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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 2010 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 (UNOPS) submits this activity report on internal audit and investigation services for the year ended 31 December 2010 to the Executive Board through the Executive Director of UNOPS. 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 2010; and
- (b) *Take note* of the annual report of the Strategy and Audit Advisory Committee for 2010 (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 2010
2. Strategy and Audit Advisory Committee annual report 2010

I. Introduction

1. The Internal Audit and Investigations Group (IAIG), previously named the Internal Audit Office, is pleased to provide the Executive Board, through the Executive Director, with the present annual report on the United Nations Office for Project Services (UNOPS) internal audit and investigation activities for the year ended 31 December 2010. This report contains details pursuant to Executive Board decision 2008/13, specifically: (i) a table displaying unresolved audit recommendations by year and category; (ii) a list of the high-priority findings and the ratings contained in audit reports; and (c) an explanation of findings that have remained unresolved for 18 months or more.

2. The year 2010 represents the third full year of operation for the Internal Audit and Investigations Group. During these three years, the Internal Audit and Investigations Group maintained a significant increase in the internal audit coverage of UNOPS over prior years, enhancing the overall internal control environment of the organization. As of 1 September 2009, the Internal Audit and Investigations Group assumed a centralized and dedicated role in the management and conduct of investigations throughout the organization.

3. The Internal Audit and Investigations Group reports to the Executive Director of UNOPS and assists him with his accountability function. In this regard, it 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 through conducting investigations into reports of violations of applicable regulations, rules 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 2010-2013 business strategy and the 2010-2011 budget.

4. The Internal Audit and Investigations Group continued to interact with the UNOPS Strategy and Audit Advisory Committee during 2010. In accordance with Executive Board decision 2008/37, the annual report of the Strategy and Audit Advisory Committee for 2010 is attached as Annex 2 to the present report.

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

A. Mandate, functions and standards

5. The UNOPS mandate for internal audit is described in the UNOPS Financial Regulations and Rules (DP/2009/4). Regulation 5.03 and Rule 105.06 define the role of the UNOPS Internal Audit and Investigations Group.

6. 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, which was revised with effect from 1 September 2010.

7. 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): "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

8. In 2010, the Internal Audit and Investigations Group coordinated its internal audit work with and made its results available to the United Nations Board of Auditors. Further, the Group's annual planning process also included consultation with the Board of Auditors.

9. As appropriate, the Internal Audit and Investigations Group coordinated its activities with the Office of Internal Oversight Services and with the Representatives of Internal Audit Services of the United Nations Organizations (UN-RIAS) as well as with the Joint Inspection Unit.

III. Approved annual internal audit workplan for 2010

10. The 2010 workplan was based primarily on the overall objective of assisting the Executive Director by providing him assurance that internal controls and procedures function as envisaged. The workplan contained detailed discussion on the planning approach, objectives, risk assessment, areas to be covered, nature of audit services, operating budget and transition arrangements. It was developed taking into consideration the recent issues affecting the UNOPS internal systems and business.

A. Risk-based internal audit plan

11. The objective of audit risk assessment is to identify and prioritize potential audit areas that pose the greatest risk to the organization, relying, to the extent possible, on the risk management system put in place by management. The output of the audit risk assessment enables the allocation of limited available internal audit resources 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 workplan.

12. In preparing its workplan for 2010, the Internal Audit and Investigations Group refined the model used in 2009, to ensure greater consistency between internal audit priorities and the goals of UNOPS management. The model took into account any development in the audit universe, as well as the objective of auditing various functions and locations over the course of three years based on their risk profile. The Internal Audit and Investigations Group also relied to the extent possible on the existing components of the risk management system mandated in UNOPS financial regulation 4.01 and detailed in financial rules 104.01 and 104.02. Further, it was noted that UNOPS is in the process of putting in place a structured, comprehensive organization-wide system of risk management (see paragraph 63 below). When fully operational, this system will further inform the audit risk assessment.

13. The 2010 audit workplan, based on the audit risk assessment outcome, reflected the diversity and range of UNOPS operations worldwide, as well as the objective of broadening the focus of the Internal Audit and Investigations Group:

from assurance and compliance-based auditing to more performance-based auditing, within the limits of available internal audit resources.

B. Progress on implementation of annual workplan

14. The progress made on the implementation of the 2010 workplan is shown in Table 1.

Table 1 - Status of implementation of workplan as at 31 December 2010

	IAIG Internal Audits	Project Audits	Audits of significant programmes (SGP/ MAC ¹)	Total
Number of audits planned in 2010	10	NA	40	50
Number of audit reports issued in 2010 (including those carried over from 2009)	9 (5 from 2010 and 4 from 2009)	25	18 (SGP: 17 of which 1 from 2009; and MAC: 1)	52
Number of audits carried out and audit reports under finalization	2	2	22 ²	26
Number of audits commenced and in progress	3	4	0	7

IV. Highlights of audit activities during 2010

15. As seen in above table, the Internal Audit and Investigations Group released 52 reports during 2010, compared with 61 reports during 2009 and 38 in 2008, and the results of its work are presented under three separate categories, reflecting the differences in approach, as follows:

- (a) Internal audit reports of audits conducted directly by the Internal Audit and Investigations Group (nine reports);
- (b) Internal audit reports of project audits conducted on behalf of, and under the supervision of, the Internal Audit and Investigations Group by third-party professional auditing firms or consultants, to fulfil project requirements (25 reports); and
- (c) Internal audit reports of audits of significant programmes managed and/or executed by UNOPS that were conducted on behalf of, and under the supervision of, the Internal Audit and Investigations Group by third-party professional auditing firms or consultants (18 reports).

16. The combined 2010 audit reports contained 796 audit recommendations for improving internal controls and organizational efficiency and effectiveness. Of

¹ Small Grants Programme (SGP); Mine Action Cluster (MAC).

² Of these, eight were issued in January 2011 and 14 in February 2011.

these, 279 pertain to internal audit reports, 264 to project audit reports, and 253 to Small Grants and Mine Action Programme audit reports.

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

Internal audit reports issued

17. During the year that ended 31 December 2010, nine internal audit reports were issued by the Internal Audit and Investigations Group and submitted to the UNOPS Executive Director, as detailed in Table 2. This was the first IAIG-conducted audit for these organizational units or functions.

Table 2 - List of internal audit reports issued by the Internal Audit and Investigations Group in 2010

Organizational unit or function	Rating ³
Regional Office for North America	Partially satisfactory
Iraq Operations Centre	Partially satisfactory
Sudan Operations Centre	Partially satisfactory
UNDP/UNFPA Interfund Account	Partially satisfactory
Myanmar Operations Centre	Partially satisfactory
Argentina Operations Centre	Partially satisfactory
Democratic Republic of Congo Operations Centre	Partially satisfactory
Global Service Centre Procurement	Partially satisfactory
Ethics Office	Partially satisfactory

Analysis of internal audit recommendations issued in 2010

18. Pursuant to Executive Board decision 2005/19, the Internal Audit and Investigations Group analysed each of the recommendations issued during 2010. The nine internal audit reports issued generated 279 audit recommendations. It is noted that one recommendation may have more than one cause or effect more than one functional area. The analysis for the 2010 internal audit recommendations thus consists of 279 recommendations that can be analysed by importance, 326 by cause, and 279 by frequency of occurrence in a functional area.

19. The number of internal audit recommendations increased significantly from 178 in 2009 to 279 in 2010. The average number of recommendations per audit report also slightly increased, from 30 in 2009 to 31 in 2010.

Categorization, by level of importance, of audit recommendations issued through internal audit reports in 2010

20. Of the 279 audit recommendations issued through internal audit reports in 2010, 107 (38 per cent) are considered to be of high importance, 159 (57 per cent)

³ As per the harmonized rating system applied by the internal audit services of United Nations Children's Fund, UNFPA, World Food Programme, UNDP and UNOPS effective 1 January 2010, "Partially satisfactory": 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.

of medium importance, and 13 (5 per cent) of low importance, as shown in Table 3.⁴

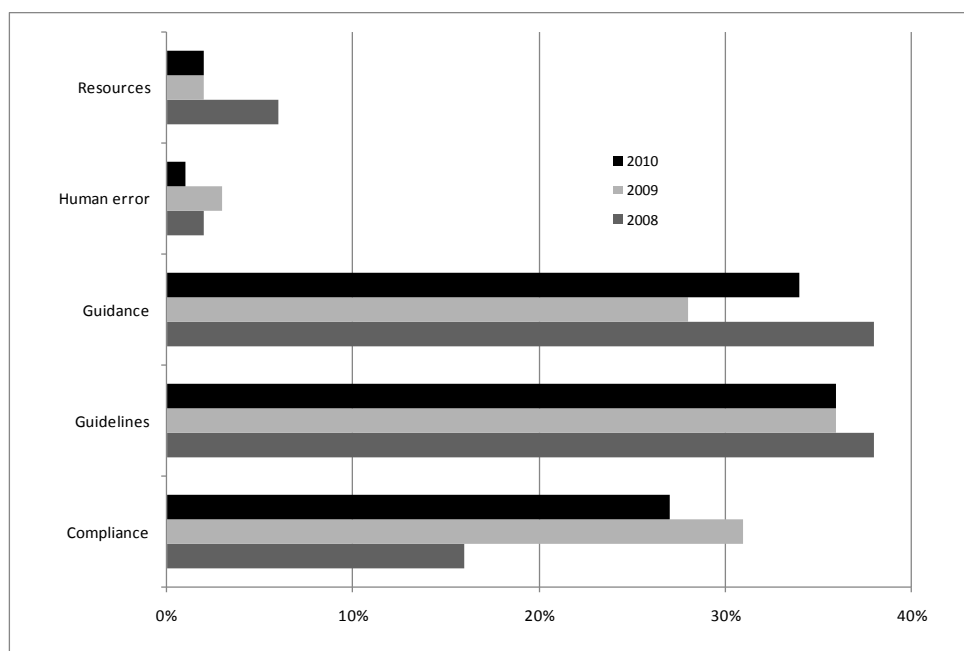
Table 3 - Categorization of audit recommendations, by level of importance

Level of importance	Number of recommendations			Percentage of total		
	2008	2009	2010	2008	2009	2010
High	155	56	107	44	31	38
Medium	184	112	159	53	63	57
Low	12	10	13	3	6	5
Total	351	178	279	100	100	100

Causes of audit issues

21. The main causes of audit issues⁵ raised in the 2010 internal audit reports were the need for written procedures to guide staff in performing their functions (36 per cent) and inadequate monitoring or lack thereof by supervisors (34 per cent), as shown in Chart 1. The other causes found were failure to comply with prescribed UNOPS regulations, rules and procedures (27 per cent), insufficient resources (2 per cent) and human error (1 per cent).

Chart 1 – Internal audit recommendations, by cause of audit issue



⁴ Definitions per 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); and ‘*Low*’: action that is considered desirable and should result in enhanced control or better value for money”.

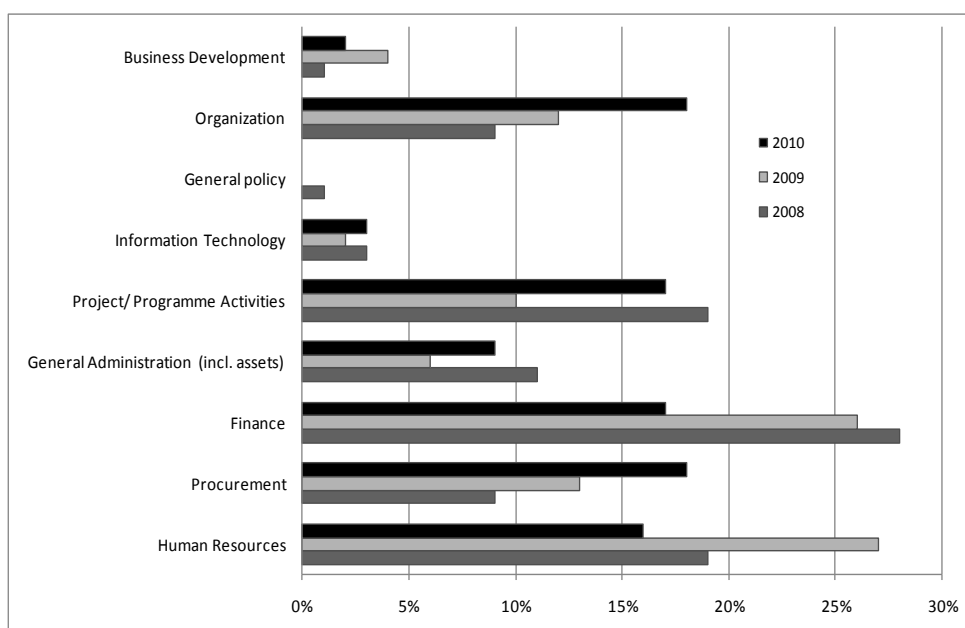
⁵ Definitions per DP/2007/38: “‘*Compliance*’: failure to comply with prescribed UNOPS regulations, rules and procedures; ‘*Guidelines*’: absence of written procedures to guide staff in performing their functions; ‘*Guidance*’: inadequate or lack of supervision by supervisors; ‘*Human error*’: Mistakes 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 audit recommendations by functional area

22. Further analysis by frequency of occurrence and by functional area of the audit recommendations issued in 2010 was carried out. As shown in Chart 2, the top four areas found in 2010 were: organizational issues (18 per cent), procurement (18 per cent), project management (17 per cent) and finance (17 per cent).

23. Organizational issues showed an increase of six percentage points in 2010 over 2009, reflecting the need for written procedures to guide staff in performing their functions. The relative share of both procurement and project/programme management increased in 2010 compared with 2009, reflecting the additional focus of the Internal Audit and Investigations Group on these areas. There is a significant decrease in finance and human resources matters.

Chart 2 – Internal audit recommendations, by functional area



Key areas of improvement from internal audit reports issued in 2010

24. To supplement the analysis of audit recommendations provided earlier in this report, an indicative summary of the key audit recommendations made to address findings and deficiencies reported in the 2010 internal audit reports is provided below, together with the number of internal audit reports in which these were raised.

Auditee purpose, strategic direction and organizational management

25. *Overall internal environment of the auditees.* Seven internal audit reports called for clearer and more appropriate organizational structure and lines of authority, dedicated terms of reference for the operation or project centre, and well-documented job descriptions. In one instance, the internal audit report highlighted the need to provide guidance for planning and setting up a new office.

26. *Monitoring system.* All nine internal audit reports called for strengthened monitoring systems to be put in place in the area under review.

27. *Business development.* In two internal audit reports, management's attention was brought to the need to increase business acquisition in order to reach delivery targets, to plan for suitable portfolio diversification, as well as to assess the reasonableness of pipelines. One report highlighted the need for more systematic information gathering regarding the activities of potential clients operating in the office area, as well as for institutionalizing such knowledge, for example in a database.

Project management

28. In six internal audit reports, management's attention was drawn to the need: for financial closure within the time frame specified by the UNOPS Financial Regulations and Rules for projects already operationally closed; for greater compliance with the organization's pricing policy; for more guidance and tools to ensure consistency and compliance; for enhanced monitoring of projects overspent against budgets; and for better meeting partners' reporting requirements.

Finance

29. *Organizational structure.* In one internal audit report, management attention was drawn to standardizing job descriptions for Finance Officers at all levels across the organization, as well as to reviewing reporting lines of Regional Finance Management Officers and other Finance Officers to ensure independence from operational managers.

30. *Other issues relating to finance.* In two reports, management was advised to take action on timely clearance of outstanding advances recoverable locally (ARLs) and on a mechanism for their settlement. Two other reports recommended better guidance for the management of operational advances, more stringent measures to ensure the use of crossed cheques, as well as the possible use of secured e-transfers. In one report, the closure of remaining imprest accounts was recommended.

Human resources

31. *Implementation of the individual contractors agreement (ICA) modality.* Six audit reports called for stricter compliance with engagement procedures prescribed in ICA policy, enhanced transparency in fee calculation, and the introduction, in a majority of locations, of a suitable roster of consultants.

32. *Other audit observations relating to human resources.* To support the organization's commitment to the competence, expertise and performance of its personnel, management was advised in five internal audit reports to perform more analysis of training needs and to prepare dedicated training plans for personnel at the operational level. One report stressed the need to create and implement a consistent and comprehensive structure for all personnel files. Another report sought better verification of the credentials of the successful applicants' for staff positions.

Procurement

33. Five audit reports issued in 2010 included recommendations on strengthening procurement. For instance, two audit reports emphasized compliance with the procurement manual with regard to receipt, opening and evaluation of proposals. Three reports sought better documentation of the procurement process. One report stressed the need for transparent and competitive selection. Further audit observations relating to procurement, each found in one report, included exploring

additional possibilities of economies of scale in procurement; establishing a stricter mechanism of recognition of authorized signatures for procurement requests and approvals by clients; and observing appropriate segregation of duties and enhancing oversight of procurement processes.

General administration

34. *Asset management.* Enhancements in control activities relating to asset management were mentioned in four internal audit reports issued in 2010. These enhancements included keeping more accurate and timely asset inventory lists, introducing periodic and independent physical verification of assets and documentation of these procedures.

35. *Information and communications technology (ICT).* All nine internal audit reports included recommendations on ICT. Three reports called for improved business continuity plans; one report for ensuring that software licenses and warranties are up to date; and one report for putting in place an annual maintenance contract for information technology assets after the warranty period expires.

36. *Other administrative or operational issues.* Two reports advised providing guidance on a consistent approach for the management of mobile telephones issued to personnel. Also two reports urged the implementation of the minimum operating security standards (MOSS).

B. Internal audit reports of projects

Single audit principle

37. 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) presented to the Executive Board at its annual session 2008.

38. While management is responsible for meeting the requirements of project agreements, the Internal Audit and Investigations Group supports their efforts in fulfilling the requirements regarding audit clauses, where present. For that purpose, the Internal Audit and Investigations Group relies on third-party professional auditing firms to conduct these audits on its behalf. 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 reviewed by the Internal Audit and Investigations Group before finalization.

Internal audit reports issued for projects

39. During the year that ended 31 December 2010, 25 internal audit reports relating to specific projects were issued by the Internal Audit and Investigations Group and submitted to the UNOPS Executive Director.

40. As seen in Table 4, of the 25 internal audit reports for projects issued in 2010, the majority expressed an audit opinion on the financial situation of the project as well as provided a rating of internal control compliance, according to the requirements of the partner and primary stakeholder(s) concerned.

Table 4 - Number of project audit reports issued during 2008-2010

	2008	2009	2010
Audit reports issued expressing an opinion on the financial situation and rating on the internal control environment	9	9	24
Audit reports issued expressing an opinion on the financial situation only	6	7	1
Audit reports issued expressing an opinion on internal control compliance only	10	1	0
Reports without expressing an opinion	2	-	-
Total	27	17	25

41. In line with Executive Board decision 2008/13 and as shown in Table 5, by 31 December 2010 the proportion of project audits with an unqualified opinion on their financial situation increased slightly to 80 per cent. The proportion of project audits with a qualified opinion decreased accordingly in 2010. Such decrease is considered to be a result of: better management preparedness for audits; audit firms being more knowledgeable about UNOPS operations; and a general improvement in the financial management of projects.

42. Further, the proportion of project audits with satisfactory internal controls significantly increased in 2010 and was the highest of the last three years. Such a situation is considered to result from the same improvements as those mentioned above.

Table 5 - Summary of project audit opinions and ratings of internal controls for project audits, 2008 - 2010

Type of opinion or rating	Number of audit reports			Percentage of total		
	2008	2009	2010	2008	2009	2010
Audit opinion on financial situation of project						
Unqualified opinion	9	12	20	60	75	80
Qualified opinion	6	4	5	40	25	20
Total	15	16	25	100	100	100
Rating of overall level of internal control						
Satisfactory	8	3	13	46	30	54
Partially satisfactory	11	7	10	54	70	42
Unsatisfactory	0	0	1	0	0	4
Total	19	10	24	100	100	100

Project audits' related recommendations issued in 2010

43. The 25 project audit reports issued generated 264 audit recommendations. These are analysed by importance, by cause and by frequency of occurrence in a functional area.

Categorization of audit recommendations relating to projects by level of importance

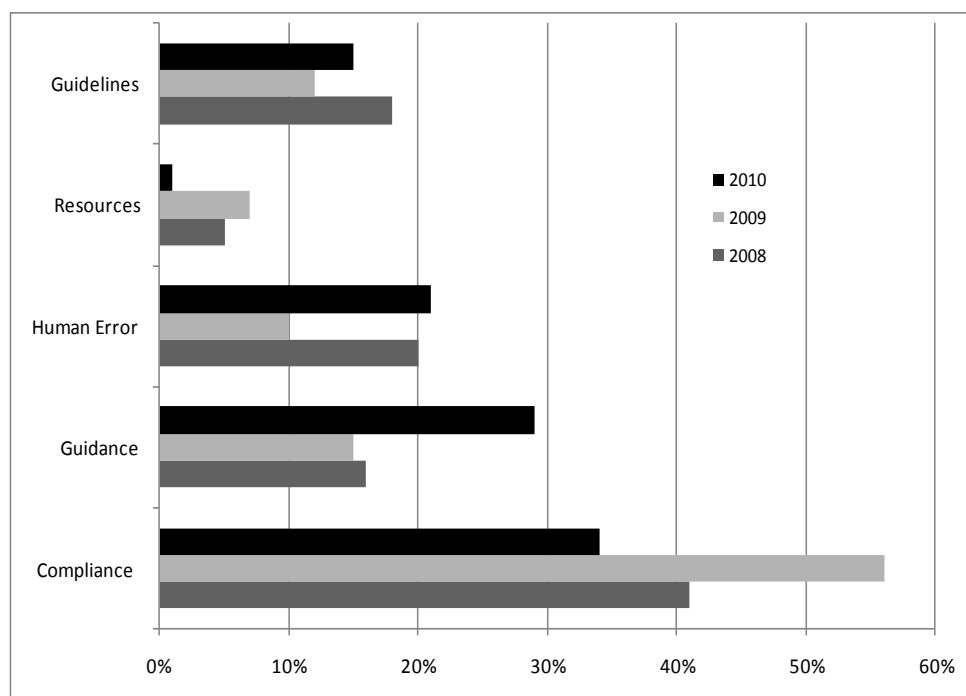
44. As seen in Table 6, the proportion of high-rated audit recommendations is the lowest over the period 2008 to 2010, and is considered to reflect the improvements mentioned earlier.

Table 6 - Categorization of project audit recommendations, by level of importance

Level of importance	Number of recommendations			Percentage of total		
	2008	2009	2010	2008	2009	2010
High	45	79	64	27	32	24
Medium	83	140	134	49	56	51
Low	41	29	66	24	12	25
Total	169	248	264	100	100	100

Causes of audit issues

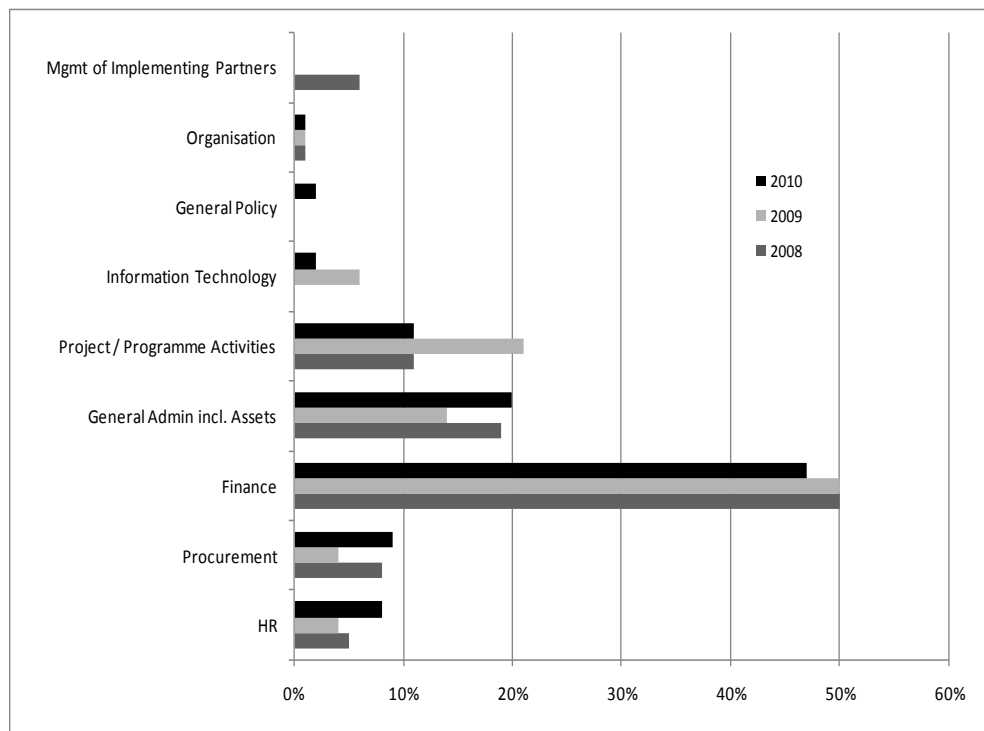
45. A failure to comply with prescribed UNOPS regulations, rules and procedures is the main cause of the audit issues recorded in 2010 project audit reports. Compared to 2009, compliance decreased from 56 per cent in 2009 to 34 per cent in 2010, as shown in Chart 3. This indicates that, while UNOPS increased the amount of policy and guidance provided in support of its operations, as compared to prior years, the implementation of such policy and guidance has been inconsistent.

Chart 3 - Project audit recommendations, by cause of audit issues*Frequency of occurrence of project audit recommendations by functional area*

46. Further analysis of project audit recommendations by frequency of occurrence in each functional area was carried out. As shown in Chart 4, the functional areas mentioned most frequently in project audit recommendations were: finance, 47 per cent; general administration (including asset management), 20 per cent; project and programme activities, 11 per cent; and procurement, 9 per cent.

47. The areas that required the most improvements remained essentially the same as in previous years: finance and general administration (including asset management).

Chart 4 - Project audit recommendations, by functional area



Key areas for improvement identified in project audit reports

48. Key areas for enhancement included in the project audit reports issued in 2010 are detailed below. These enhancements may apply to one or more projects and to varying degrees.

- *Project/Programme Management.* Ensure that payments made to contractors are commensurate with services rendered, and that project budgets are thoroughly monitored to detect over-expenditure, if any, in a timely manner.
- *Financial controls.* Ensure that original documentation supporting expenditure is available, that scanned copies of original documentation are an exception, and that operational advances made to personnel are properly documented.
- *Procurement.* Ensure that documentation of procurement activities is in compliance with the UNOPS procurement manual.
- *Asset Management.* Ensure compliance with projects guidelines on asset management and transfer.

C. Internal audit reports of significant programmes

49. In the 2008 annual report of the UNOPS Internal Audit Office (DP/2009/24), it was noted that the Internal Audit Office (now the Internal Audit and Investigations Group) should endeavour to expand its audit coverage of specific and significant programmes executed by UNOPS on behalf of its partners.

50. Two programmes were identified, namely, 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.

Global Environment Facility Small Grants Programme

51. During 2010, the Internal Audit and Investigations Group continued the implementation of the dedicated and comprehensive audit programme started in 2009.

52. The GEF Small Grants Programme was created in 1992, is implemented by the United Nations Development Programme and executed by UNOPS, by the regional office for North America. UNOPS provides the following programme execution services: personnel recruitment, subcontracting, authorization of grant allocations and disbursements, budget administration and reporting, training and guidance to country-level staff, provision of legal advice, and internal oversight and audits. In 2010, the Programme was in operational phase 4 (2007-2010), referred to later as OP4.

53. Following the recommendation of a programme evaluation, the GEF requested that audits be conducted of all country programmes at least once during each operational phase. During 2009, the Internal Audit and Investigations Group, in consultation with the UNOPS Small Grants Programme management team, engaged through a competitive tender process a third-party professional audit firm with a global presence to carry out these audits on its behalf. The audit scope covered both compliance and management (functional) issues relating to: the governance process, to the grants management process and to finance, human resources, procurement and asset management. The Internal Audit and Investigations Group provided quality control on the risk assessment of the units selected for audit, the audit work programme and the audit reports.

54. Based on the risk assessment, each of the 80 Small Grants Programme country programmes was categorized as either “very high”, “high”, “medium” or “low” risk.

Internal audit reports issued for the Small Grants Programme

55. In 2010, 39 country programmes were audited (versus 38 in 2009) and 17 reports were issued. The remaining ones were issued in early 2011.

56. All reports showed a “satisfactory” or “partially satisfactory” rating on either “internal controls” or “financial operations” or both.

57. The reports issued in 2010 contained 233 audit recommendations, of which 17 were categorized as “high” risk, 109 as “medium” and 107 as “low” risk. In terms of functional area, 172 recommendations (74 per cent) related to programme management, 39 (17 per cent) pertained to finance, and the remaining 22 (9 per cent) related to asset management and human resources.

Key areas for improvement in the 2010 Small Grant Programme audit reports

58. Key areas for enhancement included in the SGP audit reports issued in 2010 are detailed below. These enhancements may apply to one or more projects and to varying degrees.

- *Programme Management.* Ensure: that grant commitment to individual beneficiaries does not exceed the 5 per cent threshold of overall grant allocation; that the National Steering Committee (NSC) has access to full project proposal details and that all documentation is kept on file; that executed agreements meet all criteria listed within the standard operating procedures (e.g. no excessive first payment without approval, complete bank details, no changes to standard wording without appropriate authorization). Ensure further: that grant instalment payments are released only upon receipt of progress reports; that the grant commitment level is thoroughly monitored within an operational year to avoid substantial under-commitment; that the country programme team has in place an established process to oversee grantee's programme and follow-up when necessary; and that the SGP database is complete (e.g. with grant and co-financing information, NSC information). Ensure further: that the National Steering Committees' terms of reference are up to date and not missing criteria, and that grant approvals are complete (e.g. grant approval listing appropriately signed off and complete).
- *Finance.* Ensure that all country office budgets are prepared on time and that actual administrative expenses do not exceed the administrative budget; that reporting requirements are complied with in a timely manner; that cost-recovery charges are billed to the country programme in a timely manner; and that petty cash is properly managed (e.g. stored in a secured location in accordance with guidelines and usage in line with standard operating procedures).
- *Assets.* Make sure that usage of programme vehicles conforms to policies and that inventory listings are complete and accurate.
- *Human Resources.* Ensure that SGP employee files are complete regarding competitive recruitment documentation.

Mine Action Programme

59. The Mine Action portfolio, funded by the United Nations Mine Action Service of the Department of Peacekeeping Operations, is managed by the regional office for North America, with field operations carried out in 13 countries.

60. Audits of the Mine Action Programme began in Somalia, and the corresponding audit report was issued in 2010. This report contained 20 recommendations, of which 7 were "high" priority; 11 were "medium" priority; and 2 were "low" priority. In terms of functional area, 3 (15 per cent) of the recommendations related to programme management; 4 (20 per cent) pertained to finance; and the remaining 13 (65 per cent) related to asset management, human resources and procurement.

61. The report called for formalizing the agreement between UNDP Somalia and UNOPS with regard to the project, having a workplan prepared and approved at the outset, performing reconciliation of non-expendable assets in a timely manner,

ensuring the timely submission of progress reports to the donor, as well as timely procurement planning.

62. Following the Internal Audit and Investigations Group's engagement of a dedicated auditor, to begin work in 2011, the audit programme is being further expanded in 2011.

D. Improvements to the UNOPS internal control system

63. The Internal Audit and Investigation Group noted that management took more than 20 measures in 2010 (and early 2011) to strengthen the internal control system.

64. Management either revised or issued new policies and procedures that address various audit recommendations in the following areas: (i) financial closure of operationally closed projects; (ii) cash management; (iii) write-offs; (iv) use of mobile phones; (v) official travel management; (vi) revisions in individual contractor agreement policy; (vii) streamlining of project management practices; (viii) development of tools to aid in the consistent costing of project budgets; (ix) an enhanced system of delegations of authority; (x) revision of the procurement manual; (xi) guidance on the provision and maintenance of dwelling facilities in hardship locations; (xii) development of strategic plans for the different practice groups, (xiii) guidance on asset management; (xiv) information disclosure; (xv) quality management policy; (xvi) training and awareness programmes for the implementation of International Public Sector Accounting Standards; and (xvii) a framework for strategic risk management in the organization. Management is also making efforts to develop (xviii) rosters for the engagement of staff and consultants. Such measures will be taken into account when developing audit workplans in 2011 and beyond.

65. In addition, management issued (xix) the UNOPS Legal Framework for Addressing Non-Compliance with United Nations Standards of Conduct, as well as (xx) the policy against retaliation for reporting misconduct. Management also revised (xxi) the fraud policy and (xxii) the policy on prohibition of discrimination, harassment and abuse of authority, all of which support the investigation function of the Internal Audit and Investigations Group.

V. UNOPS accountability framework

66. In accordance with the UNOPS Accountability Framework and Oversight Policies, the head of the Internal Audit and Investigations Group reports to the Executive Board on the resources available and required for the implementation of the present accountability framework.

67. The pillars of the UNOPS Accountability Framework and Oversight Policies that are internal to the organization include: the Strategy and Audit Advisory Committee, the Internal Audit and Investigations Group, 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 management's "balanced scorecard" programme, and the implementation of the UNOPS organizational directives and administrative instructions.

68. 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.

69. The Internal Audit and Investigations Group limits its reporting on this matter to those resources required for the pillars internal to the organization. It is noted that all bodies mentioned in the UNOPS Accountability Framework and Oversight Policies had been established and funded and were functioning as intended as at 31 December 2010. It is further noted that all required coordination and reporting to those bodies external to the organization occurred during 2010.

VI. Disclosure of internal audit reports

70. The Internal Audit and Investigations Group complies with Executive Board decision 2008/37 in which the Executive Board took note of the report on the UNOPS accountability and oversight policies (DP/2008/55) and approved the accountability framework and oversight policies set out therein. In this regard, it recognizes the confidential nature of internal audit reports and the procedures approved by the Executive Board, which allows disclosure of internal audit reports when a request is received from a Member State.

71. UNOPS did not receive a request from any Member State to view an internal audit report during 2010.

VII. Advisory services

A. Policies, procedures and agreements

72. 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. During 2010, the Internal Audit and Investigations Group continued to render a number of such services, e.g. providing comments on several policies and procedures.

73. Further, the Internal Audit and Investigations Group continued to assist in reviewing proposed project agreements containing audit clauses to ensure that such clauses are in accordance with the Financial Regulations and Rules. Where necessary, it recommended actions to address such audit requirements.

74. 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.

B. Implementation of the International Public Sector Accounting Standards

75. UNOPS was scheduled to move from the use of the United Nations System Accounting Standards (UNSAS) to the use of the International Public Sector Accounting Standards (IPSAS) on 1 January 2010. During 2009, a decision was taken by the Executive Board to postpone full implementation until 1 January 2012, in line with several other organizations.

76. UNOPS has established a project board and management team to oversee the IPSAS implementation process. In 2010, the Internal Audit and Investigations Group participated in project board meetings on an advisory basis, with a view to providing quality assurance to the UNOPS Executive Director. The Internal Audit and Investigations Group will continue its support in 2011.

C. Enterprise risk management

77. In the second quarter of 2010, the Internal Audit and Investigations Group supported management's efforts in establishing an organization-wide risk management system, and conducted jointly with management a risk maturity workshop.

78. The Internal Audit and Investigations Group will continue in 2011 providing support to management on the matter, in accordance with the technical guidance provided by the Institute of Internal Auditors.⁶

VIII. Investigations

79. With the issuance in 2010 of the UNOPS Legal Framework (see paragraph 65), the Internal Audit and Investigations Group became 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. In addition, the dedicated UNOPS investigation function commenced in June 2010 with the engagement of a Lead Investigator.

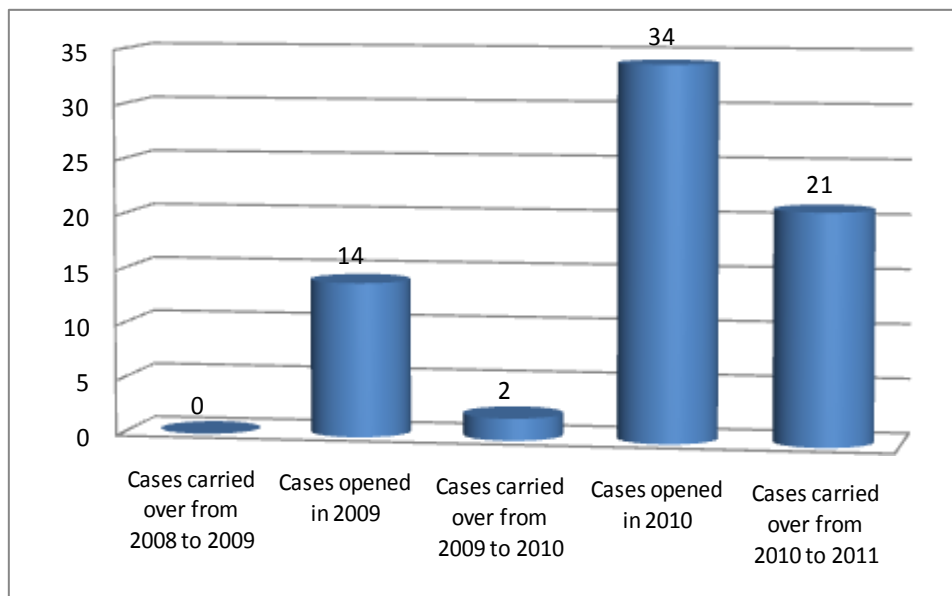
A. Complaint intake

80. The number of complaints received by the Internal Audit and Investigations Group increased from 2009 to 2010. The increase could be due to a number of factors. These include, but may not be limited to: awareness raised through the introduction of the Legal Framework; staff being more confident in reporting wrongdoing; the presence of a dedicated investigator; and the transfer of responsibility for investigating allegations of workplace harassment and abuse of authority from the Human Resources Practice Group to the Internal Audit and Investigations Group.

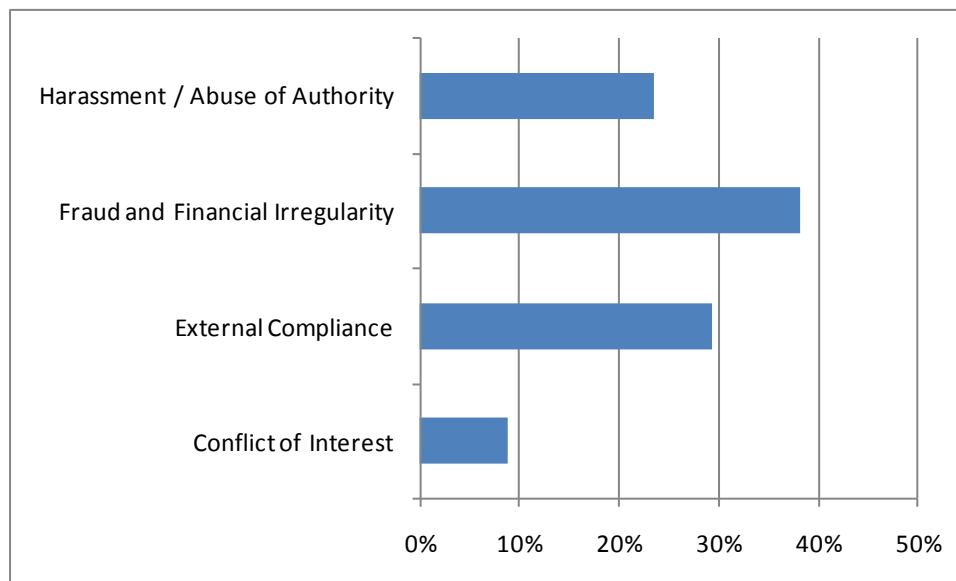
81. In 2010, the Internal Audit and Investigations Group received 34 complaints. This was a 170 per cent increase in caseload compared to 2009 (14 complaints). In addition, 2 complaints were carried forward from 2009⁷, resulting in a total caseload of 36 cases in 2010, as compared with 14 in 2009 (Chart 5).

⁶ E.g. "The Role of Internal Auditing in Enterprise-wide Risk Management", The Institute of Internal Auditors, 2004.

⁷ The 2011 IAIG review of case data revealed that two cases were carried over from 2009, instead of one as previously reported.

Chart 5 - Number of complaints received, 2010 vs. 2009

82. Almost 26 per cent of the complaints received in 2010 were referred either by management or other personnel. Twenty per cent came through the Internal Audit and Investigations Group's hotline. More than 50 per cent came via other means (e.g. from external organizations).

Chart 6 - Types of complaints received in 2010

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. Whistleblower retaliation: retaliatory action against a whistleblower or a participant in protected activity (audit or investigation).

83. Of the 34 cases received in 2010, the majority of the complaints (38 per cent or 13 cases) involved some type of fraud or financial irregularities (procurement fraud, entitlement fraud, theft and embezzlement, and misuse of UNOPS resources). Thirty per cent of the cases involved external compliance (e.g. medical insurance fraud), while allegations of workplace harassment and abuse of authority constituted 23 per cent of the cases received in 2010 (see Chart 6 on previous page).

A. Outcome of investigations

84. An initial review of complaints received is undertaken to determine whether they fall within the mandate or jurisdiction of the Internal Audit and Investigations Group. If they do, a preliminary assessment is conducted. If it 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 then submits an investigation report to the Human Resources Legal Officer for appropriate action.

85. In 2010, a total of 15 complaints were closed (Table 7), reducing the open caseload from 36 to 21 cases, a reduction of 42 per cent.

Table 7 - Closing of investigation complaints in 2010

	2010	Per cent
Complaints carried over to 2009	2	
Complaints received in 2010	34	
Total caseload in 2010	36	
Complaints closed		
After initial review 6	6	40
Referral outside UNOPS 2	2	13
After investigation	1	7
Total complaints closed with no further action necessary	9	60
After preliminary assessment 1	1	7
After investigation 5	5	33
Total complaints closed recommending further action	6	40
Total complaints closed in 2010	15	100
Complaints carried over to 2011	21	

86. As a result of the initial review or the preliminary assessment, 6 cases (40 per cent of cases closed) were found to be unsubstantiated and did not require further investigation; 2 other cases were referred to other United Nations organizations (13 per cent of cases closed); and 1 was closed after investigation informing management that no referral to the Human Resources Legal Office was recommended (7 per cent of cases closed).

87. Six cases were referred to the Human Resources Legal Officer. Five (33 per cent of cases closed) were referred after formal investigation, and one after preliminary assessment (7 per cent of cases closed). The Internal Audit and Investigations Group found the allegations substantiated in these six cases.

88. The substantiated allegations included the following:

- a. Fraud or financial irregularity (one case).
- b. Allegations of workplace harassment and abuse of authority (one case).
- c. External compliance (medical insurance fraud) (four cases).

89. The six reports submitted to the Human Resources Legal Officer recommended disciplinary proceedings against six staff members. By end 2010, three cases were pending. In two of these cases, the staff members were no longer with UNOPS, so management took no further action, but the matter will be addressed if and when the individuals are considered for future UNOPS positions. In one case, no further action was taken.

B. Enhancing the investigative function

90. To ensure a systematic and structured approach, the Internal Audit and Investigations Group in 2010 issued new investigation guidelines. In addition, the Internal Audit and Investigations Group contributed to the introduction and/or revision of several Organizational Directives. These included the Legal Framework; a directive regarding protection against retaliation for reporting misconduct or cooperating with duly authorized fact-finding activities; a policy on the prohibition of discrimination, harassment, including sexual harassment, and abuse of authority; and the UNOPS policy to address fraud. As a result, the Internal Audit and Investigations Group has strengthened the quality-assurance process for all investigations and related reports to allow for greater reliance on investigations as the basis for any proposed disciplinary action, financial recovery, or other management or administrative action.

C. Collaborating with others

91. 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 the Office of the Ombudsperson.

92. Further, the Internal Audit and Investigations Group worked closely with the United Nations Office of Internal Oversight Services and the investigation services of the other funds and programmes. The Group also increased its efforts to collaborate with the investigation offices of other international and national agencies so as to better identify fraud and to work collaboratively on cases of possible common interests.

D. Outlook

93. In view of its increasing caseload, the Internal Audit and Investigations Group is continuously exploring all alternative ways to best use its investigation resources, and is in regular dialog with management on the issue. Further, the Internal Audit

and Investigations Group will continue strengthening its internal processes, e.g. through standard operating procedures.

IX. Summary of follow-up of internal audit recommendations

A. Implementation of audit recommendations issued in 2010 and prior years

94. In line with the standard for the professional practice of internal auditing, which requires “a follow-up process to monitor and ensure that management actions have been effectively implemented”,⁸ and in order to address Executive Board decision 2006/13, the recurring annual workplans of the Internal Audit and Investigations Group include a follow-up review of audit recommendations on a six-month basis at a minimum. In addition, for each UNOPS office or project audited, management is required to provide a follow-up action or activity report addressing each audit recommendation on an ongoing basis, using a software tool. The Internal Audit and Investigations Group requests that management provide written responses to audit recommendations contained in audit reports, including action taken (or contemplated) to implement recommendations. Desk reviews are performed on actions taken and supporting documents.

95. A formal follow-up of audit recommendations with UNOPS management was conducted in July 2010, and the most recent one was completed in early 2011, reflecting the status of implementation of recommendations issued prior to 31 December 2010.

96. Table 8 shows the status of implementation as of mid-March 2011 of all audit recommendations issued between 2005 and 2010. Almost all recommendations issued in or prior to 2007 were implemented, as were 88 per cent of those issued in 2008, 73 per cent of those issued in 2009 and 43 per cent of those issued in 2010.

B. High-priority, most recurrent audit issues and unresolved recommendations for 18 months or more

97. Annex 1 lists unresolved audit recommendations that were issued 18 months before 31 December 2010, i.e. before 30 June 2009, and provides comments on their current status. It was noted that management took further action in early 2011 to address pending recommendations.

⁸ The Institute of Internal Auditors, Performance Standard 2500 – Monitoring progress.

Table 8 - Status as of mid-March 2011 of implementation of audit recommendations issued before 31 December 2010

Status	Under UNDP			Under IAIG											
	2005	2006	2007	2008				2009				2010			
				IAIG Audits	Project Audits	SGP Audits	Total	IAIG Audits	Project Audits	SGP Audits	Total	IAIG Audits	Project Audits	SGP + MAC Audits	Total
Implemented/ Closed	155	75	141	297	160	50	507	136	151	572	859	101	172	68	341
<i>in per cent</i>	99	100	97	85	95	85	88	76	61	76	73	36	65	27	43
Under implementation	1	-	4	54	9	9	72	42	97	182	321	178	92	185	455
<i>in per cent</i>	1	-	3	15	5	15	12	24	39	24	27	64	35	73	57
Total	156	75	145	351	169	59	579	178	248	754	1,180	279	264	253	796
<i>in per cent</i>	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

Note: IAIG = Internal Audit and Investigations Group; SGP = Small Grants Programme; MAC = Mine Action Cluster.

X. Operational issues

A. Resources

98. The Internal Audit and Investigations Group staffing includes: one Director, one Senior Internal Auditor, four Internal Auditors and one Investigator. During 2010, a new Director, two new Internal Auditors and the Investigator were selected. The Investigator joined in June 2010, one internal auditor in August 2010, and another in December 2010. The new Director joined in early January 2011. This structure is supplemented by the engagement of third-party professional firms and individual consultants.

B. Enhanced transparency of recommendation follow-up

99. To assist UNOPS management and the Internal Audit and Investigations Group in following up on the implementation of audit recommendations, a Web-based tracking system was put in place in 2009. To enhance transparency, monitoring of the status of the implementation of audit recommendations on a real time basis has been introduced in 2010. The information is being extracted from the tracking-system software. It began being put on the management workspace on the UNOPS intranet in August 2010, and on the main UNOPS intranet page in December 2010.

C. Involvement with professional bodies and other groups

100. The Internal Audit and Investigations Group maintained in 2010 its formal ties with the Institute of Internal Auditors, to whose standards it adheres. Further, the Internal Audit and Investigations Group actively participated in the fourth annual meeting and in the regular conference calls of the Representatives of the Internal Audit Services of the United Nations organizations (UN-RIAS), as well as in the forty-first meeting of the Representatives of Internal Audit Services of the United Nations system organizations, the multilateral financing institutions and other associated organizations (RIAS). The Internal Audit and Investigations Group also participated in the eleventh Conference of International Investigators.

D. Strategy and Audit Advisory Committee

101. During 2010, the Strategy and Audit Advisory Committee continued to review the annual workplan, budget, regular progress reports and annual report of the Internal Audit and Investigations Group. It further provided advice to promote the effectiveness of internal audit and investigation functions.

102. The Strategy and Audit Advisory Committee annual report 2010 is contained in Annex 2.
