Follow-up of the 2022 Independent Reviews

UN Office for Project Services (UNOPS)

KPMG Oy Ab
21 December 2023
Glossary

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<th>Abbreviation</th>
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<tr>
<td>AAC</td>
<td>Audit Advisory Committee</td>
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<td>CRP</td>
<td>Comprehensive Response Plan</td>
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<td>DD</td>
<td>Due Diligence</td>
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<td>DED</td>
<td>Deputy Executive Director</td>
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<td>DoA</td>
<td>Delegation of Authority</td>
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<td>EB</td>
<td>Executive Board</td>
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<td>EAC</td>
<td>Engagement Acceptance Committee</td>
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<td>ED</td>
<td>Executive Director</td>
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<td>ENMO</td>
<td>Ethics Network of Multilateral Organizations</td>
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<td>EO</td>
<td>Executive Office</td>
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<td>GC</td>
<td>General Counsel</td>
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<td>HQ</td>
<td>Headquarters</td>
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<td>IAIG</td>
<td>Internal Audit and Investigation Group</td>
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<td>ICA</td>
<td>Individual Contractor Agreement</td>
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<td>IPAS</td>
<td>Integrated Practice Advice and Support</td>
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<td>IPMG</td>
<td>Infrastructure and Project Management Group</td>
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<td>JIU</td>
<td>Joint Inspection Unit</td>
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<td>KPI</td>
<td>Key Performance Indicator</td>
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<td>NYSC</td>
<td>New York Service Cluster</td>
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<td>OD</td>
<td>Operational Directive</td>
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<td>OI</td>
<td>Operational Instruction</td>
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<td>oUP</td>
<td>oneUNOPS Projects</td>
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<td>P3M</td>
<td>Portfolio, Programme and Project Management Process</td>
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<td>PID</td>
<td>Process Innovation and Digitalisation Programme</td>
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<td>PCG</td>
<td>People and Change Group</td>
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<td>QAG</td>
<td>Quality Assurance Group</td>
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<td>QBR</td>
<td>Quarterly Business Review</td>
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<td>S3i</td>
<td>Sustainable Investments in Infrastructure and Innovation</td>
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<td>SDG</td>
<td>Sustainable Development Goals</td>
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<td>SOP</td>
<td>Standard Operating Procedure</td>
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<td>ToR</td>
<td>Terms of Reference</td>
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<td>UNOPS</td>
<td>United Nations Office for Project Services</td>
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<td>UNFPA</td>
<td>United Nations Population Fund</td>
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<td>UNDP</td>
<td>United Nations Development Programme</td>
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Executive Summary

Background

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 first review focused 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 focused on UNOPS’ mandate, governance, risk management and internal control systems, performance management and accountability. KPMG Finland (KPMG) was selected as the independent external party to conduct the reviews and consequently prepared two review reports which were finalised on 28 November 2022.

As part of the forward-looking review, KPMG issued 48 recommendations in the areas of mandate and strategy, governance and management, risk management and control environment, ethics, compliance and organisational culture, financial and performance management, and S3i future. Five of the recommendations were directed to the Executive Board and 43 were directed to UNOPS management.

In reaction to the independent reviews and following discussions with the Executive Board, UNOPS responded to the recommendations with a Comprehensive Response Plan (CRP). The preparation of the CRP was led by the former Acting Executive Director and the CRP was presented to the Executive Board on the special session on 30 November 2022. The plan follows the structure of KPMG’s report and the 43 recommendations provided to UNOPS. The CRP includes altogether 82 actions that were initiated to respond to the recommendations. The CRP takes action on strategy and policy development, organisational structure reforms and organisation-wide process improvements. Some of the actions are targeted at individual processes, whereas some actions are cross-cutting and aim to transform the ways of working at UNOPS.

In its first regular session 2023 (30 January - 3 February 2023), the Executive Board decided to allocate USD 35.4 million to be distributed from the operational reserve towards the implementation of the CRP (refer to decision 2023/4). The largest budgeted items included the operational system reform (USD 21.1 million) and the S3i-related costs, such as legal fees and support to the affected countries (USD 9.7 million). At the time of this Follow-up review (status November 2023), the use of the budget has been fairly limited, as only 19.1 % of the budget had been utilised or committed to. This is mainly due to the long implementation period needed for the reform of the operational system. UNOPS provides monthly informal briefings to the Executive Board on the status of the CRP.

Scope, Objective and Methodology

UNOPS Internal Audit and Investigation Group (IAIG) commissioned KPMG in October 2023 to conduct a follow-up of the independent reviews of 2022. The objective of this assignment was to assess the implementation and current status of the
recommendations given in the report of the third-party review of the internal control systems, risk management and overall governance structures of UNOPS.

The assignment was conducted between October and December 2023. The assignment included an assessment of the relevance and status of the actions taken by UNOPS, interviews with the Regions, HQ Business Units representatives and Executive Office and review of supporting material for the actions taken.

The Draft Report has been submitted to UNOPS in early December for fact-checking and commenting. The Final Report is expected to be completed and submitted to UNOPS by the end of December.

In terms of the Board related recommendations, KPMG understands that a review of the Board’s role is underway and is being conducted by the Joint Inspection Unit (JIU) of the United Nations. In this draft report we have provided detailed review of status of the Board related recommendations.

The full CRP and KPMG’s assessment of the implementation of the recommendations and actions is presented in a separate annex. This Executive Summary provides an overview of the implementation in the different areas of the CRP including Mandate and Strategy; Governance and Management; Risk Management and Control Environment; Ethics, Compliance, and Organisational Structure; Financial and Performance Management and S3i. This structure of the Follow-up Report aligns with the third-party review of 2022. Under each section of this Executive Summary, we shortly summarise the key actions taken by UNOPS and any areas that require further attention from UNOPS management.

**Mandate and Strategy**

UNOPS engaged in a fast-track Mid-term Review (MTR+) in early 2023, aimed at informing a reformulation of the Strategic Plan. The strategy process including the MTR+ was led by the Strategy Group in close collaboration with the Executive Office.

In this MTR+ process, UNOPS organised consultations with external and internal stakeholders. UNOPS, for example, organised informal consultations with the Executive Board, discussed the MTR+ in Client Board meetings and sought comments from the management of UNOPS. In terms of engaging with personnel more broadly, UNOPS conducted a survey to obtain inputs to the MTR+ and to the strategy update process. In addition, the results of the partner, personnel pulse, and global leadership surveys were utilised in the consultation process. The Strategy Group also performed an analysis of the UNOPS project portfolio to assess how it links to the different services of UNOPS, Sustainable Development Goals (SDGs) and client needs. The portfolio analysis further impacted the development process of the revised Strategic Plan.

As a result of the strategy process, “the UNOPS Strategic Plan, 2022-2025, restated” (Strategy) was approved by the Executive Board in early June 2023. According to the Strategy, the services of UNOPS are focused on delivery in infrastructure, procurement and project management. The restated Strategic Plan repositions UNOPS as an
implementing party within the UN system with a commitment to help the most vulnerable people and support countries in special and fragile situations.

In alignment with the restated Strategy, UNOPS started to develop its key performance indicators (KPIs) to reflect its renewed focus on impact and SDGs and to enable the measurement of performance in the implementation. As a result of this development work, UNOPS has reformulated its strategic priorities, KPIs, and impact management framework.

The restated Strategy repositioned UNOPS as a project-based organisation focused on service delivery, UN values, and impact. The Strategy is a key agenda item for the new management that is committed to communicating and implementing the renewed focus across the organisation. The Strategic Plan has already been communicated to personnel and external stakeholders in several forums and various ways. However, the deployment of the revised Strategic Plan across the organisation is still ongoing. According to the interviewees of the organisational culture review that KPMG conducted for UNOPS earlier in 2023 (March – June), UNOPS personnel conveyed strong expectations for the new leadership in strategic guidance.

Areas of Further Attention

As a summary KPMG concludes that the actions by UNOPS management to address the KPMG recommendations from 2022 under Mandate and Strategy have been implemented. Based on KPMG’s review, some areas under the Mandate and Strategy would benefit from further management attention going forward.

The interviews indicated that, despite the active communication from UNOPS top management, the Strategy is not yet well known within the organisation and not fully deployed in the implementation of activities. Due to the fast-track of the MTR+ it can be expected that the Strategy development did not fully engage the organisation. Thus, further communication on the Strategy at all levels of the organisation is encouraged, and the specific methods and channels for the continued communication of the Strategy should be considered. In terms of full deployment of the Strategy, we recommend that KPIs are fully aligned in performance management of staff and management and that the strategy is taken into the implementation plans of the Regions and Country operations.

Governance and Management

KPMG’s independent review in 2022 noted that the decision mandate at UNOPS was highly concentrated and emphasised a need for segregation between operational and risk management, including ethics and compliance. Since 2022, UNOPS has altered its organisational structure significantly, and currently a clear division between implementation and policy/compliance exists. In addition, the Management Team has been broadened to 15+ members including all Regional Directors and most HQ Business Units. In terms of organisational changes, the capacity and independence of IAIG and the Ethics Office has been strengthened.
In order to develop knowledge sharing capabilities across Regions and HQ, eight horizontal Mission Hubs have been launched in 2023 to aid internal coordination within UNOPS, to support the organisation’s efforts to accelerate progress towards the SDGs, and to contribute to the implementation of the Strategy. One key objective is to drive cross-regional engagement, peer learning, and promote knowledge management at all levels. The Mission Hubs are all co-chaired by a Regional Director and a HQ Director. The members of each Mission Hub include two representatives from each Region and key experts from the HQ units.

As part of the response to KPMG’s recommendation of increased sharing of lessons learned and also contributing to knowledge sharing within UNOPS, the Regional Directors are currently meeting on a regular basis in order to keep cohesion among Regions in terms of thinking and understanding issues the same way, and to share information between the Regions.

As part of the 2022 third-party reviews, KPMG recommended that UNOPS assess the needs and define what kind of operating system is required to support project and programme management, project delivery, and key corporate functions of the organisation across all Regions. UNOPS has been engaged in the implementation of an ambitious internal transformation process to define the optimal operating system for the project and programme management and delivery. This includes reforms on both UNOPS digital ecosystem and digitalisation (Process Innovation and Digitalisation Programme, PID) and reviewing and re-engineering the current portfolio, programme and project management process (P3M). The PID and P3M processes are largely interlinked with shared goals to overhaul the current practices and systems of UNOPS. At the time of this Follow-up Review, the development of a new operating system is still in its early stages.

UNOPS noted early that a full transition and deployment of a new operating system is not realistic in the initial one-year timeframe. The progress to date has consisted of defining the focus areas of the programme, performing a gap analysis to the current systems, external and internal consultations, and forming a programme team. The detailed scope of the programme was under finalisation at the time of this review in November 2023.

Areas of Further Attention

The IT transformation is a significant, organization-wide process affecting most of the implementation and institutional processes. Therefore, it entails significant inherent risk. We recommend that UNOPS ensures that sufficient resourcing and competence is allocated to the IT transformation process to ensure effective progress. Necessary benchmarking and expertise should be deployed at the planning, testing and deployment stages of the IT transformation process. In addition, continuous participation from the Regions and the different HQ units is crucial throughout the transformation to ensure the different user needs and views are considered and that personnel in different Regions and user groups are aligned and committed to the process. The resourcing and training of personnel needs to be kept as a priority in the years to be come to ensure the quality and the absorption capacity throughout the transformation process. The transformation process will continue as a major organisational focus in 2024-2025.
Risk Management and Control Environment

As part of the 2022 third-party reviews, KPMG gave seven recommendations relating to the risk management and control environment. KPMG recommended, for example, that UNOPS make risk management an integral part of all important decision processes and to undertake a review of the risk management framework, policies and procedures.

Based on the Follow-up review, we observed that the role of risk and risk management has received increased attention at UNOPS. The Risk Management organisation has been restructured and strengthened as UNOPS has created a new organisational unit, Quality Assurance Group (QAG). The Risk & Compliance Group will be effective 1 January 2024, as a combination of QAG and Risk, operating under the Deputy Executive Director (DED), Management and Policy. The QAG hosts the practices of due diligence, compliance, contracts and property committees, and bid protests whilst the Risk and Compliance Group is in-charge of risk management.

In addition, efforts have been made to strengthen the inclusion of risk management into different key decision making processes such as strategy, budgeting, engagement acceptance, and quarterly management reporting.

The organisational risk management framework has been strengthened by developing organisation-wide risk management competence definitions, introducing targeted risk trainings, and rolling out a second line of defense control testing programme.

In-line with KPMG’s recommendations, UNOPS has redrafted the key risk management and internal control-related policies. UNOPS has revised the Operational Instruction (OI) for Risk Management, created a new Due Diligence Framework, and drafted Operational Directive (ODs) for Anti-Bribery and Corruption, Risk Management, and Internal Control. The integration of risk based approach into all policies continues as other policies are due for revisions. UNOPS is additionally reviewing the delegations of authority (DoA) process to reduce the risks related to change of staff and processing of DoAs. The selection of risk management technologies, and the integration of risk management in other UNOPS key policies, processes and procedures are part of the scope of the PID and P3M transformation projects.

In light of the failures identified in the S3i initiative, KPMG recommended that UNOPS conduct an assessment of portfolio risks, also considering hidden risks. Based on the interviews, UNOPS has not conducted a full assessment of the portfolio risks. However, in order to better assess its portfolio risks, UNOPS has introduced centralized support capacity for complex, high risk new opportunities, reviewed the insurable elements of its portfolio risk exposure (with the support of an external consultancy). In addition, UNOPS conducted an analysis of its portfolio (see section on Mandate and Strategy). UNOPS is currently in the process of performing a further assessment of its portfolio and key risks within.

The capacity and independence of oversight functions have been strengthened through clarifications in their mandates, ensuring appropriate reporting structures and a continuous independent access to the Board as well as adequate resourcing. IAIG conducted a self-assessment of its independence in 2022 and has taken measures to
strengthen its independence based on the results of the self-assessment including revision of the IAIG Charter, limitations on the term of the IAIG Director and a revised authority for IAIG to interface independently with the Office of Internal Oversight Services and other multilateral entities as well as a change in the budgeting process that earlier posed an independence risk.

The Ethics Network of Multilateral Organisations conducted an Independent Review of the UNOPS Ethics Function in March 2023. As a result, the resourcing of the Ethics Office has been strengthened, reporting arrangements updated, and measures taken to ensure confidentiality safeguards for advice and guidance addressed to Ethics Office. Similarly to IAIG, a term limit was introduced to the Ethics Director position.

KPMG recommended that UNOPS conduct a comprehensive review of the Audit Advisory Committee (AAC) Terms of Reference (ToR) in light of the findings of S3i. Since 2022, the Audit Advisory Committee ToR has been reviewed and modified. The revised Executive Office Instruction Ref. EOI.ED.2023.01 - Audit Advisory Committee Terms of Reference was approved on 20 June 2023. Even though the Audit and Advisory Committee ToR has been revised, the mandate of the Committee is to assist both the ED and the Executive Board in exercising their oversight responsibilities. Thus, the Committee does not solely operate under the Executive Board.

Areas of Further Attention

In addition to the actions taken in developing a more robust risk management and control environment, further progress could be achieved, and we highlight our observations in this respect in the following. However, it should be noted that developing risk management and the control environment is continuous work which has no specific end point.

We repeat our recommendation from 2022 that encourages UNOPS to conduct a thorough assessment of the portfolio and potential hidden risks. The review could be conducted with emphasis on certain areas of the portfolio and areas of higher risk.

We recommend that UNOPS continues its work in advancing a full cultural change in risk management that is needed to ensure effective risk escalation processes. To enable this, the resourcing needs to be kept at an adequate level to ensure the full roll-out and institutionalisation of the risk management practices.

We encourage UNOPS to continue its efforts in developing a robust second line of defense including control testing programme. This would strengthen the control environment and potentially provide early red-flags on areas that need further management attention.

The inclusion of risk management as part of UNOPS decision-making and operations is still ongoing. More specifically, UNOPS could consider how risks are taken into discussion and consideration in all significant organizational change processes (for example the IT transformation). Whereas UNOPS actions for integrating risk management more deeply to the planning, decision-making and reporting contributes to the more systematic assessment of portfolio related risks, we encourage UNOPS to
continue making the underlying risks in the current portfolio visible. Elevating risk informed decision-making should be an important part of the redefinition of the current project management process and would benefit from further consultations and training.

Given the special role of UNOPS within the UN framework we further recommend UNOPS Board to assess the need for an oversight Audit Committee as a sub-committee to the Board.

**Ethics, Compliance and Organisational Culture**

After KPMG’s review from 2022 and the consecutive Board meetings, UNOPS made several changes to the governance and management structures aligned with the two high priority recommendations of KPMG. A significant structural reform is the change from the two-seated ED/DED executive leadership to a model where the organisation is led by the ED and two DEDs, and supported by a Chief of Staff. The strengthened top management has enabled UNOPS to create an organisational structure that entails a clear division between implementation and policy/compliance.

The DED of Management and Policy (in the office since October 2023) leads the finance, IT, human resources, procurement, shared services, IPMG, and quality assurance functions, whereas the DED of Delivery and Partnerships will be leading the Regions, Global Portfolios Group, and the Partnerships and Liaison group. The DED position for Delivery and Partnership is under recruitment. The recruitment and onboarding of the two new DEDs has taken more time than expected and is still on-going at the time of the review. Besides the DED recruitments, UNOPS has made several recruitments to key senior leadership roles within the last year.

A major change at UNOPS is that the current tone from the top highlights UN values, open communication, and ethical behaviour. Going forward, this is expected to positively impact the organisational culture of UNOPS. To complement this, the Ethics Office has rolled out awareness-raising events at the HQ and Regions to foster a culture of ethics, integrity, and accountability during 2023 (expected to continue in 2024).

IAIG commissioned a broad organisational culture review from March – June 2023 that covered all Regions and HQ Business Units. The review included over 200 interviews with personnel at different levels and in different offices and an independent survey that was open to all personnel and elicited over 1,150 responses from all Regions, levels of seniority, and types of contracting modalities. The final report was issued in early November 2023. The results of the culture review were transparently shared within UNOPS. UNOPS management is preparing an action plan based on the findings of the culture review. The plan will be presented to the Board in the first session in early 2024.

KPMG’s recommendation to overhaul the whistleblowing process and establish clear protocols and rules for confidentiality is still underway. The Ethics Office has revised the OI on Protection Against Retaliation, however, this forms only a part of UNOPS’ whistleblowing framework, as the IAIG and the PCG are involved both as case handling and investigation authorities. The review of the entire whistleblowing process is still in early stages, and the schedule and the outputs are yet to be detailed.
One recommendation in KPMG’s report in 2022 was given to the Ethics Office to capture the case numbers in real-time, in order to be able to monitor and report on the number of cases received on a regular basis. An updated case reporting system is in place to which the cases received through Navex are recorded. The case reporting system provides real-time data on the type and the sub-type of cases, closing date, case status, referrals, and outcomes.

**Areas of Further Attention**

Based on our Follow-up review we recommend two areas for further attention of management.

In-line with management’s commitment to developing the UNOPS culture, we encourage the management to continue long-term development action and implementation efforts in organisational culture with a roadmap and defined milestones for short-term and long-term progress.

We recommend that the overhaul of the whistleblowing process is completed and consequently that the changes and the new process are transparently communicated to the personnel of UNOPS and external stakeholders. Based on the Follow-up Review, the process and the investigation responsibility areas of the IAIG, PCG and Ethics need further clarification. We also suggest clear communication on changes already made and the progress achieved in the whistleblowing process overhaul while it is ongoing.

In addition, we recommend that the hiring of the second DED should be completed as soon as possible. This is for consideration at the UN level and not under the control of UNOPS management.

**Financial and Performance Management**

The pricing model and budgeting of UNOPS have been fundamentally changed since 2022. UNOPS has set its net revenue target to zero, started to apply a new indirect cost recovery approach, credited excess operational reserves to partners, and conducted a review of the performance and financial management framework. The zero net budgeting was applied for the 2023 financial year budget for the first time and is continued in the biennium 2024-2025.

In addition to changing the pricing model, efforts have been made to enhance outcome-based reporting, including reporting on contribution to the SDGs from the portfolio of projects. This aligns with the restated Strategy and KPMG’s recommendation from 2022 to invest in resources and capabilities to enhance outcome-reporting. The indicators that are measuring the performance of UNOPS have been adjusted to align the restated Strategy and new financial model.

The development of the Quarterly Business Review (previous name for the process) concept continues. From the beginning of 2024 the preparation of the Quarterly Management Review (QMR, current name of the process) will be led by the Risk and Compliance Group, which will be effective 1 Jan 2024. The structure of the current QMR
has been updated to include more performance related indicators, such as signed agreements by primary SDGs, greenhouse gas emissions, energy consumption, and separate thematic focus areas.

UNOPS has launched a leadership training program for +200 leaders that is aimed at building the capacity around the SDGs and navigating the complex environment of the development sector. In addition, the Blue Line learning platform of the United Nations System Staff College (UNSSC) has been launched, which is a training platform available to all personnel. The Blue Line includes courses and tailored learning plans that are designed to establish a common understanding across the UN system. Additionally, the performance of the financial investment portfolio (portfolio size around USD 3 billion) is now included in the internal financial reporting of UNOPS.

**Areas of Further Attention**

Whilst the renewed pricing model has recalibrated the UNOPS operating model as expected, we still want to highlight the need for flexibility in the pricing model in order to ensure efficient operations and risk management. If the pricing model is made too inflexible it might expose UNOPS to additional risk. The operations of UNOPS contain significant inherent risk due to the difficult environments where UNOPS operates and due to the nature of infrastructure development. Thus, UNOPS should have operational reserves that enable it to respond to and mitigate risks arising from the nature of its operations. In addition, if annual budgeting due to the pricing model is too stringent it might incentivise UNOPS to take on projects that do not align with the mandate to cover the fixed costs of operations. Thus, we recommend that UNOPS management, in collaboration with the Board, assess the effectiveness of the renewed pricing model in light of the operating model and risk position of UNOPS.

The positive development in the monitoring of SDGs and outcomes was noted in this Follow-up Review, and to continue this trajectory we recommend that adequate capacity for continuous monitoring and reporting on outcomes is developed and ensured and that sufficient budget is allocated.

We encourage UNOPS management to continue the development of personnel performance management. We recommend that the restated Strategy objectives and performance management indicators are taken to personnel management at all levels. Further, we encourage the management to continue the development of KPIs around accountability and results as it obtains feedback and information on the effectiveness of the revised results framework.

**S3i**

KPMG had nine recommendations to UNOPS regarding the S3i initiative. The restated strategy centered the operations of UNOPS around the original mandate, and thus S3i was phased out based on a decision of the EB. The public announcement of the closure of the S3i office Helsinki was made on 8 September 2023, and accordingly the office will be formally closed as of 31 December 2023. As a result of the closure, many of KPMG’s recommendations on S3i became invalid.
However, the following actions on S3i were taken during 2023. The S3i documentation was handed over to the Office of Legal Affairs (OLA) of the UN. UNOPS continues to support the OLA managed process through the legal department. In addition, IAIG conducted a full cost review of S3i and undertook further review activities related to S3i based on a request by the EB.

The exit procedures related to the S3i investment are on-going. The remaining actions are related to exiting the investments, recovering the assets, and supporting the affected entities or countries.

Helsinki, 21 December 2023

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A  Annex 1: Follow-up table