



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

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Internal audit and oversight

**Activity report for 2012 of the Internal Audit and
Investigations Group of the United Nations Office
for Project Services**

Summary

The Director of the Internal Audit and Investigations Group of the United Nations Office for Project Services hereby submits to the Executive Board, through the Executive Director of UNOPS, this activity report on internal audit and investigation services for the year ended 31 December 2012. The response of UNOPS management to this report is presented separately, as per Executive Board decision 2006/13.

Elements of a decision

The Executive Board may wish to:

- (a) *Take note of* the annual report of the Internal Audit and Investigations Group for 2012;
- (b) *Take note of* the progress made in implementation of audit recommendations more than 18 months old; and
- (c) *Take note of* the annual report of the Strategy and Audit Advisory Committee for 2012 (in line with Executive Board decision 2008/37).

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Annexes (available on the Executive Board website)

- 1 . Unresolved audit recommendations issued more than 18 months before 31 December 2012
- 2 . Titles of all internal audit reports issued during the year 2012
- 3 . Strategy and Audit Advisory Committee - annual report 2012

I. Introduction

1. The Internal Audit and Investigations Group (IAIG) is pleased to provide the Executive Board, through the Executive Director of UNOPS, with the annual report on UNOPS internal audit and investigation activities for the year ended 31 December 2012. This report contains details pursuant to Executive Board decision 2008/13 and 2012/18, specifically: (a) a table displaying unresolved audit recommendations by year and category; (b) a list of the high-priority findings and the ratings contained in audit reports; (c) an explanation of findings that have remained unresolved for 18 months or more; and (d) the titles of all internal audit reports issued during the year.

2. The Director, Internal Audit and Investigations Group, reports to the Executive Director of UNOPS and assists him with his accountability function. In this regard, IAIG provides assurance, offers advice, recommends improvements and helps to enhance the risk management, control and governance systems of the organization. It also seeks to promote and support accountability by conducting investigations into reports of violations of applicable rules, regulations, and administrative or policy directives. Additionally, the Internal Audit and Investigations Group endeavours to support management in the application of UNOPS general policies and objectives, as described in the UNOPS strategic plan 2010-2013 (DP/2009/36).

3. The Internal Audit and Investigations Group continued to interact with the UNOPS Strategy and Audit Advisory Committee during 2012. In accordance with Executive Board decision 2008/37, the annual report of the Strategy and Audit Advisory Committee for 2012 is attached as annex 3 to this report.

II. Role and functions of the Internal Audit and Investigations Group

A. Mandate, functions and standards

4. The mandate for internal audit and investigations is described in the UNOPS financial regulations and rules (Executive Board decision 2012/5) as revised, effective 1 January 2012. Regulations 6.01 to 6.03 and rules 106.01 to 106.03 define the role of the UNOPS Internal Audit and Investigations Group.

5. The scope, responsibility, accountability and standards of the UNOPS Internal Audit and Investigations Group are contained in its charter, issued by the Executive Director as Organizational Directive No. 25.

6. The role of the Internal Audit and Investigations Group is further defined in Organizational Directive No. 2, "UNOPS Accountability Framework and Oversight Policies," and Organizational Directive No. 15 (rev. 1 – Addendum 1), "UNOPS Global Structure". In addition to providing internal audit services to UNOPS, the Internal Audit and Investigations Group leads the Executive Director's investigations into alleged fraud, corruption, waste of resources, abuse of authority or other misconduct and violations of UNOPS regulations, rules and administrative or policy directives.

B. Coordination with the United Nations Board of Auditors and other United Nations oversight bodies

7. In 2012, the Internal Audit and Investigations Group continued to coordinate its internal audit work with, and made its results available to, the United Nations Board of Auditors. Furthermore, the Group's annual planning process included consultation with the United Nations Board of Auditors.

8. Where required, the Internal Audit and Investigations Group continued to coordinate its activities with the United Nations Office of Internal Oversight

Services (OIOS), the Representatives of Internal Audit Services of the United Nations Organizations (UN-RIAS) and the Joint Inspection Unit (JIU).

III. External quality assessment of the Internal Audit and Investigations Group

9. In 2012, the Internal Audit and Investigations Group engaged the services of the Institute of Internal Auditors (IIA) to conduct an external quality assessment of its activities. This was performed in accordance with Standard 1312 of the International Standards for the Professional Practice of Internal Auditing issued by the IIA. As per this Standard, “External assessments must be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization”.

10. IAIG is pleased to report that the internal audit activity of UNOPS was assessed by the IIA to “generally conform” to the aforementioned standards, and to be in compliance with the IIA Code of Ethics. This is the highest rating offered by the IIA and means that “the relevant structures, policies and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual Standard or element of the Code of Ethics in all material respects.”

IV. Approved annual internal audit work plan for 2012

11. The 2012 work plan primarily aimed to provide the Executive Director with the assurance that internal controls and procedures are functioning as intended. The work plan contained a detailed discussion of the planning approach, objectives, risk assessment, scope, nature of audit services and operating budget.

A. Risk-based internal audit plan

12. An audit risk assessment identifies and prioritizes potential audit areas that pose the greatest risk to the organization. This is achieved through due reliance on the risk-management system which has been put in place by management. Risk assessment enables internal audit resources to be allocated to those areas that are most critical to the organization’s success in reaching its goals. The result is documented in a risk-based internal audit work plan.

13. In preparing its work plan for 2012, the Internal Audit and Investigations Group refined the risk assessment model used in earlier years to ensure consistency between internal audit priorities and the goals of UNOPS management. The Internal Audit and Investigations Group relied on the existing components of the risk management system mandated in UNOPS financial regulation 4.01 and financial rules 104.01 and 104.02.

14. The 2012 audit work plan, based on the audit risk assessment, acknowledged the geographical diversity of UNOPS operations worldwide, and included both compliance and performance-based audits.

B. Progress on implementation of annual work plan

15. Progress on implementation of the 2012 work plan is shown in table 1.

Table 1. Status of implementation of work plan as at 31 December 2012

	IAIG internal audits	Project audits	Programme audits (Mine Action)	Total
Number of audits planned in 2012	8	0*	3	11
Total audit reports issued	12	18	4	34
<i>of which:</i>				
- from work plan 2012	8	0	3	11
- carried over from 2011 plan	4	0	1	5
- client driven audits (unplanned)	0	18	0	18
Total audits carried over to 2013	Nil	Nil	Nil	Nil

* as requests for project audits are client driven.

V. Highlights of 2012 audit activities

16. As noted in table 1, the Internal Audit and Investigations Group released 34 reports during 2012, as compared with 48 reports (including 22 for the Small Grants Programme) during 2011. No audit reports were issued during 2012 for the Small Grants Programme, as the operational phase is still on-going.

17. There are three separate categories, reflecting the differences in approach, as follows:

- (a) Internal audits conducted by the Internal Audit and Investigations Group (12 reports);
- (b) Project audits conducted under the supervision of the Internal Audit and Investigations Group by professional auditing firms or consultants to fulfil project reporting requirements (18 reports); and
- (c) Audits of significant programmes implemented by UNOPS, which were conducted by the Internal Audit and Investigations Group (four reports).

18. In all, the 2012 audit reports contained a total of 357 audit recommendations for improving internal controls and organizational efficiency and effectiveness. Of these, 180 pertain to internal audit reports (table 3), 139 to project audit reports (table 7), and 38 to Mine Action Programme audit reports (table 9).

A. Internal audits conducted directly by the Internal Audit and Investigations Group

Internal audit reports issued

19. During the year ended 31 December 2012, 12 internal audit reports were issued by the Internal Audit and Investigations Group and submitted to the UNOPS Executive Director, as detailed in table 2.

Table 2. List of internal audit reports issued by the Internal Audit and Investigations Group in 2012

Organizational unit or function	Rating*
Regional Office for Latin America and the Caribbean	Partially satisfactory
Cote d'Ivoire Project Centre	Partially satisfactory
Peru Operations Centre	Partially satisfactory
Regional Office for North America	Partially satisfactory
Afghanistan Operations Centre	Partially satisfactory

South Sudan Operations Centre	Partially satisfactory
Myanmar Operations Centre	Satisfactory
Tunisia Project Centre	Partially satisfactory
Contracts and procurement committees	Partially satisfactory
Project Management Practice	Satisfactory
Access Control Points in UNOPS Enterprise Resources Planning (ERP) Application	Partially satisfactory
Performance management process in Human Resources Practice Group	Satisfactory

* As per the harmonized definitions adopted by the internal audit services of UNDP, UNFPA, the United Nations Children's Fund (UNICEF), UNOPS and the World Food Programme (WFP) effective 1 January 2010:

- a "satisfactory" rating means "internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity;" and
- a "partially satisfactory" rating means "internal controls, governance and risk-management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity."

Analysis of internal audit recommendations issued in 2012

20. Pursuant to Executive Board decision 2008/13, the Internal Audit and Investigations Group analysed the recommendations issued by level of importance, cause (which may be multiple), and frequency of occurrence in a functional area.

21. The number of internal audit recommendations issued increased from 151 in 2011 to 180 in 2012; however, the average number of recommendations by audit report decreased from 19 in 2011 to 15 in 2012. This is in line with the advice of the Strategic Audit and Advisory Committee (SAAC) to focus on the more significant risks and issues when performing audits.

Level of importance of audit recommendations related to IAIG audits

22. Of the 180 audit recommendations issued, 59 (33 per cent) were considered to be of high importance,¹ and 121 (67 per cent) of medium importance, as shown in table 3.

Table 3. Categorization of audit recommendations, by level of importance

Level of importance	Number of recommendations			Percentage of total		
	2010	2011	2012	2010	2011	2012
High	107	53	59	38	35	33
Medium	159	93	121	57	62	67
Low	13	5	-	5	3	-
Total	279	151	180	100	100	100

Cause of audit issues

23. The definition of causes of audit issues was established in document DP/2007/38,² whereby the Internal Audit and Investigations Group identified,

¹ Definitions (as per document DP/2007/38):

High: action considered imperative to ensure that UNOPS is not exposed to high risks (that is, where failure to take action could result in critical or major consequences for the organization).

Medium: action considered necessary to avoid exposure to significant risks (that is, where failure to take action could result in significant consequences).

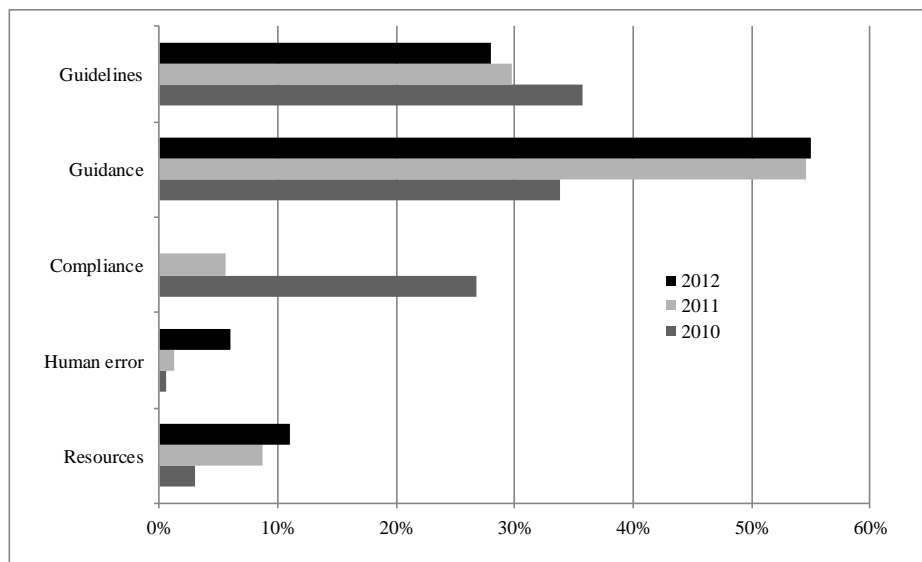
Low: action that is considered desirable and should result in enhanced control or better value for money.

² Definitions (as per document DP/2007/38):

for each audit issue, the root cause and the underlying control objective. In 2011 the Internal Audit and Investigations Group concluded that lack of compliance is an outcome of an underlying root cause, rather than a cause of an audit issue.

24. Thus, the two main root causes of audit issues raised in the 2012 internal audit reports were inadequate ‘guidance’ (55 per cent) and inadequate ‘guidelines’ (28 per cent), as shown in chart 1. The other causes (insufficient ‘resources’ and ‘human error’) accounted for 11 per cent and 6 per cent of the audit recommendations, respectively.

Chart 1. Internal audit recommendations, by cause of audit issues



Frequency of occurrence of audit recommendation by functional area

25. The frequency of audit recommendations by functional area is displayed in chart 2. Most recommendations pertained to: project management (28 per cent), human resources (18 per cent), procurement (12 per cent), information technology (11 per cent), corporate strategic management and leadership (9 per cent) and finance (8 per cent). It should be noted that this distribution by functional area was driven by the audit scope as identified in the risk assessment conducted for each engagement.

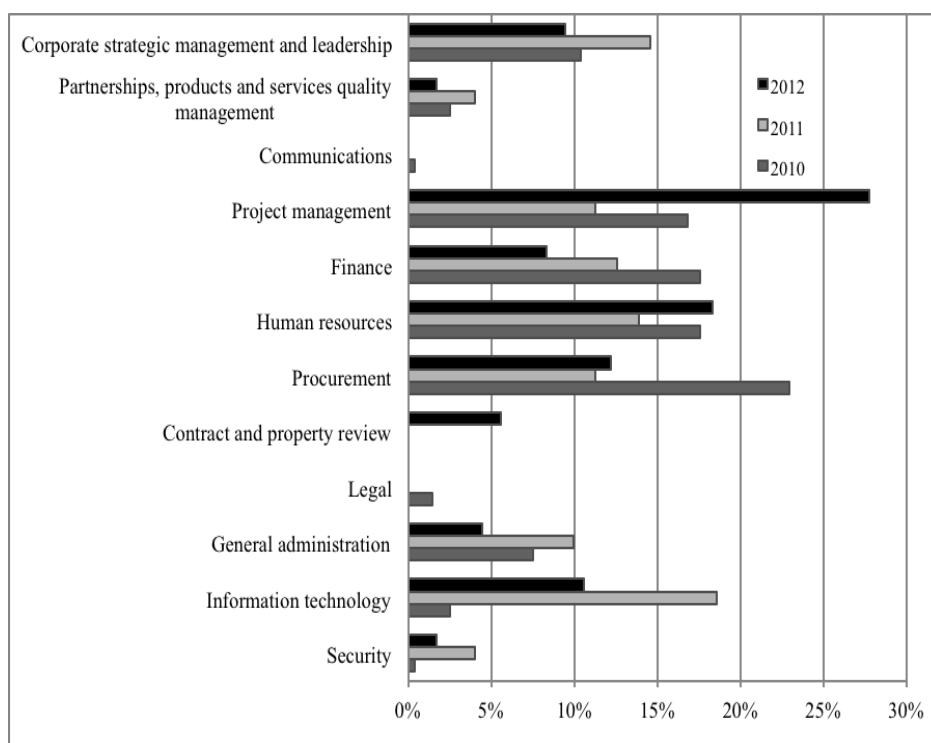
Compliance: failure to comply with prescribed UNOPS regulations, rules and procedures.

Guidelines: absence of written procedures to guide staff in performing their functions.

Guidance: inadequate or lack of supervision by supervisors.

Human error: mistakes committed by staff entrusted to perform assigned functions.

Resources: insufficient resources (funds, skill, staff) to carry out an activity or function.

Chart 2. Internal audit recommendations by functional area

Key areas of improvement identified from 2012 internal audit reports

26. Supplementing the previous analysis, Table 4 shows the number of recommendations by type of objective³ and functional area. Recommendations on compliance (44 per cent) and operational issues (39 per cent) were highest, followed by those addressing strategic issues (13 per cent). A brief summary of the key issues raised in the audit recommendations follows table 4.

Table 4. Number of recommendations by type of objective

Functional Area	Compliance	Operational	Strategic	Reporting	Total	Per cent of total
Corporate strategic management and leadership	0	5	12	0	17	9
Contracts and property review	0	7	3	0	10	6
Partnerships and products and services quality management	0	3	0	0	3	2
Project management	18	26	3	3	50	28
Finance	7	5	0	3	15	8
Human resources	23	6	3	1	33	18
Procurement	16	6	0	0	22	12
General administration	5	3	0	0	8	4
ICT	7	10	2	0	19	11
Security	3	0	0	0	3	2
Total	79	71	23	7	180	100
Percentage of total	44	39	13	4	100	

³ As per entity, objectives mentioned in 'Enterprise Risk Management – an integrated framework' (1994), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Strategic matters

27. Attention was called to matters that could impact on the achievement of strategic objectives, organization-wide or at the level of a regional office or an operations/project centre.

28. In the area of ‘corporate strategic management and leadership’, management attention was drawn to the need to develop/revisit and document a comprehensive business strategic plan for operations centres; strengthen the management monitoring system over transactional controls in the regional offices and operations centres through a more structured, systematic and risk-based approach; and institutionalize the process for setting up an operations centre.

29. With regard to partnerships, there was a call to introduce a structured knowledge management system in order to track potential business opportunities and, at the corporate headquarters level, to develop tools and provide support for advisory service projects.

30. In ‘human resources’, recommendations were made to establish a suitable process for setting targets and priorities in order to align corporate goals with individual goals; and to consider the introduction of a multi-rater feedback mechanism for developmental purposes as well as a hierarchical review mechanism for performance assessment.

31. With regard to ‘information and communications technology (ICT)’, the key issues involved preparing an ICT risk assessment, and amending the current Memorandum of Understanding with UNDP on Atlas production and development to include expected service levels and requirements for periodic reporting on compliance with the agreed procedures and security levels.

Operational matters

32. For ‘project management’, recommendations were made to strengthen engagement risk management and costing by developing appropriate tools; to strengthen oversight to ensure timely and proper closure of engagements, especially those pending for more than 18 months; and to review the audit process for grantees across projects/grants. A combination of guidelines, tools and more effective monitoring should help address the issues raised.

33. In ‘procurement’, recommendations were made to improve fuel management; to strengthen efforts to foster competition and increase response rates for procurement tenders; to improve efficiency by reviewing opportunities for setting up long-term agreements, and to consolidate procurement functions across projects at the operations centre level; to strengthen goods’ receipt and inspection processes; and to improve the process for preparing and utilizing the benefits of procurement plans.

34. In ‘human resources’, recommendations were made to improve the performance management process. These included: strengthening capacity building to enable SMART objectives to be set, and thereby to enable fair and balanced evaluations to be carried out; defining ratings for individual objectives and competencies, and ensuring better consistency between overall ratings; and making other suitable changes in the performance and results assessment process in order to increase objectivity.

35. In the area of information and communications technology (ICT), recommendations were made to enhance business continuity plans and data backup, and to maintain and safeguard ICT equipment. The recommendations involved formalizing a periodic user review policy, as well as ensuring needs-based access rights to establish accountability and promote segregation of duties

within Atlas. Additional resources and better supervision should address these issues.

Compliance matters

36. Recommendations to ensure better compliance with policies and procedures were made in the majority of the reports and covered most functional areas. The most significant recommendations related to: compliance with the requirements for periodical internal assurance on operations centres and on projects; compliance with engagement acceptance processes; compliance with delegation of authority prescriptive content; ensuring proper project hand-over; ensuring appropriate controls on bank guarantees; enhancing systematic procurement planning and monitoring its implementation, as well as improving documentation of procurement and project management cases; compliance with personnel performance management policy; compliance with the procedures for engagement of individual contractors (ICAs); improving business continuity planning in the field units; compliance with travel security requirements; and improving safety and security of staff and premises. More thorough guidance and supervision by management, together with better training, should address the points raised.

Reporting matters

37. The most commonly recurring recommendation was to ensure adequate implementation of International Public Sector Accounting Standards (IPSAS). Management was asked to set up and implement IPSAS training for concerned personnel, and to ensure timely record of receipts in Atlas.

B. Projects audits

Single audit principle

38. The Internal Audit and Investigations Group continues to uphold the United Nations ‘single audit principle’ as detailed in the UNOPS report on internal audit and oversight in 2007 (DP/2008/21).

39. While management is responsible for meeting the requirements of project agreements, the Internal Audit and Investigations Group supports their efforts in fulfilling the requirements as per the audit clauses in these agreements, where present. For that purpose, the Internal Audit and Investigations Group engages third-party professional auditing firms to conduct these audits. All the professional firms used have been pre-qualified by UNOPS to provide such services, and they adhere to the terms of reference approved by the Internal Audit and Investigations Group. All audit reports prepared by such firms are assessed for quality by the Internal Audit and Investigations Group before issuance.

Establishment of a professional services contract with an audit firm

40. Effective 1 January 2013, the Internal Audit and Investigations Group has established a three-year professional services contract with a single audit firm. It is envisaged that this will lead to improved quality of audit reports through consistency of approach and knowledge retention; better understanding of UNOPS operations by one audit firm; and simplification of the process for engaging a firm for project audits. Such improvements are particularly important given the recent move to public disclosure of audit reports. Reduced audit costs and improved timeliness in reporting are also anticipated.

Internal audit reports issued for projects

41. During the year ended 31 December 2012, 18 audit reports relating to specific projects were issued by the Internal Audit and Investigations Group and submitted to the UNOPS Executive Director.

42. As shown in table 5, of the 18 internal audit reports for projects issued in 2012, a majority expressed both an audit opinion on the financial statements of the projects and provided a rating of the internal control environment, according to the requirements of the partner and primary stakeholder(s) concerned.

Table 5. Number of project audit reports issued, 2010-2012

	2010	2011	2012
Audit reports issued expressing an opinion on the financial statement and providing a rating of the internal control environment	24	15	16
Audit reports issued expressing an opinion on the financial statement only	1	1	1
Audit reports issued providing a rating of the internal control environment only	0	0	1
Total	25	16	18

43. As shown in table 6, the proportion of project audits with an unqualified opinion on their financial statements improved from 81 per cent in 2011 to 88 per cent in 2012. The increased number of unqualified reports reflects the improvement in the quality of financial reports produced by UNOPS.

44. The proportion of project audits with a 'satisfactory' rating for internal controls increased from 47 per cent in 2011 to 59 per cent in 2012. There were no project audits with an 'unsatisfactory' rating for internal controls.

Table 6. Summary of project audit opinions and ratings of internal controls for project audits, 2010-2012

Type of opinion or rating	Number of audit reports			Percentage of total		
	2010	2011	2012	2010	2011	2012
Audit opinion on financial statement of project						
Unqualified opinion	20	13	15	80	81	88
Qualified opinion	5	3	2	20	19	12
Total	25	16	17	100	100	100
Rating of overall level of internal control						
Satisfactory	13	7	10	54	47	59
Partially satisfactory	10	8	7	42	53	41
Unsatisfactory	1	0	0	4	0	0
Total	24	15	17	100	100	100

Financial impact of project audit findings in 2012

45. The Executive Board, in its decision 2010/22, requested that information on the financial impact of audit findings be incorporated in future reports. For 2012 the cumulative financial impact of project audit reports with a qualified opinion amounted to \$8,240 (0.005 per cent of the total audited project expenditure of \$157.06 million).

Project audit recommendations issued in 2012

46. The 18 project audit reports issued generated 139 audit recommendations (as compared to 113 audit recommendations in the 16 audit reports issued in 2011). These recommendations are analysed by importance, cause and frequency of occurrence in a functional area.

Level of importance of audit recommendations related to project audits

47. As seen in table 7, the proportion of high-rated audit recommendations decreased marginally from 14 per cent in 2011 to 13 per cent in 2012.

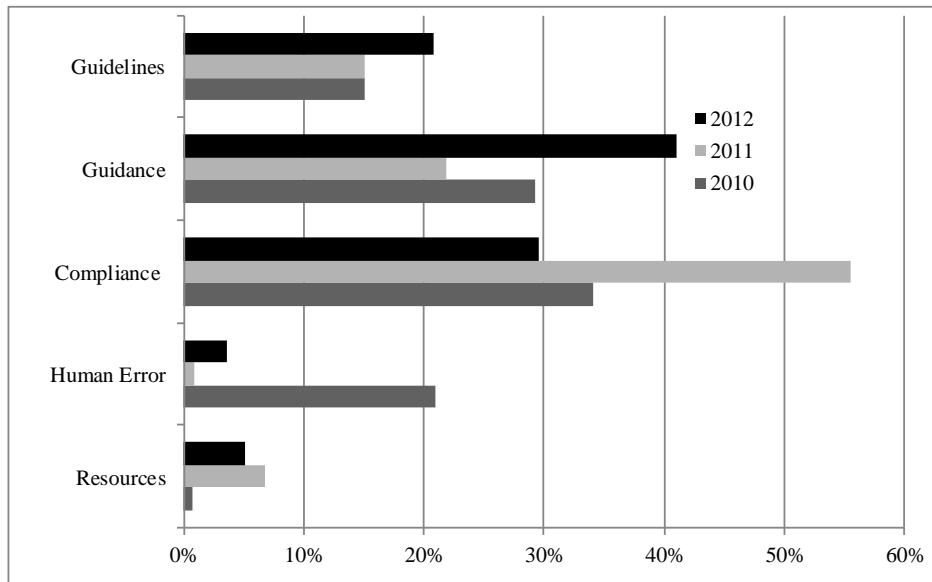
Table 7. Categorization of project audit recommendations by level of importance

Level of importance	Number of recommendations			Percentage of total		
	2010	2011	2012	2010	2011	2012
High	64	16	18	24	14	13
Medium	134	85	98	51	75	70
Low	66	12	23	25	11	17
Total	264	113	139	100	100	100

Cause of audit issues

48. As shown in chart 3, lack of compliance as a cause of audit issues decreased from 55 per cent in 2011 to 29 per cent in 2012, while lack of guidance increased from 22 per cent to 41 per cent.⁴

Chart 3. Project audit recommendations by cause of audit issues



⁴ Definitions (per document DP/2007/38):

Compliance: failure to comply with prescribed UNOPS regulations, rules and procedures.

Guidelines: absence of written procedures to guide staff in performing their functions.

Guidance: inadequate or lack of supervision by supervisors.

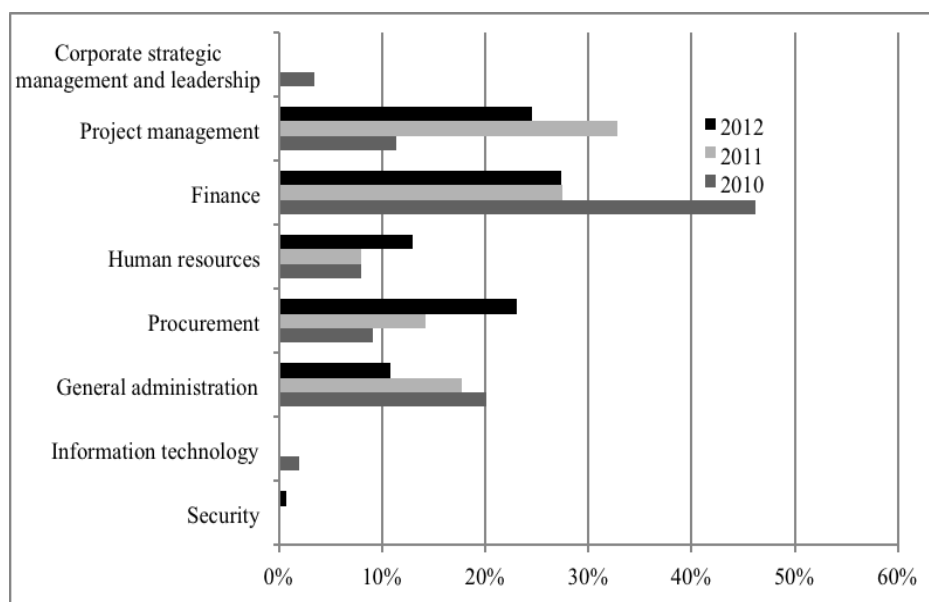
Human error: mistakes committed by staff entrusted to perform assigned functions.

Resources: insufficient resources (funds, skill, staff) to carry out an activity or function.

Frequency of occurrence of project audit recommendations by functional area

49. The frequency of audit recommendations by functional area, displayed in chart 4, shows that most recommendations pertained to: finance (27 per cent), project management (24 per cent), procurement (23 per cent), human resources (13 per cent), and general administration (11 per cent).

Chart 4. Project audit recommendations by functional area



Key areas for improvement identified in 2012 project audit reports

50. These include:

- *Project/programme management*: Accelerate implementation of project activities, improve project work planning, ensure that reporting requirements are complied with, and that project budgets are thoroughly monitored to detect any over-expenditure in a timely fashion.
- *Finance*: Ensure that expenditures are properly supported by documentation, that the correct chart of accounts is being used, and that funds are committed to make eligible payments as per project agreements.
- *Procurement*: Ensure that documentation of procurement activities is in compliance with the UNOPS procurement manual, that procurement plans are prepared, implemented and monitored, and that contract terms are adhered to.
- *Human resources*: Ensure that individual contractor engagements (ICAs) are managed in compliance with UNOPS guidelines, and that human resource files are complete.
- *Asset management*: Ensure compliance with guidelines on project asset management.

C. Internal audit reports of significant programmes

51. In addition to the audits mentioned above, the Internal Audit and Investigations Group conducts audits of significant programmes executed by UNOPS on behalf of its partners. These include the Small Grants Programme (SGP) funded by the Global Environment Facility (GEF), and the Mine Action Programme, which is funded by the United Nations Mine Action Service of the Department of Peacekeeping Operations. No audits were requested by the client for the Small Grants Programme during 2012.

Mine Action Programme

52. The Mine Action Cluster in the North America Regional office implements mine action projects on behalf of United Nations Mine Action Service (UNMAS), an operational arm of the United Nations Department of Peacekeeping Operations (DPKO). UNMAS has the lead responsibility for clearing mines and unexploded ordnance in emergency peacekeeping settings, in accordance with mandates of the Security Council. UNMAS employs UNOPS to deliver rapid procurement, recruitment and management services to facilitate the provision of humanitarian aid and emergency mine clearance.

53. The audits of the mine action programmes in the Democratic Republic of the Congo and Cote d'Ivoire, as well as the Mine Action Cluster office in New York, were completed in 2012. The overall level of internal controls was rated as 'partially satisfactory' for the Mine Action Cluster in New York, for the Democratic Republic of the Congo programme, and for the Afghanistan Mine Action Programme (audit conducted in 2011). The Côte d'Ivoire programme was rated as 'satisfactory'.

54. The four reports issued in 2012 generated 38 recommendations, of which 10 (26 per cent) were of high importance and 28 (74 per cent) of medium importance. An analysis of the frequency of audit recommendations by functional area shows that most recommendations pertained to: general administration (26 per cent), project management (21 per cent), human resources (18 per cent), procurement and supply chain (13 per cent), and finance (11 per cent).

Key areas for improvement identified in the 2012 Mine Action Programme audit reports

55. These include:

- *Strategic management and leadership:* Strengthen the capacity of human resources and procurement functions at cluster level; and review the Mine Action Cluster structure for increased efficiency of operations.
- *Project management:* Enhance clarity in the responsibilities of programme managers and portfolio managers; review and update the division of responsibilities between the United Nations and UNOPS; ensure suitable authorization is obtained in cases of pre-selection of contractors; and establish grant support operating procedures at programme level.
- *Finance:* Ensure timely closure of projects in Atlas; and ensure that the operational advances are properly managed.
- *Human resources:* Follow the selection methodology defined for the mine action cluster; appoint a leave monitor to manage absence of personnel.
- *Procurement:* Ensure that procurement plans are prepared and their implementation monitored, and that documentation is maintained as per the procurement manual.
- *General administration:* Ensure that all details pertaining to assets are recorded immediately on acquisition, including assets held by contractors; that required asset records are kept up-to-date in Atlas; and that guidelines on fleet management are established.
- *Information and communications technology:* Finalize the business continuity and disaster recovery plan for the programme.

D. Improvements to the UNOPS internal control system

56. In 2012, management introduced further measures to strengthen the internal control system. These management improvements were taken into account during the preparation of the audit work plan.

57. Strengthening of the internal control system is an on-going process. During 2012, management either revised or issued new policies and procedures in the following areas: (a) revision of UNOPS financial regulations and rules for implementation of IPSAS, with effect from 1 January 2012; (b) addendum to Strategy Advisory and Audit Committee's terms of reference for the establishment of the Audit Advisory Subcommittee; (c) revision of staff recruitment policy; (d) revision of internship policy; (e) revision of UNOPS policies and procedures for engagement of individual contractors (ICAs); (f) revision of working hours and leave policy for both staff and ICAs; (g) revision of information disclosure policy; (h) revision of the framework for delegation of authority and master table for procurement; (i) issue of policy on prohibition of accepting gifts, honours, decorations, favours or non-United Nations remuneration or benefits from governmental or non-governmental sources; and (j) introduction of mandatory initialling of all pages of all documents forming part of contracts or agreements to which UNOPS is part.

58. Other initiatives taken by management included: (a) establishment of the Audit Advisory Subcommittee (AAS) of the UNOPS Strategy and Audit Advisory Committee (SAAC); (b) upgrade of the business intelligence platform; (c) introduction of new corporate information technology tools to improve business process efficiency, effectiveness and compliance, including the Global Personnel Recruitment System and a tool for project handover; (d) conducting of a mid-term review of the UNOPS 2010–2013 strategic plan; and (e) initiation of the revision process of the UNOPS organizational structure and the development of UNOPS strategic plan, 2014–2017.

VI. UNOPS accountability framework

59. In accordance with the UNOPS accountability framework and oversight policies, the Director of the Internal Audit and Investigations Group reports to the Executive Board on the resources available and required for the implementation of the accountability framework.

60. The pillars of the UNOPS accountability framework and oversight policies that are internal to the organization include: the Internal Audit and Investigations Group, the Strategy and Audit Advisory Committee, the Ethics Officer, the Office of the General Counsel, the Appointment and Selections Panel, the Appointment and Selections Board, the Headquarters Contracts and Property Committee, the Balanced Scorecard system, and the implementation of UNOPS organizational directives and administrative instructions.

61. The fundamental pillars of the UNOPS accountability framework and oversight policies that are external to the organization include: the Executive Board, the United Nations Board of Auditors, the United Nations Joint Inspection Unit, the Advisory Committee on Administrative and Budgetary Questions, and the Fifth Committee of the General Assembly.

VII. Disclosure of internal audit reports

62. The Internal Audit and Investigations Group complies with Executive Board decision 2008/37 and 2012/18, and the procedures approved therein, regarding disclosure of internal audit reports.

63. Furthermore, during 2012, the Executive Board as per its decision 2012/18:

16. Decides that the Director of Internal Audit (...) will make publicly available the executive summaries of all internal audit reports issued after 30 June 2012;

17. Decides that the Director of Internal Audit (...) will make publicly available all internal audit reports issued after 1 December 2012;

19. Decides that, before disclosing an internal audit report that contains findings related to a specific Member State, the Director of Internal Audit will provide a copy of the report to the concerned Member State (...).

20. Requests the Director of Internal Audit (...) to include in their annual reports to the Executive Board the titles of all internal audit reports issued during the year (...) and to include in their 2014 annual reports an analysis of experience gained from public disclosure to date.

64. Accordingly, the Internal Audit and Investigations Group has published, on the UNOPS public website, the executive summaries of internal audit reports issued after 30 June 2012 and the complete internal audit reports issued after 1 December 2012.

65. UNOPS has set up a remote access system that has been operational since November 2011. Additionally, since November 2011, UNOPS has been publishing on its public website all audit reports dealing with functional and thematic areas, as well as the list of all audit reports issued since 2008.

66. During 2012, UNOPS received two requests to access an internal audit report, one from a Member State and another from the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM). The statements of audit opinion and audited financial statements of projects were shared with clients as requested.

VIII. Advisory services

67. Advisory services cover a wide range of issues relating to internal control concerns, policies, organizational directives, business processes, proposed agreements, and specific issues that management may request the Internal Audit and Investigations Group to look into. It is important to underscore that the Internal Audit and Investigations Group acts only in an advisory capacity and does not assume management responsibilities by participating in the implementation of any procedure.

68. During 2012, the Internal Audit and Investigations Group continued to provide a number of such advisory services. These included providing comments on policies and procedures, supporting the introduction of International Public Sector Accounting Standards and risk-management activities. During 2013, the Internal Audit and Investigations Group plans to organize Webinars for capacity building to UNOPS personnel on such areas as procurement, project audits, asset management and standards of conduct.

69. Furthermore, the Internal Audit and Investigations Group continued to assist in reviewing proposed project agreements containing audit clauses, in order to ensure that such clauses are in accordance with Executive Board decisions and UNOPS financial regulations and rules.

IX. Investigations

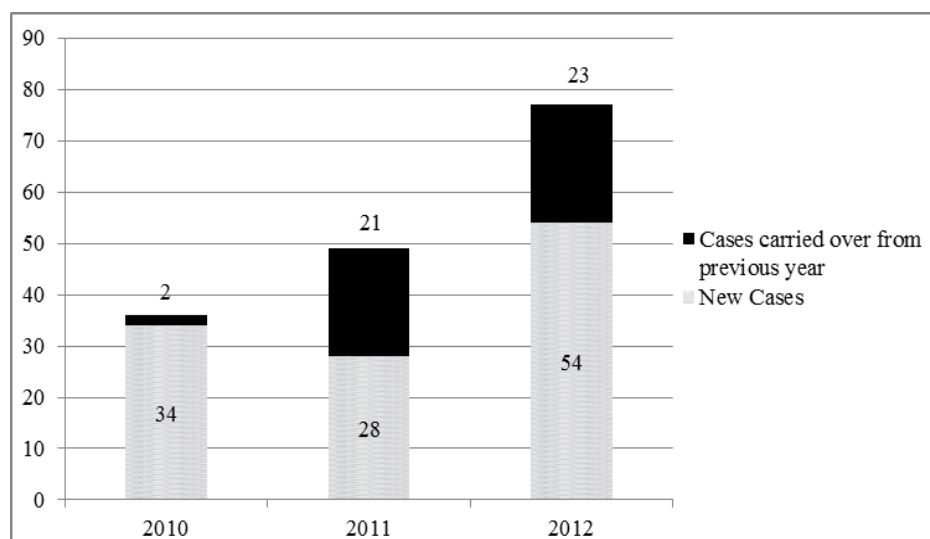
70. The Internal Audit and Investigations Group is the sole entity in UNOPS responsible for conducting investigations into allegations of fraud, corruption, abuse of authority, workplace harassment, sexual exploitation, retaliation and other acts of misconduct.

A. Complaint intake

71. In 2012, the Internal Audit and Investigations Group received 88 complaints, of which 54 became cases and 34 were ‘for information’.⁵ This was an increase from 2011, when the Internal Audit and Investigations Group had 49 complaints (28 cases, and 21 ‘for information’). In addition, 36 cases were carried over into 2013: one from 2009, two from 2010, five from 2011, and 28 from 2012 (chart 5).

72. One reason for the increase was the rise in the number of medical fraud cases that the Internal Audit and Investigations Group received in 2012 (20 cases). The Internal Audit and Investigations Group continues to work with the Legal Practice Group and the medical insurer to find ways to reduce this number. For instance, in order to deter such activities, UNOPS issued a guidance note advising personnel that medical fraud is considered misconduct, which could lead to dismissal.

Chart 5. Number of cases, 2010–2012



73. Almost 35 per cent of the cases opened in 2012 were referred by management or personnel. Thirteen per cent came through the Internal Audit and Investigations Group fraud hotline, and 52 per cent came via other means (for example, from external organizations such as the medical insurance provider).

74. Of the 54 cases opened in 2012, almost half (26 cases or 48 per cent) involved some type of alleged fraud or financial irregularities (procurement fraud, entitlement fraud, theft, embezzlement, and misuse of UNOPS resources). The total financial value of proven fraud or misuse was \$155,039 (\$146,351 in medical fraud, \$8,688 misused funds), which was less than 0.1 per cent of UNOPS total annual resources.⁶ Another 37 per cent (20 cases) involved

⁵ ‘For information’ complaints require review and follow-up work, but may not evolve into a full case.

⁶ Definitions:

Fraud and financial irregularity: bid manipulation, collusion, corruption, bribes/kickbacks, entitlement fraud, procurement irregularities, waste/misuse of funds, forgery.

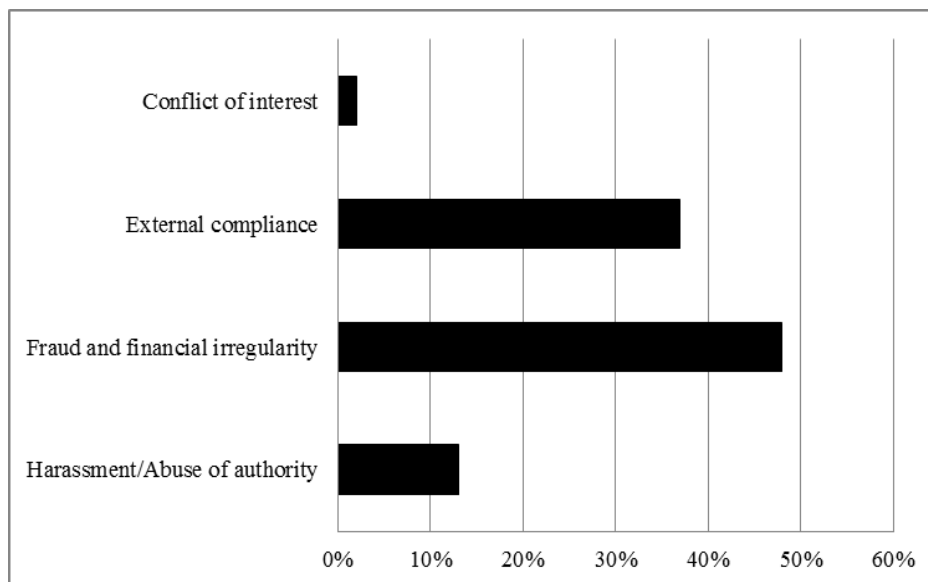
Harassment/abuse of authority: hostile work environment, sexual harassment and exploitation, assaults/threats, nepotism.

Conflict of interest: gifts/awards, non-compliance with financial disclosure, favouritism, external activities (employment, membership on outside boards).

External compliance: violation of local laws, violation of privileges and immunities, medical insurance fraud.

external compliance (medical insurance fraud). In addition, 13 per cent (seven cases) involved harassment and abuse of authority, while 2 per cent (one case) related to a conflict of interest (see chart 6).

Chart 6. Types of cases opened in 2012



B. Outcome of investigations

75. An initial review of complaints received is undertaken to determine whether the allegations fall within the Internal Audit and Investigations Group's mandate or jurisdiction. If they do, a preliminary assessment is conducted. If this assessment reveals that wrongdoing may have occurred, the Internal Audit and Investigations Group conducts a formal investigation. If the allegations are substantiated, the Internal Audit and Investigations Group submits an investigation report to the Human Resources Legal Officer for appropriate action.

76. In 2012, a total of 41 cases were closed, reducing the open caseload from 77 to 36 cases, or a reduction of 53 per cent (see table 8).

Table 8. Closing of investigation complaints in 2012

	2012	Per cent
Case carried over from 2009	1	1
Cases carried over from 2010	6	8
Cases carried over from 2011	16	21
Cases received in 2012	54	70
Total caseload in 2012	77	100
Cases closed		
• after initial review	13	32
• after preliminary assessment	1	2
• after investigation	3	7

Whistle-blower retaliation: retaliatory action against a whistle-blower or a participant in protected activity (audit or investigation).

	2012	Per cent
<i>Total cases closed with no further action necessary</i>	17	41
• after investigation	24	59
<i>Total cases closed recommending further action</i>	24	59
Total cases closed in 2012	41	100
Cases carried over to 2012	36	

77. As a result of the initial review or the preliminary assessment, 14 cases (34 per cent of cases closed) were found to be unsubstantiated and did not require further investigation. Three more were closed after investigation without referral to the Human Resources Legal Office (7 per cent of cases closed).

78. Twenty-four cases were referred to the Human Resources Legal Officer, all of which took place after formal investigation. In these cases, the allegations were substantiated and included the following:

- Harassment or abuse of authority (two cases);
- Fraud or financial irregularity (three cases);
- External compliance - medical insurance fraud (19 cases).

79. The Internal Audit and Investigations Group issued 33 reports based upon these 24 cases. Since some cases involved multiple subjects, more than one report may have been issued in a single case. The Internal Audit and Investigations Group then recommended disciplinary action against 33 personnel members.

80. Out of those 33 personnel:

- One person was disciplined.
- Thirteen individuals separated from UNOPS before the administrative process was completed. Since the United Nations Dispute Tribunal does not permit disciplinary actions for those who have separated from the organization, the matter will be addressed if and when the individuals are considered for future UNOPS positions.
- In one case, no action was taken but the individual is making restitution for the disputed amount of misused funds.
- Finally, cases are pending against the remaining 18 individuals. Notably, 14 of these 18 personnel are employed under UNOPS contracts but work operationally for another United Nations organization. As a result, this has prolonged the administrative process for these cases.

81. In addition, management action was taken against 15 individuals in 2012, whose cases originated in 2010 and 2011. Nine were disciplined (separated from UNOPS) and six left before the administrative process was completed. Hence, the matter will be addressed if and when the individuals are considered for future UNOPS positions.

82. In addition to administrative recommendations, the Internal Audit and Investigations Group also suggested a referral to national authorities in two cases. One case involved a personnel member and a vendor, while the second case involved nine different individuals.

C. Enhancing the investigative function

83. UNOPS has one dedicated lead investigator who is supported by an investigative assistant, and they continue to rely upon consultants for additional support. Due to the continuing trend of rising numbers of complaints received, the office transferred a vacant internal auditor post (P3 level) to investigations. The recruitment process will be finalized in early 2013.

84. In 2012, the Internal Audit and Investigations Group introduced a new, automated case management system in order to facilitate management and coordination of its cases. The group also continued to improve its UNOPS Internet and intranet websites by adding information and an enhanced reporting mechanism. In 2013, the Internal Audit and Investigations Group will continue to standardize investigations through, for example, establishing operational procedures, which it will harmonize with those of other United Nations organizations. The Internal Audit and Investigations Group will also revisit the legal framework for addressing non-compliance with United Nations standards of conduct, working with the Legal Practice Group to consider any changes or updates that could streamline the investigative process.

85. As previously mentioned under advisory services, the Internal Audit and Investigations Group remains committed to strengthening preventive measures, particularly in the field of fraud. Among other initiatives, the Internal Audit and Investigations Group is working with the Human Resources Practice Group to develop an employee due diligence business unit, and is conducting integrity and ethics training with UNOPS staff.

86. Moreover, the Internal Audit and Investigations Group issued a confidential survey regarding integrity, ethics and anti-fraud. The organization is committed to deterring, detecting and preventing fraud and other misconduct in the performance of its mission and in the conduct of its operations. The survey provided valuable insight into areas of fraud susceptibility, corporate culture and actual impact of UNOPS existing fraud and risk management programmes. The results of the survey will be incorporated into future training and other preventative measures.

D. Collaborating with others

87. With the objective of enhancing its investigation function, the Internal Audit and Investigations Group collaborated with various UNOPS units, namely the Legal Practice Group, the Human Resources Practice Group, the Ethics Office, and several regional and country offices. The Internal Audit and Investigations Group was able to resolve many of its matters without proceeding into investigation, due to inter-departmental cooperation and support from senior management. At the same time, the Internal Audit and Investigations Group's advice has been increasingly sought, which could be one reason why its 'for-information-only' caseload has increased.

88. Furthermore, the Internal Audit and Investigations Group worked closely with the investigation services of the other funds, programmes and specialized agencies. It also continues to collaborate with the investigation offices of other international and national agencies to allow it to better identify fraud and to work collaboratively on cases of possible common interest.

X. Summary of follow-up of internal audit recommendations

A. Implementation of audit recommendations issued in 2012 and prior years

89. In line with the International Professional Practices Framework for internal auditing, which requires "a follow-up process to monitor and ensure that

management actions have been effectively implemented”, and in order to address Executive Board decision 2006/13, the annual work plans of the Internal Audit and Investigations Group include provision for such follow-up.⁷ The Internal Audit and Investigations Group has set up an online tool designed to enable managers to report action taken on the status of implementation of audit recommendations, and desk reviews are performed by the Internal Audit and Investigations Group on actions taken and information provided thereon.

90. Table 9 shows the outcome, as of 7 January 2013, for all audit recommendations issued between 2005 and 2012. Of the audit recommendations issued in or prior to 2010, 99.5 per cent were implemented, as were 97 per cent of those issued in 2011. The overall implementation of audit recommendations issued from 2008 (the year that the Internal Audit and Investigations Group started undertaking internal audits) to 2012 was 93 per cent, indicating high responsiveness of management to implementing audit recommendations.

B. Recommendations unresolved for eighteen months or more

91. As a result of concerted efforts by management, the number of unresolved audit recommendations that were issued more than 18 months before 31 December 2012 (before 30 June 2011) was 16 (5.5 per cent of the total outstanding recommendations). Details, as well as comments on their status, are provided in annex 1.

⁷ Framework from Institute of Internal Auditors, Performance Standard 2500 – Monitoring progress.

Table 9. Status as of 7 January 2013 of implementation of audit recommendations issued before 31 December 2012

Status	Before IAIG	Under the Internal Audit and Investigations Group																
	2005– 2007	2008	2009				2010				2011				2012			
	(total)	(total)	IAIG audits	Project audits	SGP audits	Total	IAIG audits	Project audits	SGP + Mine Action audits	Total	IAIG audits	Project audits	SGP + Mine Action audits	Total	IAIG audits	Project Audits	SGP + Mine Action audits	Total
implemented/ closed	376	578	178	248	754	1,180	266	264	253	783	133	113	365	611	68	17	13	98
<i>as a percentage</i>	100	100	<i>100</i>	<i>100</i>	<i>100</i>	100	95	<i>100</i>	<i>100</i>	98	88	<i>100</i>	<i>100</i>	97	38	<i>12</i>	<i>34</i>	27
under implementation	0	1	0	0	0	0	13	0	0	13	18	0	0	18	112	122	25	259
<i>as a percentage</i>	0	0	<i>0</i>	<i>0</i>	<i>0</i>	0	5	<i>0</i>	<i>0</i>	2	<i>12</i>	<i>0</i>	<i>0</i>	3	62	88	66	73
Total	376	579	178	248	754	1,180	279	264	253	796	151	113	365	629	180	139	38	357
<i>as a percentage</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>

Note: IAIG = Internal Audit and Investigations Group; SGP = Small Grants Programme.

XI. Operational issues

A. Resources

92. During the year 2012, the budgeted Internal Audit and Investigations Group staffing included: one director (D-1 level), one senior internal auditor (P-5 level), three internal auditors (one P-4 and two P-3 level), and one investigator (P-4 level). In addition, there is one position of internal auditor at the P-3 level which is funded by and dedicated to the Mine Action Programme. The team was supported by an audit assistant and an investigations assistant, both local consultants. This structure is supplemented by the engagement of third-party professional firms and individual consultants.

93. The new Director joined in June 2012. One Internal Auditor (P-3) was promoted to P-4 in January 2012. During the year, this vacant P-3 audit position was transferred to the investigations function, and in lieu thereof, an auditor was engaged on an individual contractor agreement, who joined in January 2013.

B. Involvement with professional bodies and other groups

94. In 2012, the Internal Audit and Investigations Group maintained its formal ties with the Institute of Internal Auditors, to whose International Professional Practices Framework it adheres. Furthermore, the Internal Audit and Investigations Group actively participated in the sixth annual meeting and in the regular conference calls of the Representatives of Internal Audit Services of the United Nations Organizations (UN-RIAS), as well as in the 43rd meeting of the broader group, the Representatives of Internal Audit Services of the United Nations Organizations and Multilateral Financial Institutions (RIAS).

95. The Internal Audit and Investigations Group also participated in the 13th Conference of International Investigators, as well as the second informal meeting of the heads of investigations of United Nations organizations.

C. Enhancing the audit function

96. During 2012, the Internal Audit and Investigations Group carried out several improvements in its internal policies and procedures. Standard operating procedures were developed and put into place to guide auditors on the procedures to be followed for the practice of internal audit. Templates and formats were also revised. A new audit management software package, TeamMate, was purchased, which will help improve the quality of audit reports and work paper retention, as well as follow up to audit recommendations.

D. Strategy and Audit Advisory Committee

97. During 2012, the Strategy and Audit Advisory Committee continued to review the annual work plan, budget, regular progress reports and annual report of the Internal Audit and Investigations Group. It furthermore provided advice to promote the effectiveness of both internal audit and investigation functions. The Audit Advisory Sub-committee was formed during the year.

98. The Strategy and Audit Advisory Committee annual report for 2012 is contained in annex 3.