22.2 million of provisions relating to S3i projects. The 2021 auditors report dated 21 July 2022 contains an emphasis of matter drawing attention to the USD 19.11 million of new provisions and impairments relating to the S3i projects, and that the total bad debt allowance and impairments against the S3i investments amounted to USD 39.02 million.

The 2019 audit report issued on 21 July 2020 was unqualified, and there was no emphasis of matter. The long form audit report highlights observations on S3i. This

includes “UNOPS authorised investments (USD 8.8 million in 2018, USD 30 million in 2019 and USD 20 million in February 2020) under the S3i initiative without any formal governance structure or framework. UNOPS concluded a memorandum of understanding with a partner (private entity) on a direct selection basis under its S3i initiative, to formalise collaboration on designing and developing projects in sustainable social housing, renewable energy and health care.”

Furthermore, the 2020 long-form report of the UNBoA went into more specific details in relation to the risk exposure of the S3i projects and noted that “UNOPS invested in all of the seven S3i projects (amounting to USD 58.8 million) by entering into agreements with seven special-purpose vehicles, all affiliated with a single private holding group. The expected credit loss of USD 22.19 million on aggregate against S3i initiative investments was reflected in its 2020 financial statements that noted: “The deficiencies in partnership diversification might further expose S3i initiative investments to risks”.

### **UNOPS Handling of UNBoA Reports**

UNBoA issues the audit report and its management letter to UNOPS after the completion of its audit. We were informed that the UNBoA recommendations are coordinated and followed under a function within the Financial and Admin Group of UNOPS.

There were two primary reports that were elevated and presented to the Executive Board:

1. Report to Executive Board on Oversight Recommendations

This report was specifically prepared by UNOPS and provided to the Executive Board regarding Executive Director’s Action Plan in response to S3i challenges. It includes a short-form summary report of recommendations stemming from reports issued by the UNBoA, JIU, IAIG and the ACABQ. It includes a timeline for completion of recommendations.

2. Reports on status of the implementation of the recommendations of the United Nations Board of Auditors

This report is part of the annual reporting of UNOPS to the Executive Board alongside with status of implementation of JIU recommendations, IAIG’s annual report and the follow-up of its recommendations, and the management responses to IAIG, the Ethics Office and the AAC. The UNBoA 2019 report highlights two recommendations relating to S3i. One was a high priority recommendation: “UNOPS to issue specific instructions following up on the issue of the framework, guidelines, procedures and policy to strengthen and formalise the processing and documentation of projects funded through the growth and innovation reserve”. The second was a medium priority recommendation for UNOPS to: “review the status of implementation of the projects, establish a more structured process for monitoring their progress, reassess the risks of its investments on the basis of actual progress against the benchmarks and take appropriate steps for mitigation measures”. UNOPS agreed with the recommendation but there is commentary from management that they did not accept many of the comments made by UNBoA as they were “not grounded in reality and show only rudimentary understanding of the ways in which the world of investments operates”.



The UNBoA report for FY2021 also flagged issues regarding We are the Oceans (WATO) in its key findings. This included the following commentary on WATO: “UNOPS signed a USD 5 million agreement with WATO in 2017, and another USD 2 million agreement in 2018 with a renamed entity of WATO. The Board noted that in the partnership with WATO and Oceans Generation, the practices of UNOPS with regard to project initiation, advance payments, unused fund claims and project delivery and remedies taken by UNOPS were not in compliance with the rules and regulations of UNOPS.”

It is clear that UNBoA has made several observations, risks and recommendations in relation to its scope of work. This includes specific aspects in relation to S3i. The issues have been reported to UNOPS management and the Executive Board. There is also a management response provided to the Executive Board, and an annual follow-up by the UNBoA on prior recommendations.

#### 4.2.4 Joint Inspection Unit of the United Nations System

The JIU operates with respect to the legislative organs and the secretariats of those specialised agencies and other international organisations within the United Nations system that have accepted its Statute. The JIU is part of the third line of defence for UNOPS as an external unit of oversight. The JIU has a task of inspecting 28 UN organisations on four different themes: Audits and Committees, Investigation and Ethics, Accountability Frameworks and Reporting on Business Continuity. The programme and work of JIU has typically included system-wide projects and management and administrative reviews. The JIU consists of 11 Inspectors appointed by the General Assembly that serve a maximum of two 5-year terms. They are mandated to provide an independent view through inspections, evaluations, reports, letters and notes aimed at improving management and methods and at achieving greater coordination between organisations.

The JIU has issued several reports in recent years that are relevant to UNOPS. These include: a report for a review of management and administration in UNOPS in 2018; a UN wide report on a review of audit and oversight committees in the UN system in 2019; a report on a review of the state of the investigation function and progress made in the UN system organisations in strengthening the investigation function in 2020; and a report of the review of the ethics function in the UN system in 2021. These reports have led to a number of recommendations across the UN, including UNOPS. The last UNOPS-specific review was conducted in 2018, which included three formal recommendations.

The JIU reports their findings independently of IAIG. IAIG acts as a UNOPS internal coordinator in feeding the recommendations into the UNOPS system, to identify owners and develop action plans. The ED reports on progress made towards JIU recommendations to the Executive Board. IAIG prepares the annual report, which is annexed to the ED’s report to the Executive Board. KPMG reviewed the 2021 annual report on the recommendations of the JIU presented to the Executive Board. The 2021 report presents responses by UNOPS management to the recommendations in the reports relevant to UNOPS. During 2021, UNOPS implemented 52 out of 71 outstanding recommendations that were issued by the JIU between 2017 and 2020. Six more

recommendations were closed in early 2022, leaving 13 unresolved recommendations. Five of these unresolved recommendations were issued in 2019 and the remaining 8 recommendations were issued in 2020. Combined with the 17 recommendations issued in 2021 and yet to be resolved, there were 30 recommendations to be implemented by UNOPS as at the date of the 2021 report.

UNOPS implemented remedial actions to address some of these recommendations. However, as at the date of this report, there are 18 outstanding recommendations still outstanding. Several recommendations issued in 2019 related to outsourcing and remain under review by the UNOPS Procurement Group. Recommendations issued in 2021 related to the management of implementing partners and the ethics function, among others. Based on our information, the JIU has not issued any reports in 2022 that are relevant for UNOPS.

The report issued in 2019 noted that the “Audit Committee does not fully correspond to the requirements of leading practices and good governance as established by the Institute of Internal Auditors.” The report noted a difference in the mandate, member appointment practices, and independence and frequency of its self-assessment when comparing to other similar committees. The JIU recommended the Executive Board to adopt a revised terms of reference prepared by the ED for the AAC in compliance with good practices and established standards. The Executive Board at that time noted the management response, the three newly appointed members to the AAC, and the merger of the AAC and the Strategic Advisory Group, and the recommendation was considered implemented and closed. It has been shown by way of the 2022 IAIG self-assessment report of its independence that these aspects were not adequately addressed in 2019.

#### **4.2.5 Office of Internal Oversight Services (OIOS)**

OIOS exercises operational independence under the authority of the Secretary-General in the conduct of its duties and, in accordance with Article 97 of the Charter, has the authority to initiate, carry out and report on any action which it considers necessary to fulfil its responsibilities. The Office has dual reporting lines to the General Assembly and the Secretary-General.

##### **Mandate**

The mandate of OIOS stems from a call for a broad strengthening of oversight, anchored in General Assembly resolution 48/218B of 29 July 1994, which established the Office as operationally independent under the authority of the Secretary-General in the conduct of its oversight duties. OIOS is mandated to assist the Secretary-General in fulfilling his oversight responsibilities through the internal audit, monitoring, inspection, evaluation and investigation services of the UN. OIOS is mandated to provide coverage to all UN activities under the Secretary-General’s authority. Its functional areas include Internal Audit, Inspection and Evaluation, and Investigations.

##### **Independent Audit Advisory Committee**

Established pursuant to General Assembly resolution 60/248, the IAAC is a subsidiary body of the General Assembly that serves in an expert advisory capacity and assists the Assembly in fulfilling its oversight responsibilities. As per its terms of reference, the Committee is responsible for advising the General Assembly on the scope, results and



effectiveness of audit and other oversight functions, on measures to ensure management's compliance with audit and other oversight recommendations; various risk management, internal control, operational, financial reporting, and accounting disclosure issues; and on steps to increase and facilitate cooperation among United Nations' oversight bodies.

## 5 Ethics, Compliance and Organisational Culture

### 5.1 Internal Justice

All UNOPS personnel have an obligation to speak up when they see something that does not meet UN and UNOPS standards. Suspected wrongdoing can be reported via UNOPS Speak Up channel, which is a secure, confidential and independent hotline maintained by an external service provider (NAVEX). The channel is available to all UNOPS personnel and to people outside of UNOPS.

Reports of wrongdoing submitted via the UNOPS Speak Up channel are confidentially forwarded to the appropriate team within UNOPS for further action. Different teams manage different types of wrongdoing:

- The Ethics Office is entrusted with managing concerns of retaliation against UNOPS personnel for reporting misconduct or cooperating with an audit, investigation or other duly authorised fact-finding activity.
- The IAIG receives allegations of fraud and financial irregularities, forgery, theft, misuse of resources, conflicts of interest, sexual harassment, assault including sexual assault, sexual exploitation and abuse, and violations of local laws.
- The Internal Grievances team (within the People and Performance Group, PPG) handles any form of discrimination, harassment and abuse of authority. They also investigate improper recruitment processes.

In addition to these, UNOPS has a dedicated Health and Safety, Social and Environmental (HSSE) team which addresses any reports relating to workplace health and safety concerns and the Legal team is responsible for disciplinary actions as well as appeals before UN tribunals.

The figure below shows the structure of the Internal Justice system at UNOPS:



**Figure 6: Internal Justice at UNOPS**

The allegation of wrongdoing received through NAVEX will go to the specific team (IAIG, Ethics or Internal Grievances) to determine if it falls within its mandate. If it does not fall under the team’s mandate, the case is referred to the relevant reporting unit. Whilst this

process of several teams may provide flexibility in terms of choosing the right unit to investigate the matter, it raises risks of confidentiality and anonymity of the whistleblower. Additionally, the reporting process might be unclear from the whistleblower's point of view, which may weaken the readiness and willingness to report concerns.

An external consulting company conducted an assessment of UNOPS' reporting of wrongdoing and grievances management and published a report in January 2022. According to the report, there is no common understanding of confidentiality and of acceptable and non-acceptable workplace 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.

## 5.2 Ethics Office

### Background

UNOPS has had its own internal Ethics Office since 2009. The purpose of the office is to engage UNOPS staff and personnel into a culture of ethics and to improve accountability and integrity of the operations and the management. UNOPS' Ethics Office follows procedures and policies of independence and impartiality.

When the office was established, its main tasks were to ensure that financial disclosures were submitted and administered, personnel who reported misconduct were protected against retaliation, training on ethics was performed, and personnel were provided with advice and guidance. The Ethics Office follows the General Assembly Resolution 60/1 and subsequent Secretary-General's bulletin 2007/11.

UNOPS management decided to add a compliance function to the Ethics Office at the end of 2018 and renamed it "Ethics and Compliance Office." This lasted until June 2022, when the compliance part was removed from the office's mandate to align it further with other comparable Ethics Offices in the United Nations.

UNOPS hired a new full-time director for the Ethics Office in 2019 under the title "Chief Ethics and Compliance Officer". The Officer left UNOPS in March 2022. Since then, the office has been led by an interim Ethics Officer. The recruitment process of a new Chief Ethics Officer was ongoing during the time of this review.

In 2020, UNOPS management added a mandate to the office: "providing guidance to management to ensure UNOPS policies and procedures promote integrity standards".

The United Nations also has a UN Ethics Office, effectively an advisory office, where UN personnel can seek support, advice, and protection against retaliation. The office was established in 2006.

### Mandate, practices and resources

According to the Secretary-General's bulletin 2007/11, "the ultimate goal and principle of an Ethics Office of a separately administered organ or programme of the United Nations, established by the Executive Head of the organ or program, pursuant to the present bulletin, shall be to cultivate and nurture a culture of ethics, integrity and accountability, and thereby enhance the trust in, and the credibility of, the United Nations, both internally

and externally. Independence, impartiality and confidentiality are vital prerequisites for the functioning and operation of an Ethics Office of a separately administered organ or programme of the United Nations, and they shall be fully respected.”

The Ethics Office is expected to be independent and impartial, maintaining confidentiality at all times. It gives confidential advice to both UNOPS management and personnel about ethical issues which arise and how to manage them.

The Ethics Office currently has five full-time positions, two of which were under recruitment during this review. Four of the positions are established under the ICA contract modality. Interviews indicate that there has been high turnover in the Ethics Office in the past few years, which has led to partly insufficient records of past cases and handover of ongoing cases.

Practices overseeing the ethics of UNOPS personnel are mostly derived from OD.PCG.2017.01 Human Resources, Ethics and Culture and OI.Ethics.2022.01 Protection against Retaliation. The most important tasks of the Ethics Office are developing standards, supporting training and capacity building, administering the Financial Disclosure & Conflict of Interest Programme, maintaining a register of gifts and hospitality and providing associated advice, protecting against retaliation procedures, awareness raising on ethical risks and the importance of speaking up, providing confidential advice and guidance to personnel, and providing guidance to management to ensure that the policies, procedures and practices are aligned with and reinforce the standards of integrity and preparing the Annual Ethics Officer Report to the ED. The annual report is submitted to the Executive Board at its annual session (pursuant to Board decision 2010/17).

UNOPS, through the Internal Control Framework, has a Statement of Internal Control process in place, which stipulates a self-assessment of management risks. All MT members must conclude and sign the assessment annually. The assessment includes the self-assessment of the Ethics Officer and his policy.

The Executive Board requested the Ethics Office to update the UNOPS Policy Against Retaliation. The previous update to the policy was made in 2018. The updated version of the policy was published in August 2022. It is aligned with the wider Ethics Panel of the United Nations (EPUN), includes inputs particularly from the UN Secretariat, UNDP and UNFPA to further align UNOPS’ practices, and opens the door for wider collaboration and exchange of good practices.

The JIU reports in 2010 and 2018 pointed out the lack of independence of the Ethics Office. According to the 2018 report, the ethics reports were presented to the Executive Board by UNOPS General Counsel during 2016-2018 and there is no evidence in the available documentation giving the Ethics Officer formal or informal access to the Executive Board, as had been recommended in the 2010 JIU report on the ethics function, to ensure the independence of the Ethics Office.

In 2022, the Executive Board made a decision to request an independent review of the ethics function 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.

The current interim Ethics Officer engaged an external consultant to do a review of UNOPS' due diligence (DD) procedures and KPMG has reviewed the draft report of the review dated September 2022. According to the report, it is unclear who owns the DD function and associated resources within UNOPS. Furthermore, the Legal Group is currently reviewing whether it should continue hosting the DD workstream for partners and other entities under the OI (OI.LG.2018.07) for DD.

The ownership of the compliance function is also unclear. UNOPS operates according to a standard three lines of defense model, although no coordinated compliance programme covering DD activity exists. Responsibility for compliance activities is currently unclear as the remit was removed from the Ethics Office, to align further with comparable Ethics Offices across the Ethics Panel of the United Nations, and not yet been situated elsewhere. A broader compliance and DD programme would look at exposures to key compliance risks, ensure appropriate controls are in place and provide some monitoring, training and guidance activity. The interviews indicate that it is currently unclear where the compliance function is located in the organisation and who is responsible for compliance activities within UNOPS.

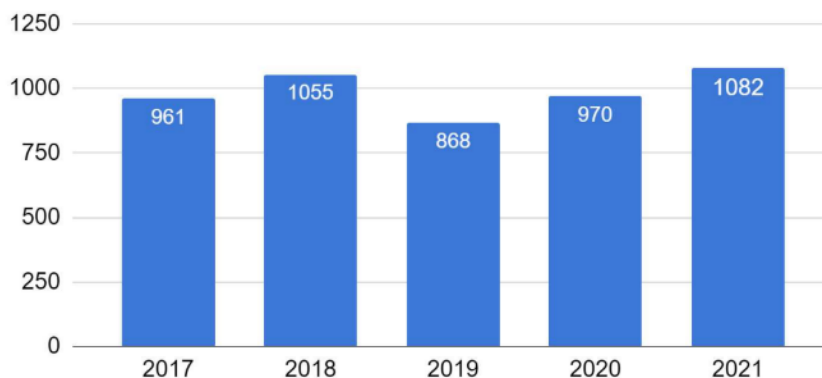
As we have recommended earlier in this report, compliance functions should have adequate capacity and be able to operate independently. We do not repeat that recommendation here but highlight the need for clarity and transparency.

**Recommendation:**

- Define the ownership and tasks of the compliance function and communicate them clearly within the organisation.

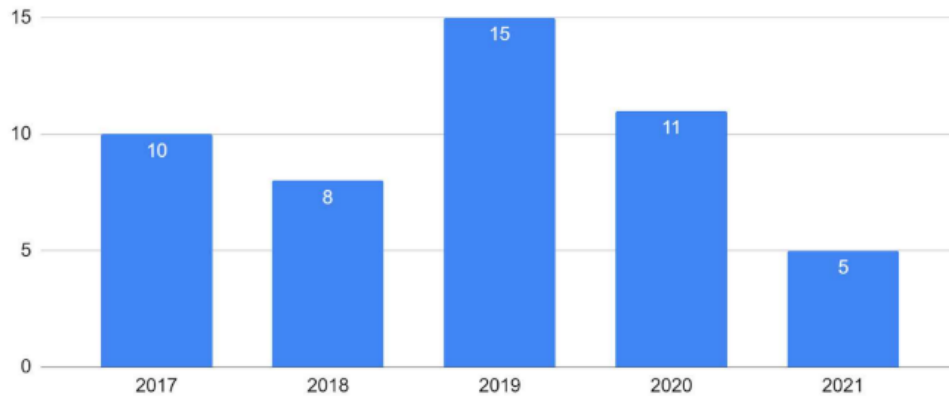
**Ethics Advice and Protection Against Retaliation**

The Ethics Office receives approximately 1,000 requests for services per year, most of them requests for advice and guidance. The figure below shows the number of cases from 2017 to 2021.



**Figure 7: Requests for services by reporting cycle, 2017-2021**

UNOPS has zero tolerance for retaliation and any UNOPS personnel experiencing retaliation can seek protection against retaliation through the Ethics Office. The office receives 5-15 requests for protection against retaliation annually.



**Figure 8: Requests for protection against retaliation 2017-2021**

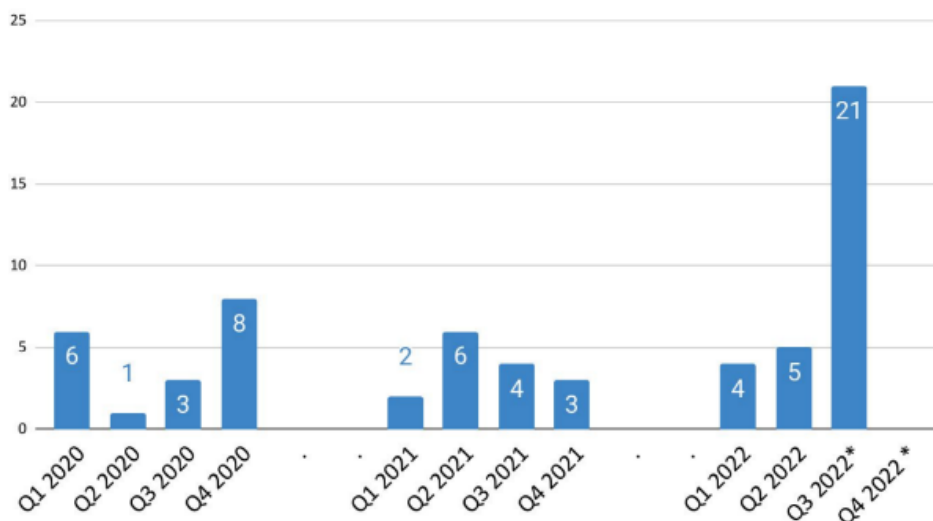
According to interviews, the number of cases increased after the challenges of the S3i came to light. However, the Ethics Office does not have the capacity to capture the case numbers in real-time and the figures are only generated at the end of the year for the annual report. Real-time monitoring of case numbers would strengthen the ethics function and enable swift reactions to changes. Real-time case numbers are also not available due to turnover in the office. The actual figures from 2022 can be presented in the beginning of 2023, when the annual report is created.



Preliminary Data		2022 (YTD)**
Ethics	Retaliation*	34
	Advice on Conflicts of Interest	63
	Outside Activities	169
*Covers request for advice on Protection against retaliation + requests for Protection against retaliation + preventive action		
** Year to date numbers (Q1+Q2+Q3), expected to surpass last year's numbers		

**Table 3: Preliminary Ethics Office case data for 2022 covering retaliation, advice on conflicts of interest and outside activities, as of 30 September 2022**

PAR requests for advice



**Figure 9: Protection against Retaliation (PAR) requests for advice in 2020-2022**

**Recommendation:** In order to monitor and report on the number of cases received on a regular basis, the Ethics Office should capture the case numbers in real-time.

### 5.3 Ethical Policies and Guidelines

UNOPS has several guidelines relating to ethical principles and expected standards of conduct in place. These guidelines (such as the OD on Human Resources, Ethics and Culture, OI on Protection against Retaliation and OI on Financial Disclosure and Conflict of Interest Statements) lay out thorough principles and processes to ensure ethical behaviour and integrity across the entire organisation. These OIs have considerable information about the different processes but the fragmentation of relevant information across multiple OIs might have a negative impact on personnel's understanding of the key processes of the whistleblowing system.

UNOPS has a "Policy to Address Fraud and Corruption" but no dedicated anti-bribery and corruption policy. The existing policy primarily focuses on how to report and investigate matters. Additionally, there is no reference to bribery specifically in the policy, nor does it state that UNOPS has zero tolerance for bribery and corruption. UNOPS has a number of anti-bribery measures in place, but it lacks an overall anti-bribery risk assessment and framework, especially one applicable to investment projects. The creation of such a policy was recommended as an immediate action in the internal S3i Post Incident Review (dated 25 February 2022).

As the ethical guidelines are fairly complex and not practical in nature, ensuring an understanding of what is required from the personnel in practise and everyday work is essential. A key area in establishing an efficient anonymous reporting process is management's frequent communication on the matter and training provided to the personnel. KPMG's interviews indicated a lack of trust in the handling of whistleblowing reports and the overall ambiguity of the whistleblowing processes. The UNOPS Speak Up Hotline offers a channel for individuals wishing to report wrongdoing, as a first step in the process, but there is limited information available how confidentiality is ensured in the process.

The Misconduct Allegations OI states that there are multiple different decision-makers in the preliminary assessment phase (of a reported allegation) who may decide to close the process without an investigation (e.g., Ethics Officer, PGG Director and IAIG Director). The ED may also close cases if it would be in the best interests of UNOPS. The OI does not include examples of what the "best interests of UNOPS" entails. Relying on the discretion of single individuals can sometimes be problematic. According to best practise, suspected violations should always be referred to an independent and objective whistleblowing resolution body. At the moment, decisions may be done by directors with responsibility for their respective functions, which may affect their objectivity. Proper communication to whistle-blowers should also be a priority as insufficient communication might weaken the credibility of the process. KPMG's review interviews indicate that communication to the complainants has in some cases been insufficient.

KPMG's review interviews also indicate that using ICA agreements as employment contracts can have a negative impact on personnel's willingness to report concerns. This is due to lack of trust in the confidentiality and fear of retaliation in the form of not continuing the ICA employment.

KPMG's interviews indicate that the workplace culture, atmosphere and practices have been in some cases contradictory to the ethical policies and guidelines. This has led to a situation where personnel might not feel comfortable in reporting unethical behaviour of colleagues or supervisors. In some cases personnel who have spoken up have been labelled as "difficult". In an open organisation, those who might have witnessed unethical behaviour should be encouraged to speak up, listened to, valued and protected. Interviews indicated cases in which senior team members had not been held accountable for their unethical behaviour or actions. Also, the decision of whether to investigate or not, as well as the case review, took a long time in several cases.

#### Recommendations:

- Overhaul the whistleblowing process and establish clear protocols and rules for confidentiality.
- Create protocols for dealing with complaints and investigations, especially involving Director levels or above. Ensure that the reported concerns/cases are handled in a consistent way, regardless of the status/seniority of the reportee. Encourage personnel to report on unethical behaviour and create their trust that the ethical policies and guidelines are followed in every situation.
- Engage in closer collaboration with other UN agencies and relevant external parties around HR and Ethics practices.
- Create a dedicated policy for anti-bribery and corruption.

## 5.4 Organisational Culture

As we have interviewed a large group of current and former UNOPS personnel across all regions and reviewed a significant amount of documentation, we have been able to form a picture and understanding of the organisational culture at UNOPS.

#### Financial performance

In general, the focus of UNOPS' operations has been on the financial performance of the organisation, as well as the increase of reserves. According to interviews, this seems to derive from the fact that UNOPS was close to bankruptcy in the early 2000s. Since 2014, the focus has also been driven by the management agenda to reposition the agency. Management was focused on achieving more with less, which in practice meant less resources and underinvestment in personnel. As a result, many positions have been kept vacant and personnel have performed several jobs simultaneously. The wide usage of ICA contracts also seems related to the intention to reduce costs. At the same time, the underinvestment in systems and tools has been visible, when tools have been developed in-house (e.g., the oneUNOPS ERP system) or when the procurement process has been slow (e.g., the treasury system Kyriba). Currently, the MT meeting agenda and Quarterly Performance Reviews are mostly focused on the financial performance, rather than on risks, implementation or impact of the projects.

#### Management culture and reporting lines

At UNOPS, a top-down management culture has been predominating. Power has been concentrated in the ED and DED, who have been the ultimate decision makers in various areas. Based on our interviews, 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 DED (who was also appointed the Chief Executive of S3i) dominated many aspects of decision-making and investment formulation in relation to S3i and more broadly across the Agency. Whistle-blowing mechanisms have not been fully functional (e.g., due to limited clarity of processes, confidentiality concerns, non-action on complaints) and whistle-blowers have felt a threat of retaliation. Many interviewees noted that elements of a culture of fear had been instilled in the organisation during the S3i period.

During the past few years, the reporting lines of various UNOPS personnel have changed due to changes in management and leadership structures. As one example, the Chief Information Officer (CIO) and the Director of the PPG have direct reporting lines to the CFO. A full review of the organisational structures and reporting lines is needed in-line with the top management structure changes.

UNOPS is already undergoing significant changes in the short- and long-term. We are also recommending several changes to processes and structures. In order to manage the simultaneous and most likely overlapping changes, a structured change management process might help prioritise and clarify the transformation of 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.
- Ensure a robust **management structure** with clear reporting lines and sufficient division of duties in respect to 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.
- Encourage open engagement and differences of opinion through regular “pulse” surveys, discussion forums and frequent sharing of information.
- Take into use a structured change management process to facilitate an efficient and effective organisational change.

## Organisational strategy / Gap between the HQ and the regions

As discussed earlier, UNOPS' operations are based on geographical areas rather than types of services and UNOPS has six regions, each led by a Regional Director. However, there is no service line management on the level of HQ. As noted under section 2.3.1 Strategy UNOPS regions have considerable freedom and flexibility to adapt their operations to the needs of the clients locally, which make them fit for client needs. This flexibility can potentially increase the risks of the portfolio as the decision of the regions might not align with the strategy and core capabilities of UNOPS. Also the flexibility might distance the regions from each other and from the HQ.

Interviews indicate that there is confusion on the strategic direction of the organisation. Some UNOPS personnel think it would be useful for the whole organisation to have a corporate strategy where the focus areas are defined together by the HQ and regions for each strategy period and year.

Furthermore, interviews indicate that HQ personnel are rather distanced from personnel in the regions and do not always understand the needs and specifics of the regions. There is a clear need to close this gap.

### Recommendation:

- Strengthen **regional and functional** input and participation in key decision making.

## 6 Financial and Performance Management

### 6.1 Costing and Pricing Methodology

UNOPS original costing and pricing model used specific percentages for management fees based on the type of the service provided. This created discussion and some confusion inside the organisation as projects often combine various services. In 2013 the model was revised to avoid this ambiguity by only considering key financial aspects common to all projects and linking the management fee rates to the indirect cost of the organisation. The pricing model was also made more flexible to allow for portfolio shifts and growth. This kind of pricing model was considered to better suit UNOPS, which works on demand basis and has a continually changing project portfolio based on the needs of its partners. The 2013 model covered the complete UNOPS portfolio and all of its different services, and established one common management fee methodology that also allowed UNOPS to invest in itself (indirect expenses). The model was based on 2010 financial figures and was built with the assumption to recover USD 71 million management expenses with USD 1.5 billion delivery.

The model included the below four components:

1. **Management Fee.** A cost recovery mechanism to cover UNOPS global indirect costs (e.g., 7.5% or 3%). The minimum management fee to be recovered was determined in a separate costing tool. Any deviations below this minimum fee needed to be approved by the ED. While UN Agencies usually have a fixed set of fee ranges based on the nature of contributions received (e.g. 8% management fee for non-core contributions or 13% of project support cost recovery for the UN Secretariat), the UNOPS indirect cost recovery model calculates the appropriate indirect cost fee percentage on a case by case basis for each agreement. This is due to the “fee for service” status of UNOPS (it does not receive core funding as other UN Agencies do).
2. **Centrally Managed Direct Costs (CMDC).** A cost recovery mechanism for services that are provided from HQ entities (such as the Bangkok shared services center) to various projects, including administration and client projects. The costs are recovered using a cost driver-based approach. The UNOPS functions providing these services, the budgets for these services, and the annual cost drivers and rates are discussed, approved, and documented during the annual budget and target setting process. Interviews indicated it has not been clear to all personnel in UNOPS Regional and Country Offices what services were recovered using the CMDC modality.
3. **Locally Managed Direct Costs (LMDC).** A recovery mechanism for costs of local support services to projects that are setup as local shared services. CMDC and LMDC represent administrative and project management related support services provided to client projects to ensure compliance, efficiency and effectiveness of UNOPS operations.
4. **Risk Increment.** An optional cost addition based on the professional judgement of the project manager and country team. The valuation of the risks was calculated based on specific criteria and was a maximum of 100% of the minimum management fee.

In practice, a separate costing tool (in Excel) is used to calculate management fees that will be included in project budgets. The actual management fee is allocated to the projects in the oneUNOPS ERP system by the Finance team on a monthly basis. As the cost elements are different from other UN Agencies, there has been a regular need to explain the pricing methodology to partners. According to the interviews, some partners find the pricing model complicated and not transparent enough. UNOPS is also sometimes perceived as an expensive service provider. However, it does operate in difficult places where other organisations are not able to operate and where the costs of operations are higher.

Interviews indicate that there was disagreement within UNOPS about whether the model should have been updated as the figures were based on 2010 financial statements and the portfolio had grown and developed a lot since then. This was discussed several times over the past few years but senior management did not see it as necessary, whereas the lower-level finance team leaders requested the update several times.

On 29 August 2022, some changes to the pricing model were approved by UNOPS. The terminology also changed and UNOPS now refers to indirect cost recovery rather than pricing. The changes are applied to all new projects added to oUP on or after 29 August 2022.

## UNOPS cost recovery model - No double counting as per Harmonized Cost Categories confirmed by FBN in its 38th Session

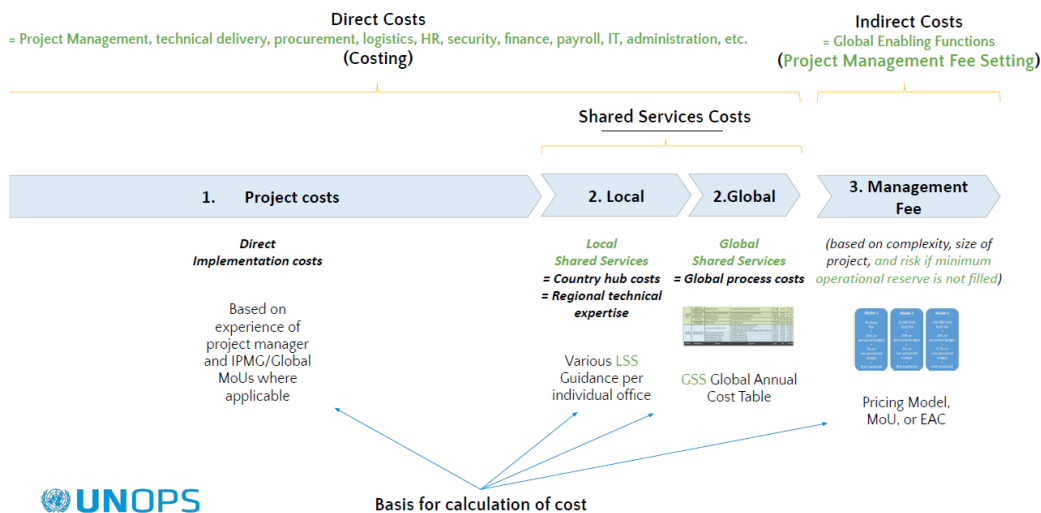


Figure 10: UNOPS cost recovery model

The changes to cost recovery model (previously pricing) include:

1. An updated financial basis using 2020-2021 financial figures, rather than 2010. This has resulted in lower fees because the management fee is calculated based on the share of indirect costs in relation to delivery and the delivery has grown significantly more than the indirect administrative costs.
2. Application of the Indirect Cost Recovery Model to Global Partner Agreements (referred to as Memorandums of Understanding (MoUs) in the UN context).

3. Link of the risk increment to the minimum operational reserve status, meaning that no recovery of risk increment is applied when the minimum reserve requirement is met.
4. An adjustment of costs on a biannual basis from now on. The update of the indirect cost recovery model will be integrated to the UNOPS biannual budgeting process (the Biennial Budget Estimates process, for next biennium 2024-2025).

Interviews indicate that there still uncertainty within UNOPS around what these changes mean in practice. Several interviewees noted that the CMDC and risk increment were abolished in the updated model; however, this is not the case as the CMDC was just clarified and renamed as Global Shared Services Costs. Also, the risk increment is still valid but now limited to situations where UNOPS does not meet the minimum operational reserve requirement. In line with the change for CMDC, the LMDC concept was also renamed for more clarity to Local Shared Services. The regional and country offices are responsible for the allocation of Direct Local Shared Services Costs to projects. However, the recovery of Local Shared Services is managed by each office individually and results in different practices and methodologies across offices. This can lead to confusion especially with global partners.

Interviews indicate there is a plan to continue the development of the cost recovery model in the near future in addition to the biannual regular updates. Phase two of the indirect cost recovery model update is scheduled to be finished in Q1 2023.

**Recommendation:** The pricing should be further developed. Efforts should be made to communicate the logic and the basis of the different pricing model elements internally and with partners so that a common understanding and acceptance is formed.

## 6.2 Treasury Function

Until the end of 2015, UNOPS outsourced its treasury function to UNDP. From the beginning of 2016, simultaneously with the oneUNOPS ERP implementation and governance and legislative framework reform, UNOPS started its own treasury function in-house and a separate treasury team was created under the Finance Unit. The treasury team consists of five persons and the Head of Treasury reports currently to the Deputy CFO. In addition to the treasury team, the IPAS finance team and the Bangkok Shared Service Centre team are involved in payment processing.

The tasks of the treasury team include:

- Cash management and banking (including 170 bank accounts globally, operational cash management, credit risk management, banking relationships, payments, connectivity – “immediate/short-term approach”)
- Forex exchange rate and liquidity management (“medium-term approach”)
- Investment management (majority of investments in four externally managed investment portfolios, custodian Northern Trust used – “long-term approach”)
- Trade finance (project financing, advance payments, guarantees, letters of credit, bid securities, performance guarantees).

The treasury function has two main policies:

- OI Treasury and Cash management 3/2022, first created in late 2016, and



- OI Statement of Investment Principles and Investment Advisory Committee ToR 2/2021.

Additionally, the investments managed by the treasury team are governed by the asset management agreements with the external service providers and several Standard Operating Procedures (SOPs). According to the study on minimum operational reserves requirement, UNOPS has adopted a conservative cash investment strategy: it invests in high-quality government bonds and highly rated bank obligations. In Q2 2022, the investment portfolio managed by the Treasury function amounted to USD 4 billion. The financial income resulting from successful financial investment activities has been a significant contributor to the UNOPS surplus creation over the past years. The increase of the investment portfolio and the financing income for the years 2012-2022 is presented in Table 4 below.

An external consultant performed a treasury review in 2016 and recommended UNOPS to procure a proper treasury system. The treasury function managed almost five years, from January 2016 to October 2020, without a payment system. It first took two years to get the business case approved, then two years to procure system and then one year to prepare for the implementation of the selected system. The selected Kyriba payment system went live in November 2020 and the integration work of bank accounts is still ongoing. According to interviews, the system has not delivered as well as expected. The cash management part works well but the system does not provide forecasts and does not systematically forecast payments to the future. Treasury function and the ED, CFO and Deputy CFO do not have a regular meeting schedule and discussions are mostly done on an ad-hoc basis.

	30 June 2022	2021	2020	2019	2018	2017	2016	2015	2014
(USD million)									
Finance income	-12	8	25	24	15	15	13	3	2
Exchange rate gain/(loss)	42	19	-13	1	5	-4	-2	0	1
<b>Net Finance Income/(exp)</b>	<b>30</b>	<b>27</b>	<b>11</b>	<b>26</b>	<b>20</b>	<b>11</b>	<b>11</b>	<b>3</b>	<b>3</b>
<b>Fair Value of Assets Available for Sale in Net Assets</b>	<b>-108</b>	<b>-10</b>	<b>11</b>	<b>9</b>	<b>-3</b>	<b>4</b>	<b>3</b>	N/A	N/A
<b>Investment Portfolio</b>									
Long-term investments	1 048	1 214	761	584	338	201	1 123	347	534
Short-term investments	2 267	2 994	2 101	1 089	1 326	1 235	13	667	420
Cash equivalents	694	536	728	418	465	300	195	25	108
<b>Total Investment Portfolio</b>	<b>4 008</b>	<b>4 745</b>	<b>3 589</b>	<b>2 091</b>	<b>2 128</b>	<b>1 736</b>	<b>1 331</b>	<b>1 039</b>	<b>1 062</b>

**Table 4: UNOPS Net Finance Income, Fair Value of Available-for-Sales Assets and Investment Portfolio 2014-2022**

Since 2016, UNOPS' accounting policy of choice is to show fair value change of available for sale assets in the net assets. This is presented separately in the table above. The fair value change in net assets is unrealised and the actual realised result is shown only at maturity as part of the net financial income/expenditure in the Statement of Financial Performance. In 2022, the market situation has turned the fair value negative. The fair value was negative USD 108 million as of end of June 2022 (unaudited financial figures).

There is a risk that the large financial investment portfolio could potentially impact UNOPS operations negatively if significant financial losses would be realised.

**Recommendation:** The risks related to the financial investment portfolio should be carefully monitored in the current economic situation and reporting should be provided monthly to the ED and senior leadership.

## 6.3 Performance and Accountability for Results

According to our review, UNOPS could be described as a business-minded organisation. The interviews indicate that financial performance has been a focus of the operations in the past years, which has also caused challenges for the organisation. According to the interviews, there is no common understanding among personnel regarding the financial target setting of UNOPS. The annual growth targets of the regions are mostly focused on financial performance. There is ongoing discussion whether UNOPS should focus more on the impact of projects rather than on financial performance.

According to interviews, UNOPS' performance throughout the regions is monitored by the following five main KPIs:

1. Delivery - actual direct costs of projects, backward-looking
2. Net Engagement Revenue (NER) - management fee charged from the projects, backward-looking
3. Net Revenue (NR) - amount of management fee left after indirect costs, excluding provisions and write-offs, backward-looking, "pure profit"
4. Engagement Addition (EA) - value of agreements signed, forward-looking
5. Engagement Revenue Addition (ERA) - management fee expected to be generated from future engagement addition, forward-looking

For the last two years, UNOPS has had a Corporate Performance Dashboard, a reporting tool which enables the organisation to monitor its project portfolio's financial status and development. The overall view of the status of the portfolio has improved based on the new dashboard, according to interviews.

On an organisational level, the MT has Monthly Business Review (MBR) and Quarterly Business Review (QBR) meetings in which the focus is on the financial performance of the regions and the balanced scorecard progress. The balanced scorecard consists of four themes (people, process, partners and finance), and 17 key indicators. It also tracks risks across regions. The scorecard is a mix of engagement outcomes and management goals. A team called Organizational Portfolio Management Office (OPMO), located in the Infrastructure and Project Management Group (IPMG), monitors the KPIs related to the balanced scorecard on project monitoring. The focus of the team, together with the country offices of each region, is to improve the performance of projects across all regions.

There is also a quarterly corporate risk assurance questionnaire that each region fills out and submits to HQ. Interviews indicated, however, that this process is not always seen

as value-adding by the regions. At the same time, interviews indicated that HQ would also need more risk-related reporting from the regions.

We find that managing results is a balancing act between the somewhat unknown real-world demand and pre-defined strategy goals. At the strategy level, this leads to different levels of results, outputs and outcomes and sometimes co-mingling of the result levels. In the UNOPS Strategic Plan 2022-2025, there are 7 defined strategic goals, three contribution goals and four management goals. They are complemented by 12 management indicators with baselines and targets set out in the biennial budget estimates. As part of the larger UN System, UNOPS' work is also reported through UNOPS Country Offices and the Result and Accountability Frameworks of the UN System in countries where applicable. The indicators and results reported in UNOPS' annual reports and annexes and in UNOPS' business reviews are not fully aligned with the frameworks of the agency. If the results communication is not aligned with the frameworks, the many different results systems in use might cause confusion at the governance and management level.

#### Recommendations:

- Invest in resources and capabilities to enhance outcome-reporting.
- Develop the performance management process and strengthen accountability through reporting and results management. Align the frameworks and reporting of indicators. Enhance results communication to management.

## 6.4 Customer Satisfaction

UNOPS assesses its performance towards customers every two years with a partner survey. Previously, UNOPS conducted the survey on its own but, to increase the integrity of the survey, it was outsourced to an external company in 2019. Since UNOPS is a non-programmatic entity, the survey serves as invaluable feedback on the outcomes and impact of the organisation. The survey helps to better understand partners' perceptions, experiences, needs, and expectations in relation to their engagement with UNOPS. The results help prioritise and drive improvements in UNOPS' services and cooperation with partners, as well as set the foundation for the development of corporate, regional and country level action plans for partnership enhancement.

The results of the survey are reported in the annual meetings to the Executive Board. Partner satisfaction is also one KPI of the Management Results Framework with a target of 80%. The survey further informs that partners see UNOPS as a valuable partner in achieving a number of SDG goals.

In the survey from 2018-2019, UNOPS received a high mark on its performance and was thanked for efficiency, professionalism and delivery. Altogether, 670 clients and partners responded to the survey in 2018-2019. More than 75% of the partners would recommend UNOPS to other partners.

The latest partner survey was conducted in early 2021. Nearly double the number of clients and partners participated (1,288 respondents) and the distribution of respondents is representative of UNOPS portfolio in terms of regions and partners. The years 2020 and 2021 were especially challenging due to the COVID-19 pandemic and the high

demand of UNOPS' services in the health sector. In the survey, UNOPS received a high grade from its partners: 78% of them think UNOPS delivers high-quality services and would be willing to work with UNOPS in the future, and 80% of partners would recommend UNOPS. According to the results of the survey, UNOPS is valued as a relevant delivery partner and professional service provider. Based on the survey the challenges lie with the unclear pricing, timeliness of delivery and the promotion of gender equality. According to the latest survey, the largest demand for UNOPS' services is in project management, procurement, and infrastructure. The survey also shows results separately for each region, which is valuable information for UNOPS to further develop its operations.

It should be noted that the latest partner survey was conducted before the S3i challenges became public. The next partner survey is expected to be conducted in early 2023. The results of the upcoming survey should be carefully analysed and the partners' feedback and concerns should be taken into account when planning the future actions of the organisation.

## 6.5 Due Diligence Procedures of Projects and Partnerships

All services of UNOPS, whether it is procurement, HR, infrastructure or something else, are created as projects in the One UNOPS ERP system. In order to allocate the funding received against the expenditure, a project must be created. In order to set up the project in the ERP system, the Integrated Practice Advice and Support team (IPAS) has to review the project and the project has to be approved in the system by the appropriate authority.

The IPAS Engagement Review Process is, according to UNOPS' materials, a mandatory process for all engagements, before final engagement acceptance and signing of agreement. The engagement review process has been described as a systematic project review process. Its objective is inter alia to support informed decisions, to ensure that new engagements conform with UNOPS' policies and procedures and to protect UNOPS from risks due to appropriate oversight.

The engagement review usually begins when a Jira ticket is raised concerning an engagement and the IPAS team gets a notification. The engagement review process is done between One UNOPS Projects and Jira systems. Jira is used as a tool for internal discussions and key decision/approval documentation and was incorporated into engagement review operations since it allows the internal discussions that One UNOPS Projects does not support.

According to interviews, it should not be possible to begin any project implementation actions such as budgeting or recruiting personnel without entering the engagement first into the One UNOPS Projects system and raising a Jira ticket for the engagement review. The regional teams should not sign agreements before entering the engagement to the One UNOPS Projects and Jira. However, based on interviews, in some cases the engagement review process has been done after the signing of agreements.

The engagement review focuses on Legal, Project Management and Infrastructure (PMI), Finance, Procurement and HR areas, with Legal, PMI and Finance being the mandatory areas for all reviews to cover. It is standard practice to take into account all the aforementioned areas in engagement reviews even if all areas are not mandatory. If

an engagement contains high risks, those engagements are escalated to EAC for approval. High risks can be identified by the project team or IPAS reviewers. Possible EAC review is also documented to Jira. In the S3i investments, the IPAS engagement review process was not followed.

Any possible new partners go through a due diligence process which is currently conducted by the Legal Group. The DD procedures are promulgated in the OI (OI.LG.2018.07) for Due Diligence under the General Counsel, Legal Group. However, the scope and steps outlined in the OI are not currently being followed, due to a lack of appropriate resources among other reasons. The DD review process by the Legal Group focuses on reputational due diligence following a unified, single-step approach with different categories of entities. Based on our interviews and review of material, the DD process has not been structured during the period of the S3i investments. During 2021-2022, efforts have been made to create formal procedures for conducting DD in a systematic way. UNOPS also has limited staff capacity to carry out DD procedures compared to the size of the operations.

Any amendment to an engagement requires a review process as described above through IPAS. UNOPS can fulfil or engage almost any kind of partnership. Its mandate is very wide and all-encompassing in terms of servicing UN agencies and its government partners. UNOPS has written a Partnership Policy and subsequent OIs that describes the different partnerships: Framework, Engagement, Collaborative, Teaming, and other partnership categories for engagements that go beyond the policy.

#### **Recommendation:**

- Define clearer in OIs what types of partnerships are accepted. Consider restricting exemptions of the Executive Office to develop new forms of partnerships without EAC review or proper control mechanisms.
- All Regions need to ensure and reinforce the practice and process of completing the IPAS review before the project contract is signed.
- The development of the DD process should be continued and adequate resources allocated based the volume of work in the DD.

## 7 S3i Future

UNOPS has made investments totaling USD 63 million investments as part of S3i. The investments and related issues are described in detail in the separate backward-looking report on the S3i. At the time of our reporting, the financing contracts between UNOPS and SHS (a key partner in S3i) are under legal review. The S3i office remains in Helsinki, although some recruits from early 2021 have left the team. The S3i reserve in UNOPS net assets has been frozen until a decision on the continuance will be made.

UNOPS has received USD 11.4 million, i.e. EUR 10.0 million of funding from the government of Finland based on a funding contract, that aimed to enable the establishment and operations of the S3i team and office in Helsinki. This funding been booked as revenue inside UNOPS' management budget rather than establishing a separate project as per UNOPS regular procedures. This means that not all system-based controls are in use in the project.

Out of the total financing amount, USD 56.9 million (excluding interests) is outstanding. In its financial statements for 2021, UNOPS made impairments amounting to USD 15.2 million in relation to five S3i projects (Social Housing projects in Kenya, Ghana, India, the Caribbean and Pakistan). Furthermore, in the 2021 financial statements, UNOPS made a loss provision of USD 15 million in relation to the renewable energy project and another loss provision of USD 8.8 million in relation to the Monterrey Wind Project. The remaining balance related to S3i investments in the UNOPS balance sheet is USD 17.9 million (unaudited figures excluding interest). The S3i reserve in UNOPS net assets is not linked directly to the provisions made, but merely represents the total amount of S3i investments UNOPS is committed to in its net assets.

Total S3i Investments ( <b>Principal</b> )	63.0 million
Repayments (Cash received)	6.1 million
Impairments	15.2 million
Provisions	23.8 million
<b>Balance</b>	<b>17.9 million</b>

**Table 5: S3i investments in UNOPS accounting (in USD million)**

Based on our review, which has been detailed in the backward-looking report, we would like to highlight the following recommendations for consideration.

### Recommendations:

- Make sure the **value-addition of S3i** is clearly understood and create structures to support the value-addition within UNOPS' broader operations. S3i needs to be incorporated appropriately into UNOPS' existing legislative and internal control frameworks and monitoring.
- Focus on **activities close to what UNOPS** has been seen to do well through its global implementation capacity, such as efficient project execution, infrastructure and procurement in challenging circumstances.



- Clarify responsibilities on **S3i management** and assess the current team and capacity. Ensure adequate segregation of duties in the S3i team and establish **independent investment committee** with properly defined roles and mandates
- **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.
- Transfer the S3i project revenue funded by the government of Finland from the management budget to the **UNOPS project portfolio** to ensure proper internal controls, monitoring and reporting.
- **Assess the need for provisions for the outstanding balance** related to S3i investments.
- **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.
- Conduct a full external assessment of the existing S3i impact **investing frameworks, policies and capacity**. If impact investment operations are continued, UNOPS needs to establish a proper investment governance framework and strengthen the investment process and compatible operational arrangements, prior to making any new investments.



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