

# United Nations Office for Project Services

## Summary of the UNOPS management response to the 2008 Annual Report of the Internal Audit Office

### Introduction

1. UNOPS offers the following summary response with respect to the Annual Activity Report of the UNOPS Internal Audit Office for the Year Ended 31 December 2008:

### I. Internal Audit and Oversight

2. UNOPS management is pleased to note that the Internal Audit Office (IAO) performed well in its first full year of operation. It was fully staffed by early 2008 and recorded a significant increase in the internal audit coverage of UNOPS compared to prior years, thus continuing to enhance the overall internal control environment of UNOPS.

3. The mandate of the UNOPS internal audit was renewed with the issuance of the new Financial Regulations and Rules (FRRs) applicable to UNOPS which took effect on 1 February 2009. These new FRRs prescribe the establishment of an internal audit function under regulation 5.03 and rule 105.06 in Article 5 entitled “internal control” as follows:

#### ***Regulation 5.03***

*There shall be an internal audit function which shall conduct independent, internal audits in conformity with generally accepted international auditing standards and, as the case may be, investigations in conformity with policies and procedures established by the Executive Director. The authority, accountability and responsibility of the internal audit office shall be defined in an internal audit charter issued by the Executive Director. Internal auditors shall review and report to the Executive Director on the use of resources administered by UNOPS and on the effectiveness, adequacy and application of internal control systems, policies, procedures and other relevant internal controls. The internal audit function shall have unlimited access to all books, records and other documents which are, in its opinion, necessary for the performance of the audit.*

#### ***Rule 105.06***

*The internal audit office shall provide comments and recommendations to the Executive Director on financial, management and operational activities, pursuant to Regulation 5.01.*

4. IAO adheres to the standards of the International Institute of Internal Auditors in the performance of its internal audit function, as adopted by all internal audit services throughout the United Nations system.

5. In addition to drastically increasing the internal audit coverage of UNOPS activities, UNOPS has reinforced its accountability and oversight capacities with the introduction of several new and revised Organisational Directives (ODs) and Administrative Instructions

(AIs). A list of new or revised OD's issued in 2008 or early 2009 is provided hereafter with a short summary of their purpose:

- ✓ OD 1 – UNOPS Legislative Framework (1<sup>st</sup> rev, 29 January 2009) ; *the purpose of which is to establish the hierarchy of external United Nations legislation applicable to UNOPS and internal UNOPS legislation; and to instruct UNOPS personnel on procedures for the issuance and management of UNOPS legislation;*
- ✓ OD 2 – UNOPS Accountability Framework and Oversight Policies (new, 24 September 2008) ; *the purpose of which is to ensure good governance, consider relevant leading practices, create the necessary environment of accountability and transparency in UNOPS, and guarantee that UNOPS business operations are carried out effectively through continuous improvement;*
- ✓ OD 3 – Financial Regulations and Rules (1<sup>st</sup> rev, 28 January 2009) ; *the purpose of which is to enable the Executive Board to issue broad legislative directives governing the financial management of UNOPS through the Financial Regulations. Within the framework of the Financial Regulations, as provided by regulation 3.02, the Executive Director formulates and promulgates the Financial Rules, which not only provide details to further define the parameters within which UNOPS personnel must exercise their responsibilities, but also constitute a statement as to the manner in which the Financial Regulations are to be implemented;*
- ✓ OD 5 – Strategy and Audit Advisory Committee (2<sup>nd</sup> rev, 24 September 2008) ; *the purpose of which is to provide the Executive Director with external, independent, senior-level advice regarding the organization's strategic, business, and audit objectives. The primary purpose of the Committee is advisory in nature;*
- ✓ OD 6 – High-level Organizational Structure for UNOPS' Regional Entities (new, 28 January 2009) ; *the purpose of which is to outline the main types constituting UNOPS' regional presence, articulating primary lines of authority and accountability of entity heads, and specifying the criteria used for the classification of business units;*
- ✓ OD 10 – UNOPS Policy to address Fraud (1<sup>st</sup> rev, 1 December 2008) ; *the purpose of which is to facilitate controls to prevent, detect, report and investigate fraud. It is intended to promote consistent organizational behaviour by providing instructions and assigning responsibilities for developing these controls and conducting investigations. It also aims to ensure compliance with the Financial Regulations and Rules applicable to UNOPS, the United Nations Staff Regulations and Rules, and the Standards of Conduct for the International Civil Servants;*
- ✓ OD 18 – UNOPS Recruitment Policy (new, 13 May 2008) ; *the purpose of which is to set a uniform framework and standard that will help structure the internal processes for excellence in recruiting;*
- ✓ OD 19 – UNOPS Appointment and Selection Board (1<sup>st</sup> rev, 13 May 2008) ; *the purpose of which is to make recommendations regarding selection and appointment in respect of all UNOPS international professional staff members under the 100 and 200 series of the UN Staff Rules who are assigned in either Headquarters or in the field;*

- ✓ OD 20 – Appointment and Selection Panels (1<sup>st</sup> rev, 13 May 2008) ; *the purpose of which is to make recommendations regarding selection and appointment in respect of all fixed term National Officer and General Service Staff;*
- ✓ OD 21 – Individual Contractor Agreement (ICA) policy (1<sup>st</sup> rev, 25 October 2008) ; *the purpose of which is to ensure compliance with the UN system requirement of competitive selection, whilst streamlining UNOPS' engagement of individual contractors by having one unified contract, simplified relevant policies and processes, flexibility, and ensuring that all individual contractors are provided with a strong contracting modality which includes insurance coverage and other appropriate benefits;*
- ✓ OD 22 – Cost Recovery and Client Pricing policy (new, 26 February 2008) ; *the purpose of which is to give effect in a transparent manner to the full cost recovery pricing methodology employed by UNOPS as a self-financing entity and to ensure that each Regional Office contributes to the overall financial sustainability of UNOPS;*
- ✓ OD 23 – Policy on Financial Declaration and Disclosure of Interest Statements (new, 27 February 2008 ; 1<sup>st</sup> rev, 24 November 2008) ; *the purpose of which is require certain UNOPS personnel to file an annual financial declaration statement, which may result in the requirement to subsequently complete a financial disclosure statement;*
- ✓ OD 24 – Staff Rotation policy (new, 3 March 2008) ; *the purpose of which is to contribute to a more effective and high-performing organization by staffing UNOPS' operation centers (OCs), regional offices (ROs) and headquarters (HQ) with the best qualified staff on a systematic and managed basis. With rotation, staff members at HQ and ROs have field experience and managers in OCs have gained experience at HQ and in other geographic regions. Rotation also brings about an enhanced sense of organizational identity and team spirit that reinforces commitment to the UNOPS' mandate;*
- ✓ OD 25 – Internal Audit Charter (new, 29 April 2008) ; *the purpose of which is to clarify the mission, scope, accountability, responsibility, authority and standards of the Internal Audit Office (IAO);*
- ✓ OD 26 – Succession Management policy (new, 14 May 2008) ; *the purpose of which is to ensure that a number of key positions have a continuous pipeline of candidates who could take over future responsibilities;*
- ✓ OD 27 – Internal Control and Risk Management Framework (new, 8 July 2008) ; *the purpose of which is to inform all UNOPS personnel of the internal control and risk management framework instituted at and by all levels of authority to secure, in the performance of his/her duties, the accountability of the Executive Director for the funds entrusted to him/her.*

6. A list of new or revised AIs issued in 2008 or early 2009 is provided hereafter with a short summary of their purpose:

- ✓ AI/CCC/2008/01 – Delegation of Authority – Finance Officers (new, 30 May 2008) ; *the purpose of which is to establish the system for delegation of authority in respect of finance matters to the Comptroller, the Assistant Comptroller, Corporate Control Centre (CCC) Finance Specialists and Analysts, Regional Finance Management Officers and Country Finance Management Officers;*

- ✓ AI/OEC/2008/02 – Hospitality Policy (new, 2 May 2008 ; 1<sup>st</sup> rev, 19 February 2009) ; *the purpose of which is to provide the policies and guidelines that govern reimbursement of hospitality for UNOPS officials serving at both headquarters and in regional offices/operations centres;*
- ✓ AI/OEC/2008/03 – Gender Balance in UNOPS (new, 7 May 2008) ; *the purpose of which is to implement a forceful, forward-looking gender policy;*
- ✓ AI/OEC/2008/05 – Staff Rotation (new, 12 June 2008) ; *the purpose of which is to define the practical modalities concerning implementation of the principle of mandatory staff rotation;*
- ✓ AI/OEC/2008/06 – Post-employment Restrictions (new, 18 November 2008) ; *the purpose of which is to promulgate the policy on post-employment restrictions, which is aligned with the Secretary-General’s bulletin of ST/SGB/2006/15;*
- ✓ AI/GSC/2008/01 – Procurement Policies (new, 21 November 2008) ; *the purpose of which is to promulgate a set of new procurement policies which are applicable to UNOPS and based on leading practices in the outside world, and supplement the provisions currently found in the UNOPS Procurement Manual;*
- ✓ AI/GSC/2008/02 – Management of Property, Plant and Equipment (new, 17 December 2008) ; *the purpose of which is to provide detailed instructions on the management of UNOPS property, plant and equipment;*
- ✓ AI/OEC/2009/01 – Amendment to Offers of Appointment (OoA), Letters of Appointment (LoA) and Individual Contractor Agreements (ICA) (new, 3 February 2009) ; *the purpose of which is to amend all Offers of Appointment, Letters of Appointment and, as applicable, Individual Contractor Agreement, with a view to ensuring that all UNOPS personnel formally declare “no conflict of interest”, agree to be bound by the Code of Conduct, must cooperate with any authorized investigation, etc .;*

## **II. Highlights of activities during 2008**

7. UNOPS management notes that 2008 is the first of a two year strategy by IAO to extend the coverage of audit to those UNOPS locations deemed as high and medium risk, and to conduct functional audits of key operational areas. In total, 40 internal audits were completed in 2008 compared to 24 in 2007 (an increase of 67%). The approach in tackling the high to medium risk locations has worked well, and has assisted the organisation in identifying financial and or internal control issues in 37 reports. These issues have been reviewed by management and are being addressed in a pro-active manner.

8. Notwithstanding the issues identified by IAO, UNOPS management was pleased to note that the share of “unqualified” opinions on the financial performance by projects and the “satisfactory” rating of their internal control environment increased by 21% and 9% respectively.

9. UNOPS management notes that the number of audit recommendations increased five-fold from 115 in 2007 to 581 in 2008. It further notes that this should not be taken as indicative of a weakening trend in internal controls or an increase in the level of risks. Rather, it is mostly due to the increased audit coverage and scope of internal audits by the IAO in 2008 compared to previous years.

10. UNOPS management notes that inadequate supervision and insufficient clarity of written procedures to guide staff in performing their functions are the main causes of the audit issues to be addressed. The other causes are failure to comply with prescribed UNOPS regulations, rules and procedures, human error and insufficient resources. These issues are being addressed through training and the issuance of policies and tools. The latter is facilitated through a dedicated change programme for 2009 and the alignment of UNOPS into regions and practices, where the latter will be spearheaded by global practice leads who will be responsible for the continuous improvement of the policies and tools within their practice area, and compliance by UNOPS personnel accordingly.

11. UNOPS management notes that most audit recommendations are related to the area of finance, followed by human resources, general administration, procurement and organisational development. These findings have helped put together a new headquarters structure that will ensure more specialisation in these functional areas and greater clarity on how the various structural and functional elements of the organisation will fit within a matrix structure that links regional operations with specialised management and implementation support practices.

### III. Significant issues noted by IAO during 2008

12. UNOPS has taken note of the significant issues noted by or impacting the Internal Audit Office during 2008 and supports the summary as presented by IAO in their Annual report. The necessary action is taken to ensure that issues that affect a good performance of UNOPS are addressed in accordance with their impact and risk levels to the organisation. These issues pertain to the following :

- ✓ Executive Office support – *no issues*
- ✓ Overall assessment of internal controls – *compliance*
- ✓ Decentralisation – *internal control (accountability)*
- ✓ Organisational structure – *addressed by OD6*
- ✓ Financial sustainability – *delivery and business acquisition*
- ✓ IPSAS implementation – *time constraints / preparedness*
- ✓ Change programme – *no issues and supportive of UNOPS management 's expectation that it will address the many issues noted by IAO to date.*
- ✓ HR initiatives – *high level of personnel turnover and poor completion of performance review appraisals.*
- ✓ Implementation of ICA guidelines – *a second revision is in the works*
- ✓ Significant programmes implemented by UNOPS – *pending*
- ✓ Multi-Donor Trust Funds – *currently under review*
- ✓ Regional audit committees – *the creation of these was welcomed by IAO*
- ✓ New Financial Regulations and Rules – *no issues*
- ✓ United Nations Board of Auditors (UNBOA) Report – *three matters of emphasis which impact the planning and conduction of internal audits*
- ✓ Reliance on the work of IAO by the UNBOA – *fully supported by IAO*
- ✓ Long Term Agreements (LTAs) for the provision of auditing, accounting and advisory services – *LTAs with six professional firms across all five UNOPS regions to improve the efficiency, accuracy and timeliness of project audits*

### III. Other issues noted by IAO

13. UNOPS management notes and supports the training by IAO staff in range of areas that affect operations. The online issue tracking system for the follow-up of audit recommendations is eagerly awaited by management as it will help ensure timely implementation of recommendations.

#### **IV. Follow-up on 2005 to 2008 audit recommendations**

14. UNOPS management has noted that most audit recommendations for 2005, 2006 and 2007 have been implemented (with notable progress achieved in the course of 2008) and will vigorously follow-up on those recommendations that are still in progress or not yet implemented.

15. An online audit recommendation tracking system has been established and focal points designated accountable for the implementation of each outstanding recommendation.

#### **V. Annual report of the Strategy and Audit Advisory Committee**

16. Management takes note of the SAAC's 2008 annual report and is very appreciative of the significant value added by this independent body to the external strategic advice provided to management and further internal control improvements at UNOPS.