

## **United Nations Office for Project Services (UNOPS)**

### **UNOPS Management Response to the Activity Report for 2010 of IAIG and annexes**

#### **A. Introduction**

1. UNOPS offers the following response with respect to the Activity Report for 2010 of the Internal Audit and Investigations Group of the United Nations Office for Project Services (DP/OPS/2011/2) and annexes.

#### **B. UNOPS Strategy and Audit Advisory Committee**

2. Management is pleased to note the significant contributions provided by the UNOPS Strategy and Audit Advisory Committee (SAAC), as reflected in the SAAC Annual Report 2010. Management notes that SAAC in its third full year of operations has consolidated its structure and processes and significantly enhanced its substantive engagement with the organization, demonstrating the value of an executive advisory committee spanning advice on strategic risk management and audit issues. Finally, management would like to register its appreciation to current and past members of the Committee and its concurrence with the observations reflected in the Committee's 2010 annual report.

#### **C. Role and functions of the Internal Audit and Investigations Group**

3. UNOPS management is pleased to note that the Internal Audit and Investigations Group (IAIG) in its third full year of operation has maintained a significant increase in the internal audit coverage of UNOPS, which is commensurate with management's objective to continue enhancing the overall internal control environment of UNOPS.

4. Management recognizes the important role IAIG plays in providing assurance, offering advice, recommending improvements, and helping to enhance the organization's risk management, control and governance systems. Management recognizes IAIG's role in promoting and supporting accountability through conducting investigations into reports of violations of applicable regulations, rules and administrative or policy directives. Furthermore, IAIG's endeavours to support management in the application of UNOPS general policies and objectives as described in UNOPS strategic plan, 2010-2013 (DP/2009/36) and UNOPS budget estimates for the biennium 2010-2011 (DP/2010/9) are highly appreciated.

5. The mandate of the UNOPS internal audit is reflected in UNOPS Financial Regulations and Rules (FRRs) which took effect on 1 February 2009. These 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.*

6. In addition, the scope of the former Internal Audit Office was expanded to include investigation with the promulgation of Organizational Directive 15 (rev 1) – UNOPS Global Structure. The Charter of the Internal Audit and Investigations Group was revised to reflect inclusion of the mandate for investigations and clarify the roles and responsibilities vis-à-vis UNOPS ethics function. After review and endorsement by SAAC the revised Charter of IAIG was promulgated as Organizational Directive 25 (rev 1).

7. Management notes with appreciation IAIG’s priority to adhere to UNOPS overall aspiration of adopting internationally recognized standards and best practice. It is particularly noted that IAIG has adopted and conforms to the standards of the Institute of Internal Auditors in the performance of its internal audit function. Furthermore, management encourages IAIG’s coordination with the United Nations Board of Internal Auditors, the Office of Internal Oversight Service, the Representatives of Internal Audit Services of the United Nations Organizations, and the Joint Inspection Unit.

**D. UNOPS framework of management policies, processes and guidance**

8. In addition to maintaining the increased internal audit coverage of UNOPS activities, UNOPS has in 2010 further strengthened its overall framework of management policies. This is evidenced by the introduction of new and revised Organisational Directives (ODs) and Administrative Instructions (AIs). Furthermore, documentation of business processes and guidance was advanced significantly.

9. During 2010 and early 2011 UNOPS issued 15 new or revised Organizational Directives. The below list provides a short summary of their purpose:<sup>1</sup>

- a. OD8 – Prohibition of Discrimination, Harassment, including Sexual Harassment and Abuse of Authority (rev 1, 26 December 2010); *the purpose of which is to ensure that all personnel of UNOPS are treated with dignity and respect and are aware of their roles and responsibilities in maintaining a workplace free of any form of discrimination, harassment, including sexual harassment, and abuse of authority;*
- b. OD10 – Policy to Address Fraud (rev 2, 26 December 2010); *the purpose of which is to facilitate controls to prevent, detect, report and investigate fraud and to promote consistent organizational behaviour by providing instructions and assigning responsibilities for developing these controls and conducting investigations. It is also intended to ensure compliance with the UNOPS Financial Regulations and Rules, the United Nations Staff Regulations and Rules, and the standards of Conduct for the International Civil Service;*
- c. OD 25 – Charter of the Internal Audit and Investigations Group (rev 1, 26 August 2010); *the purpose of which is to codify the scope of work, independence and accountability, responsibility, authority, and standards for UNOPS Internal Audit and Investigations Group;*
- d. OD35 – Protection against retaliation for reporting misconduct or cooperating with duly authorized fact-finding activities (new, 26 August 2010); *the purpose of which is to encourage and protect individuals who disclose information relating to misconduct that may not otherwise be discovered or cooperate with a duly authorized fact-finding activity; to ensure the Organization can effectively address such cases and manage risks; and to ensure the Organization functions in a transparent and accountable manner with the objective of enhancing good corporate governance;*
- e. OD36 – UNOPS Legal Framework for Addressing Non-Compliance with United Nations Standards of Conduct (new, 26 August 2010); *the purpose of which is to remind all individuals of their duty to abide by the highest standards of conduct according to their terms of appointments/engagements and UNOPS' prescriptive content.*
- f. OD37 – UNOPS Recognitions, Reward and Sanctions Policy (new, 21 February 2011); *the purpose of which is to establish a framework to reward exceptional individual and team efforts, behaviour and accomplishments; and initiate a three year implementation pilot in line with the provisions of UNOPS Financial Rule 103.05, and with the full support of the International Civil Service Commission (ICSC).*

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<sup>1</sup> The purpose of 9 additional ODs issued in early 2010 was reported in “**Summary of the UNOPS management response to the 2009 Annual Report of the Internal Audit Office**”, these ODs include:  
OD 11 - Travel Policy (rev 2, 23 April 2010)  
OD 16 - Procurement Framework (rev 1, 19 April 2010);  
OD 21 - Individual Contractor Agreement (ICA) policy (rev 2, 23 April 2010);  
OD 23 - Policy on Financial Declaration Statements (rev 2, 19 May 2010);  
OD 30 - Information Disclosure Policy (new, 20 January 2010);  
OD 31 - Quality Management Policy (new, 16 April 2010);  
OD 32 - Establishment and approval of write-offs and provisions for write-offs (new, 12 February 2010);  
OD 33 - UNOPS Strategic Risk Management Planning Framework (new, 16 April 2010); and  
OD 34 - Framework for Delegations of Authority (new, 23 April 2010).

10. During 2010 and early 2011 UNOPS issued 18 new or revised Administrative Instructions. The below list provides a short summary of their purpose<sup>2</sup>:

- a. AI/EO/2010/04 – Road and driving safety (new, 3 September 2010); *the purpose of which is to establish road and driving safety instructions addressing the appropriate use and operation of Official Vehicles for all UNOPS personnel worldwide.*
- b. AI/IAIG/2010/02 – Management, Implementation, and Monitoring of Internal Audit Recommendations (new, 13 September 2010); *the purpose of which is to mitigate risks and improve the effectiveness of audit recommendations, control and governance processes, based on the appropriate steps taken by audited entities to reduce risk or improve operations as recommended by audit;*
- c. AI/OPG/2010/01 – Information Disclosure (new, 15 October 2010); *the purpose of which is to clarify what information UNOPS makes available as standard, primarily via the UNOPS website, and the responsibilities for its publication ('Accessible Information'); and how requests for other information outside of the defined 'Accessible Information' should be handled, given the principles of the Information Disclosure Policy.*
- d. AI/EO/2010/05 – Status of Delegations of Authority for procurement, finance and engagement acceptance which came into effect prior to OD34 (new, 1 November 2010); *the purpose of which is to confirm that delegations of authority issued prior to and/or inconsistent with OD 34 with respect to procurement, finance and engagement acceptance are no longer in effect.*
- e. AI/HRPG/2010/02 – Contract Renewal of Staff (new, 3 November 2010); *the purpose of which is to instruct and provide an overall approach to supervisors in their recommendation to renew contracts for staff members.*
- f. AI/HRPG/2010/03 – Step Determination – Instructions and Procedures (new, 2 December 2010); *the purpose of which is to provide instructions of the determination of step-in-grade upon initial recruitment in to UNOPS, lateral moves within UNOPS and from other UN Common System Organizations to UNOPS, selection of UN common staff, and selection from Appointment of Limited Duration to Fixed Term Appointment or Temporary Appointment;*
- g. AI/HRPG/2011/01 – Resource Planning for Mine Action, Creation of Pool of Experts: purpose, process and plan (new, 14 January 2011); *the purpose of which is to more effectively and efficiently plan, adjust and redeploy the required workforce of UNOPS teams working on behalf of UNMAS.*

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<sup>2</sup> The purpose of 11 additional AIs issued in early 2010 was reported in “**Summary of the UNOPS management response to the 2009 Annual Report of the Internal Audit Office**”, these AIs include:  
AI/EO/2010/01 - Establishment, management and closure of corporate dwelling facilities (new, 11 February 2010);  
AI/EO/2010/02 - Procurement – Instructions (new, 19 April 2010);  
AI/EO/2010/03 - Authority to Director, Human Resources Practice Group (new, 23 April 2010);  
AI/FPG/2010/01 - Cash Management at Field Locations (new, 16 April 2010);  
AI/PPG/2010/01 - Procurement Manual (new, 19 April 2010);  
AI/HRPG/2010/01 - Individual Contractor Agreement (new, 23 April 2010);  
AI/CSG/2010/01 - Business Continuity Planning and Disaster Recovery Framework (new, 16 April 2010);  
AI/CSG/2010/02 - Official Duty Travel: UNOPS staff and non-UNOPS personnel (new, 23 April 2010);  
AI/CSG/2010/03 - Official Duty Travel: individual contractors (new, 23 April 2010);  
AI/IAIG/2010/01 - Disclosure of Internal Audit Reports (new, 4 May 2010); and  
AI/PM/2010/01 - Management and Monitoring of Engagements (new, 9 April 2010).

11. Management believes that 2010 marks a milestone, at which UNOPS policy framework has reached a significant level of maturity. Notwithstanding this achievement, management will continue to review and revise UNOPS overall framework of management policies to ensure its appropriateness for the organization's ever-changing business environment.

12. As part of the drive to achieve ISO 9001 certification of its quality management system, UNOPS had by the end of 2010 documented 32 core business processes in its on-line Practice and Quality Management System. These processes are in turn accompanied with 238 on-line articles designated as mandatory instructions and 82 articles designated as supporting guidance, significantly enhancing the operational guidance available for UNOPS practitioners. Management sees the business intelligence provided by internal audit as an essential means of pinpointing opportunities to continuously improve UNOPS operational guidance and associated tools.

#### **E. Highlights of IAIG activities during 2010**

13. Management notes that IAIG in 2010 further refined its risk-assessment model ensuring enhanced consistency between internal audit priorities and the goals of management in development of the annual IAIG work plan. The approach has worked well as a means of targeting efforts at organizational entities and functional areas deemed as high and medium risk.

14. In total, IAIG released 52 reports in 2010, compared with 61 reports in 2009. The overall number of reports represents three types of internal audits: IAIG internal audits, project audits and audits of significant programmes, as summarized in Table 1. Management notes that the overall decrease relates to delay in issuance of reports on conducted 'audits of significant programmes' (see para 19 below).

<b>Table 1: Number of Internal Audit reports issued*</b>		
Year issued	2009	2010
# IAIG internal audits	6	9
# Project audits	17	25
# Audits of significant programmes	38	18
<b>Total # of Internal audits</b>	<b>61</b>	<b>52</b>

\*Developed based on IAIG annual reports of 2010 and 2009 (DP/2010/32)

15. Management notes that IAIG during 2010 completed nine IAIG internal audits, an increase of 50 percent when compare to the six IAIG internal audits completed in 2009, resulting in a commensurate increase in the number of audit recommendations of 58 percent.

16. Comparing the types of IAIG internal audits issued in 2010 with 2009 (Table 2), management notes that IAIG increased the number and share of internal audits defined by functional areas, while maintaining an adequate audit coverage of UNOPS organizational entities at the regional level.

Year issued	2009	2010
Organizational entity	5	6
Functional area	1	3
Total # of IAIG internal audits	6	9

\*Developed based on IAIG annual reports of 2010 and 2009 (DP/2010/32)

17. Based on IAIG's overall rating, management notes that none of IAIG internal audits conducted in 2010 were rated 'unsatisfactory', which indicates overall improvement when compared to 2009 (Table 3). At the same time it is recognised that ratings of 'partially satisfactory' indicate room for further improvement.

Year issued	2009	2010
Satisfactory	0	0
Partially Satisfactory	4	9
Unsatisfactory	2	0
Total # of IAIG Internal Audits	6	9

\*Developed based on IAIG annual reports of 2010 and 2009 (DP/2010/32)

18. In 2010, 25 project audits were issued, a significant increase compared with 17 in 2009. With regard to these audits' overall rating of "internal controls", management notes a significant increase of "satisfactory", 54 percent in 2010, compared with 30 percent in 2009. It is further noted that only one audit gave cause to issue a rating of 'unsatisfactory'. With regard to the audits' assessment of the "financial situation" of the projects, management notes that 80 percent of the project audits issues in 2010 resulted in an unqualified audit opinion, an increase of 5 percentage points compared to 2009.

19. In 2010, 18 audits of significant programmes were issued. In 2009, these audits only pertained to UNOPS execution of country programmes on behalf of the Global Environment Facility (GEF) Small Grants Programme (SGP). Management notes with appreciation that these audits in 2010 were expanded to include audit of UNOPS services provided to the United Nations Mine Action Service of Department of Peacekeeping Operations, with the first audit issued in 2010. With regard to the audit coverage of the SGP, management notes that although only 17 reports were issued in 2010, pending reports of the 39 audits conducted in 2010 were issued in early 2011, resulting in an annual coverage commensurate to that of 2009 where 38 audits were issued. Management further notes that none of these audits gave cause to issuance of an unsatisfactory opinion with regard to "internal controls" or "financial operations".

20. Management takes note of IAIG's attempts to categorize audit recommendations by level of importance, cause of audit issue, and functional area, which is deemed particularly useful with regard to observations from the more comprehensively scoped IAIG internal audits.

21. With regard to the distribution of internal audit's assignment of 'level of importance', management notes a slight increase of 7 percentage points in IAIG Internal Audit recommendations categorized as 'high', 38 percent in 2010, compared with 31 percent in 2009. Overall management notes that the distribution of recommendations on the three levels ('high'/'medium'/'low') has remained relatively stable during the three years of operation.

22. With regard to the distribution of internal audit's assignment of 'cause of audit issue', management notes the indication from IAIG's data, that the three predominant causes of audit issues are: a. Guidelines - absence of written procedures to guide staff in performing their functions; b. Guidance - inadequate or lack of supervision by supervisor; and c. Compliance: failure to comply with prescribed UNOPS regulations, rules and procedures.

23. With regard to the distribution of internal audit's assignment of 'functional area', management notes the indication from IAIG's data that the majority of recommendations issued in 2010 in order of frequency pertain to: Organization, Procurement, Project Management, Finance, and Human Resources.

24. Management appreciates IAIG's categorization of audit recommendations by level of importance, cause of issue, and functional area, for the purpose of its annual reporting to the Executive Board. Recognizing the analytical potential of the approach, management believes it can be refined to further optimize information transfer between IAIG and functional management throughout the year, and used for initial establishment of multi dimensional registers of operational risks.

25. Overall management takes note of the indicative summaries of key findings relating to the audit recommendations contained in the internal audit reports issued during 2010, which may provide a good starting point for further alignment of IAIG's and management's perceptions of key operational risks.

26. As part of UNOPS drive for ISO 9001 certification, UNOPS management will conduct regular quality review meetings to identify areas for continuous improvement. Systematic input and analysis of internal audit recommendations will be an important source of information, and as such an inherent component of UNOPS risk management system.

27. Management is pleased to note that IAIG established a dedicated investigations function in 2010. It further notes and concurs with IAIG's rationale for the increase in received complaints from 14 in 2009 to 34 in 2010. With regard to the 15 complaints closed in 2010, management notes that nine were closed with no further action necessary, and that six complaints were closed recommending further action. In view of the case load, management appreciates IAIG's focus on continual strengthening of associated processes, instructions and guidance.

## F. Implementation of internal audit recommendations

28. UNOPS management has significantly enhanced the rate of implementation of internal audit recommendations.

29. As evidenced by Table 4, the rate of implementation of recommendations within the same year of issuance has increased considerably, with 43 percent of recommendations issued in 2010 implemented; compared to 11 percent in 2009, and 35 percent in 2008. Furthermore, Table 4 shows that: 99 percent of recommendations issued prior to the establishment of UNOPS internal audit function have been implemented; and that 88 percent of recommendations issued in 2008, and 73 percent of recommendations issued in 2009 have been implemented by the time of reporting.

<b>Table 4: Annual implementation rates for internal audit recommendations*</b>				
<b>Auditor</b>	<b>UNDP OAI</b>	<b>UNOPS IAO</b>	<b>UNOPS IAIG</b>	<b>UNOPS IAIG</b>
Year issued	2005-2007	2008	2009	2010
# recs issued	376	579	1180	796
# closed @ end 2008	311	201		
# closed @ end 2009	360	344	127	
# closed @ end 2010	371	507	859	341
Impl rate @ end 2008	83%	35%		
Impl rate @ end 2009	96%	59%	11%	
Impl rate @ end 2010	99%	88%	73%	43%

\*Developed based on Table 8 in IAIG Annual Report reflecting status as of mid-march 2011

30. Table 5, shows a significant increase in implementation of accumulated audit recommendations: 71 percent of all internal audit recommendations have been implemented, which is the highest percentage of implementation since the establishment of UNOPS internal audit function, compared to 39 percent in 2009, and 54 percent in 2008.

<b>Table 5: implementation of accumulated internal audit recommendations*</b>			
	Year end 2008	Year end 2009	Year end 2010
Accumulated # of recs	955	2135	2931
# closed @ end 2008	512		
# closed @ end 2009	704	831	
# closed @ end 2010	878	1737	2078
Impl rate @ end 2008	54%		
Impl rate @ end 2009	74%	39%	
Impl rate @ end 2010	92%	81%	71%

\*Developed based on table 8 in IAIG Annual Report reflecting status as of mid-march 2011

31. Although these figures shows significant progress, management believes that there is potential to further increase implementation, while at the same time enhancing the utility of the indispensable business intelligence generated by internal audit.

## **G. Risk management and leverage of audit findings**

32. As evidenced by the overall ratings and audit opinions of internal audits conducted in 2010, and the significant increase in the accumulated implementation rate for audit recommendations, UNOPS has harnessed the organization's ability to use internal audit for management of operational risks. Management notes the role IAIG has played in supporting the phased implementation of UNOPS risk management system.

33. Appreciating the enhanced internal audit coverage, management takes note of IAIG's establishment of procedures for implementation of audit recommendations, and the online tool 'Issue Track', which facilitates communication on the status of individual recommendations, and provides real-time data for monitoring implementation on UNOPS intranet. Management is of the opinion that the business intelligence generated by internal audit can be optimized through further integration of the audit/management interface, and development of more sophisticated approaches to information transfer, with due regard to the confidential nature of internal audit reports, and the independence of internal audit.

34. Pursuing and further enhancing dialogue and collaboration between internal audit and functional management will enable greater integration and alignment. It will support a strategic and systematic approach to recognizing, prioritising and mobilizing functional and/or cross-functional improvement efforts that mitigate the operational risks implied by audit findings, regardless of where in the organization the issue was observed.

35. Such an approach will assign primary responsibility to the appropriate manager in UNOPS Global Structure, ensuring that accountability for review and/or implementation follows the primary lines of reporting. Secondary lines of responsibility and accountability may be established in accordance with UNOPS practice architecture and the principles laid out in Organizational Directive 15.

36. During the recommendation follow-up exercise conducted in 2011, management and IAIG recognized both the need to enhance information transfer, through, inter alia, a mutually agreed vocabulary wherever possible, better defined categorization, and improved alignment of recommendations to the process or sub-process to which they pertain.

37. Successful implementation of such measures will enable better and timelier analysis, and support the improvement of policies, processes and tools. This will enhance the systematic recognition of operational risks. The clustering of related recommendations will enable the identification and prioritization of cost-effective responses, and facilitate UNOPS practice approach for implementation.

38. It is management's conviction that the proposed measures are attainable and will enhance internal audit's contributions to UNOPS continuous improvement. They prescribe practical means of further embedding risk management into the organization's culture. They will add focus and dynamism to the process of recognizing, prioritizing and mobilizing efforts to mitigate risks. In sum, they will contribute significantly to the phased implementation of UNOPS risk management system that is supported by the Strategy and Audit Advisory Committee.