



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

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Internal audit and oversight

**UNOPS: Annual report of the Internal Audit and
Investigations Group on internal audit and
investigation activities in 2018**

Summary

The Director of the Internal Audit and Investigations Group of the United Nations Office for Project Services hereby submits to the Executive Board this activity report on internal audit and investigation services for the year ended 31 December 2018. 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 2018 and the management response thereto;
- (b) *take note* of the significant progress made in implementation of audit recommendations;
- (c) *take note* of the opinion, based on the scope of work undertaken, on the adequacy and effectiveness of the organization's framework of governance, risk management and control (in line with Executive Board decision 2015/13);
- (d) *take note* of the annual report of the Audit Advisory Committee for 2018 (in line with Executive Board decision 2008/37); and
- (e) *take note* of the Internal Audit and Investigations Charter.



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2. Titles of internal audit reports issued during 2018
3. Audit Advisory Committee – Annual report 2018
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I. Executive summary

1. *Audit opinion.* In the opinion of the Internal Audit and Investigations Group (IAIG), based on the scope of audit and investigations work in 2018, the adequacy and effectiveness of UNOPS governance, risk management and control were partially satisfactory (some improvement needed), which means that they were generally established and functioning but needed some improvement. Management has taken commendable action to address the previous opinion in 2017, including efforts to strengthen oversight at local, regional and corporate levels. This is partly evidenced by the high rate at which recommendations were acted upon (96 per cent in 2018 compared to 92 per cent in 2017), along with the reduced number of audit recommendations issued compared to previous years.

2. *Output.* In 2018, the audit team delivered 14 internal audit reports (one more than the 13 planned) and 31 project audit reports. The average time taken for internal audit reports to be issued was within the key performance indicator target of 90 days. The investigations team handled 151 complaints, from which 60 cases were opened (highest caseload since inception). All cases were closed within 12 months of opening.

3. *Substantiated losses and recoveries.* In 2018, IAIG substantiated \$130,725 in fraud and referred 35 vendors for sanctioning. UNOPS recovered \$135,127 of misappropriated funds in 2018 based on investigations conducted by IAIG (\$34,630 relating to 2018 investigations and \$100,497 relating to investigations of previous years). Additionally, through audit activities, costs that could have been avoided amounting to \$154,789 were identified and four issues emanating from field audits were referred for investigation. One of the four cases was substantiated, resulting in repercussions for the vendor and personnel involved.

4. *Delivering better for less.* In 2018, the duration of internal audit missions was reduced from three to two weeks, without compromising the level of assurance provided. Efficiencies were gained through greater use of data analytics, and better engagement planning. IAIG also increased its engagement output while keeping overall costs constant. Delivery of better assurance for less cost is a key priority for IAIG.

5. *The IAIG role in UNOPS strategy.* IAIG is the third line of defence in UNOPS governance, risk and compliance framework, providing independent assurance of how the organization manages its activities. The group also investigates fraud and misconduct, and provides independent advice to management.

6. *Supporting strategic initiatives.* IAIG conducted four strategic engagements in 2018: a gender parity review, an independent confirmation of UNOPS investments under custodianship, a review of UNOPS internal communications and an international benchmarking of UNOPS internal communications. In 2018, IAIG also underwent an external assessment of its data analytics initiative. The aim was to enable IAIG to be proactive in fraud detection and prevention and to perform faster, cheaper and better audits in an innovative manner.

7. *Innovation.* In 2018, IAIG continued to refine its data analytics and continuous auditing algorithms, adding new tests, such as duplicate payments, transactions with sanctioned vendors, procurement red flags simulations, and dynamic visualizations for use by practitioners. In 2018, IAIG identified \$93,588 in payments to sanctioned vendors and \$15,283 in duplicate payments. The group's vision is to empower the first and second lines of defence to conduct this type of analysis proactively. The effect of this innovative approach is illustrated by the measures taken to ensure recovery of duplicate payments.

8. *Collaboration with partners.* IAIG strengthened its relationships with oversight partners by signing two new cooperation agreements. This brings to 14 the total number of cooperation agreements signed with UNOPS partners.

II. Introduction

9. The Internal Audit and Investigations Group is pleased to provide the Executive Board with the annual report on UNOPS internal audit and investigation activities for the year ended 31 December 2018.

10. This report provides the IAIG opinion, based on the scope of work undertaken, and on the adequacy and effectiveness of UNOPS governance, risk management and control processes (Executive Board decision 2015/13).

11. The IAIG Director reports to the Executive Director of UNOPS, supporting her accountability function. IAIG provides assurance, offers advice, recommends improvements and enhances the risk management, control and governance systems of the organization. The group also promotes accountability by conducting investigations into violations of applicable rules, regulations or policy directives.

12. IAIG continued to interact with the UNOPS Audit Advisory Committee in 2018. In accordance with Executive Board decision 2008/37, the annual report of the Audit Advisory Committee for 2018 is attached as annex 3 to this report.

III. Role of the Internal Audit and Investigations Group

13. The mandate, functions and standards for internal audit and investigations within UNOPS are approved by the Executive Director as executive office directive EOD.ED.2017.04, effective March 2017. Per regulation 6.01, IAIG:

Shall conduct independent, objective assurance and advisory activities in conformity with the International Standards for the Professional Practice of Internal Auditing. It shall evaluate and contribute to the improvement of governance, risk management and control processes, and report thereon. It shall exercise operational independence in the performance of its duties.

14. The international internal auditing standards require that the chief audit executive must report to a level within the organization that allows the internal audit activity to fulfil its responsibilities and must confirm to the Executive Board, at least annually, the organizational independence of the internal audit activity. IAIG hereby confirms its organizational independence. In 2018, IAIG was free from interference in determining its audit scope, performing its work and communicating its results.

15. Per regulation 6.02, in addition to providing internal audit services to UNOPS, IAIG is “responsible for assessing and investigating allegations of fraud and corruption committed by UNOPS personnel or committed by others to the detriment of UNOPS”.

16. The mandate, scope, responsibility, accountability and standards of IAIG are further defined by the Internal Audit and Investigations Charter issued as operational directive OD.IAIG.2018.02, and executive office instruction EOI.ED.2018.01 “Organisational Structure”. The Internal Audit and Investigations Charter is attached as annex 6 to this report.

17. Under the UNOPS governance, risk and compliance framework, IAIG assumes the role as third line of defence.

IV. Approved annual internal audit work plan for 2018

18. The primary aim of the 2018 work plan was to evaluate and improve the effectiveness of risk management, governance processes and controls, and to provide the Executive Director with the assurance that internal controls and procedures are functioning as intended.

A. Risk-based internal audit plan

19. In preparing its 2018 work plan, IAIG continued to ensure consistency between audit priorities and the goals of management. The audit work plan, based on the annual risk assessment, acknowledged the geographical diversity of UNOPS global operations and included both internal field office audits and thematic reviews.

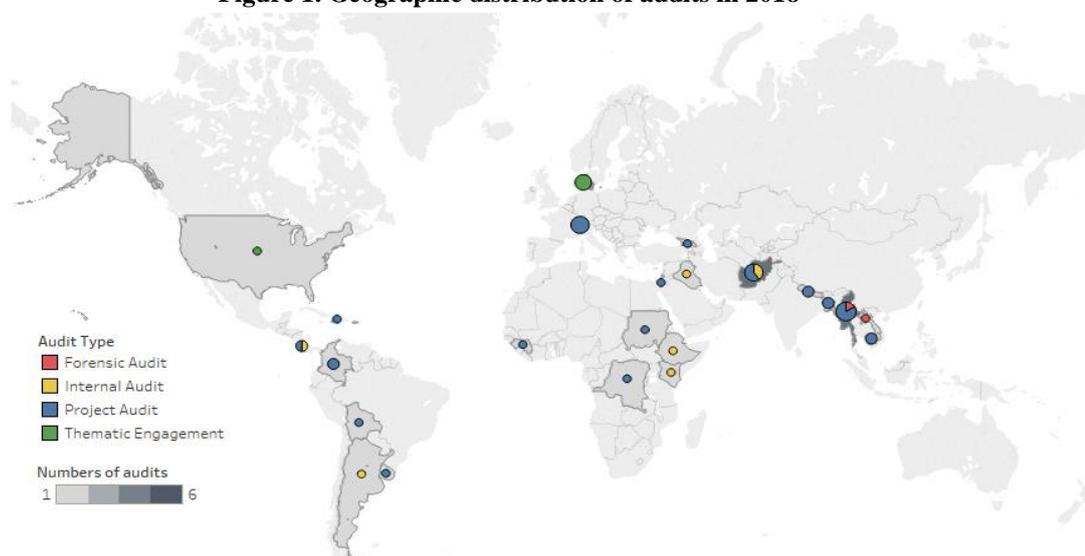
B. Progress on implementation of annual work plan

20. Seven auditors delivered 14 internal audit reports (one more than the 13 initially planned) and 31 project audit reports. The average time taken to issue reports was within the key performance indicator target of 90 days. All internal audits planned for 2018 were completed and the final reports were issued during the year (see table 1).

Table 1. Status of implementation of the work plan as at 31 December 2018

	2018			2017			2016
	Internal audits and reviews	Project audits	Total	Internal audits and reviews	Project audits	Total	Total
Number of audits planned	13	0 ¹	13	12	0 ²	12	8
Total audit reports issued	14	31 ³	45	14	31	45	37

Figure 1. Geographic distribution of audits in 2018



¹ Nil as requests for project audits are partner-driven.

² Nil as requests for project audits are partner-driven.

³ This includes two forensic project audits conducted in 2018.

V. Highlights of 2018 audit activities

21. As noted in table 1, IAIG issued 45 reports during 2018, compared with 45 in 2017 and 37 in 2016. The number of project audit reports is influenced by client requests and reporting requirements in project agreements. However, IAIG also made a concerted effort to maintain its output in 2018.

22. IAIG audits are delivered in two categories:

- (a) internal audits and thematic reviews performed by IAIG (14 reports in 2018);
- (b) project audits conducted under the supervision of IAIG by external auditing firms to fulfil project-reporting requirements (31 reports).

23. The 45 reports issued in 2018 contain 160 audit recommendations. Of these, 117 pertain to internal audits (table 2) and 43 to project audits (table 5).

A. Internal audits and thematic reviews conducted by IAIG

Reports of internal audit

24. In 2018, IAIG issued 14 reports on internal audits and thematic reviews to the UNOPS Executive Director. These are listed in annex 2.

Analysis of internal audit recommendations issued in 2018

25. In keeping with the advice given by the Audit and Advisory Committee to focus on the more significant risks and systemic issues, the number of internal audit recommendations issued decreased from 200 in 2017 to 117 in 2018, and the average number of recommendations per audit report fell from 14 in 2017 to eight in 2018.

26. In line with UNOPS gender parity strategy, seven recommendations resulted from the Gender Parity Review. See figure 2 under the human resources functional area.

Level of importance of audit recommendations related to IAIG audits

27. Of the 117 recommendations issued, 73 were considered to be of high importance⁴ and 44 of medium importance, as shown in table 2. Low priority recommendations are addressed during the fieldwork stage of the audit.

Table 2. Internal audit recommendations by level of importance

Level of importance	Number of recommendations			Percentage of total		
	2016	2017	2018	2016	2017	2018
High	95	100	73	46	50	62
Medium	112	100	44	54	50	38
Total	207	200	117	100	100	100

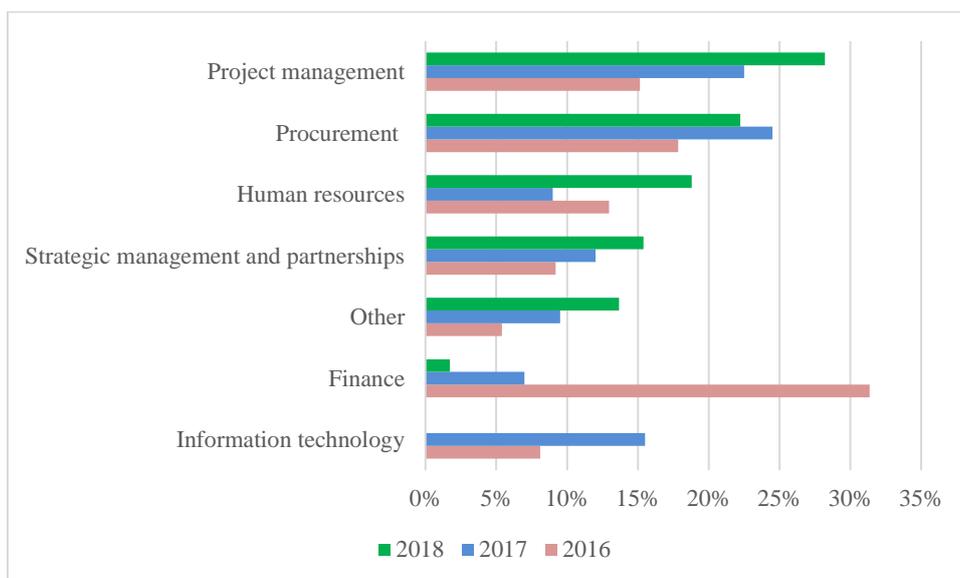
Internal audit recommendations by functional area

28. The frequency of internal audit recommendations by functional area is displayed in figure 2 and pertained to project management (28 per cent), procurement (22 per cent), human resources (19 per cent) and strategic management and partnerships (15 per cent). Other functional areas (communications, asset management and general administration) were the focus of a further 14 per cent of recommendations, and finance accounted for 2 per cent.⁵ This distribution by functional area was driven by the audit scope as identified in the risk assessment conducted for each engagement.

⁴ Level of importance: **High**: action considered imperative to ensure UNOPS is not exposed to high risks. **Medium**: action considered necessary to avoid exposure to significant risks. **Low**: action considered desirable and should result in enhanced control or better value for money.

⁵ The functional distribution reflects the classification in the issued reports. IAIG will work with management to align

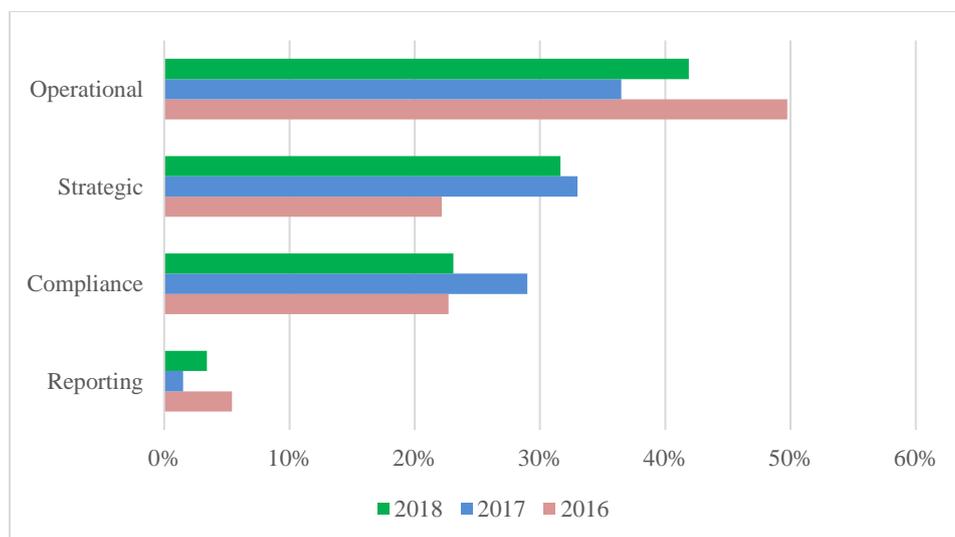
Figure 2. Internal audit recommendations by functional area



Key areas of improvement identified in 2018 internal audit reports

29. Supplementing figure 2, figure 3 shows the number of recommendations by objective type.⁶ Recommendations on operational issues (42 per cent) were the most common, followed by those addressing strategic issues (32 per cent), compliance issues (23 per cent), and reporting issues (3 per cent).

Figure 3. Recommendations issued in 2018 by objective



B. Projects audits

Single audit principle

30. IAIG upholds the United Nations “single audit principle” per the UNOPS report on internal audit and oversight in 2007 (DP/2008/21).

the classifications with the 13 functional areas supporting the UNOPS Governance, Risk and Compliance framework.

⁶ As per entity objectives in the “Internal Control Integrated Framework” (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission.

31. IAIG provides technical support to project managers in meeting their projects' audit requirements. For that purpose, the group engages pre-qualified third-party professional auditing firms to conduct these audits. These firms adhere to terms of references approved by IAIG and the audit reports they prepare undergo IAIG quality assurance before the group issues them. This arrangement provides cost efficiencies, consistency in reporting, improved timelines and simplified processes for conducting project audits.

Project audit reports issued

32. Thirty-one project audit reports were issued by IAIG. As per table 3, 19 of the 31 project audit reports issued in 2018 provided both an audit opinion on the project financial statement and a rating of the internal controls. Ten project audits provided an opinion on the project financial statement only, and two were forensic project audits.

Table 3. Number of project audit reports issued, 2016-2018

	2016	2017	2018
Audit reports issued expressing an opinion on the financial statement and a rating of internal controls	12	24	19
Audit reports issued expressing an opinion on the financial statement only	11	6	10
Audit reports issued expressing an opinion on internal controls only	2	0	0
Forensic project audits	2	1	2
Total	27	31	31

33. The proportion of project audits with a “satisfactory” internal control rating was 74 per cent (58 per cent in 2017). There were no project audits with an “unsatisfactory” rating for internal controls, compared with two in 2017.

Table 4. Audit opinions and ratings of internal controls for project audits, 2017-2018

Type of opinion or rating	Number of audit reports		Percentage of total	
	2017	2018	2017	2018
Audit opinion on financial statement of project (when required)				
Unqualified opinion	27	27	90	93
Qualified opinion	3	2	10	7
Total	30	29	100	100
Rating of overall level of internal control (where given)				
Satisfactory	14	14	58	74
Partially satisfactory (some improvement needed)	3	5	13	26
Partially satisfactory (major improvement needed)	0	0	0	0
Partially satisfactory (old rating system)	5	0	21	0
Unsatisfactory	2	0	8	0
Total	24	19	100	100

Financial impact of project audit findings in 2018

34. For 2018, the cumulative financial impact of project audit reports with a qualified opinion was \$781,431 (\$139,315 in 2017).⁷ For internal control reports, the financial impact of audit observations was \$69,928 (\$171,247 in 2017).

Project audit recommendations issued in 2018

35. The 31 project audit reports issued generated 43 audit recommendations, an average of 1.4 recommendations per report; compared to an average of 3.7 recommendations per report in 2017.

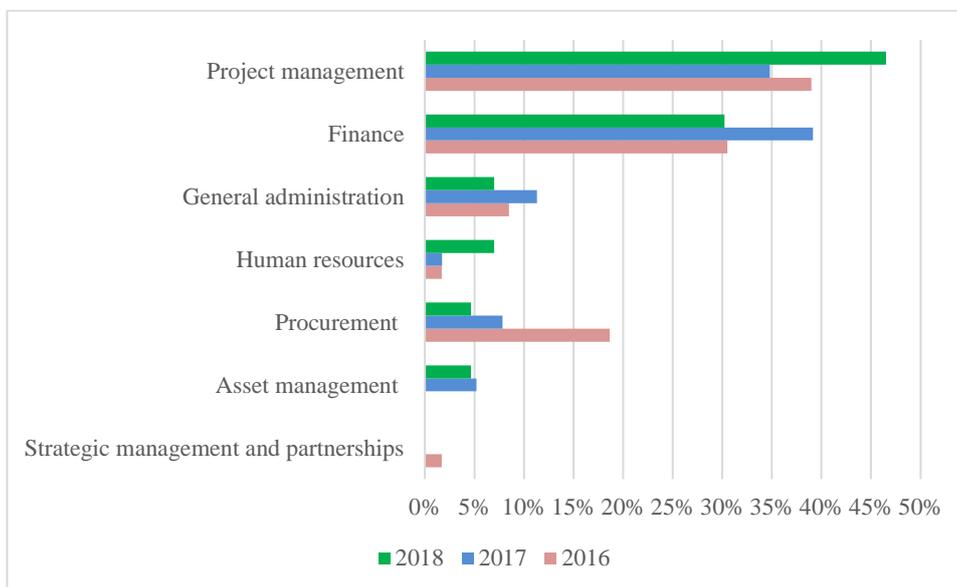
36. As seen in table 5, the proportion of audit recommendations rated as being of “high importance” was lower in 2018 than in the previous two years.

Table 5. Project audit recommendations by level of importance

Level of importance	Number of recommendations			Percentage of total		
	2016	2017	2018	2016	2017	2018
High	16	31	9	27	27	21
Medium	44	84	34	73	73	79
Low	0	0	0	0	0	0
Total	60	115	43	100	100	100

37. The 43 project audit recommendations issued in 2018 are analysed below by frequency of occurrence in a functional area. Per figure 4, most recommendations pertained to project management (47 per cent) and finance (30 per cent).

Figure 4. Project audit recommendations by functional area



C. Improvements to the UNOPS internal control system

38. Management has consistently demonstrated its commitment to addressing audit findings throughout 2018. UNOPS management worked with IAIG to ensure the implementation of internal audit recommendations and to incorporate these results into performance data for UNOPS departments. By using this performance data,

⁷The financial impact of project audits for 2018 relates to one project. Refer to project audit reports: [8201](#) and [8206](#).

management was able to resolve issues and identify additional risks, thereby safeguarding the effectiveness of the internal control framework. The overall implementation rate of internal audit recommendations issued from 2008 to 2018 was 96 per cent. Twelve recommendations, from thematic reviews, which are more than 18 months old, remain open; this was considered as part of the IAIG overall audit rating in annex 5.

39. UNOPS further operationalized its governance, risk and compliance framework, simplifying its internal policy instruments and enhancing their alignment with processes. Since its endorsement in March 2016, 71 new legislative frameworks have been promulgated, abolishing 110 old organizational directives and administrative instructions; 51 of these new legislative frameworks were issued in 2018.

40. UNOPS corporate initiatives in 2018 included expanding processes in the process and quality management system, ensuring processes from all functions are included and their contents are kept current and meaningful. By end 2018, more than 400 processes were updated, making this platform a one-stop-shop for information on all UNOPS processes.

41. As part of UNOPS corporate approach to the governance, risk and compliance framework, a new organizational function combining ethics and compliance was established at senior level (D1). This function will be independent, under the guidance of the United Nations Ethics Panel, and will assist the Executive Office in supporting personnel to foster a culture of ethics and a harmonious, inclusive work environment, anchored in the values of integrity, accountability, transparency, respect and professionalism. IAIG and the Ethics Office continue to maintain an independent yet supportive working relationship. Both offices successfully collaborated on a variety of complex issues where a collaborative approach was required.

42. UNOPS is committed to organizational excellence, accountability and transparency, and continues to seek to improve its internal governance and operations. UNOPS also maintained ISO 9001, ISO 14001 and OHSAS 18001. These certifications remain valid until 28 June 2020.

D. Audit opinion

43. Management is responsible for maintaining the adequacy and effectiveness of UNOPS governance, risk management and control. IAIG has the responsibility to independently assess the adequacy and effectiveness of the framework.

44. The audit opinion is based on the audit reports issued by IAIG between 1 January and 31 December 2018. The opinion is supplemented with a range of qualitative data as described in annex 5. The results of the following are taken into account to support the IAIG opinion:

- (a) internal audits of field offices;
- (b) thematic reviews;
- (c) project audits;
- (d) forensic project audits;
- (e) the continuous auditing and data analytics programme;
- (f) findings from investigations; and
- (g) implementation status of audit recommendations as at the end of the calendar year.

45. The implementation rate of audit recommendations at 31 December 2018 is 96 per cent (compared to 92 per cent in 2017), which implies that appropriate and timely action is taken as and when improvements in governance, risk management and control are necessary. The decrease in the number of recommendations issued in 2018 (160 recommendations) compared to the 315 recommendations issued in 2017

stems from overall improvement in the organization's internal controls. Management took commendable action to address the 2017 opinion.

46. In the opinion of IAIG, based on the scope of audit and investigations work undertaken, the adequacy and effectiveness of UNOPS governance, risk management and control were partially satisfactory (some improvement needed). This means that they were generally established and functioning but needed some improvement. Refer to annex 5 of this report for the opinion rationale.

VI. UNOPS accountability framework

47. In accordance with the UNOPS accountability framework and oversight policies, the IAIG Director reports to the Executive Board on the resources available and required for implementation of the accountability framework.

48. The pillars of the UNOPS accountability framework and oversight policies that are internal to UNOPS include: IAIG, the Audit and Advisory Committee, the Ethics Officer, the regional offices, the Office of the General Counsel Appointment and Selections Panel, the Appointment and Selections Board, the Headquarters Contracts and Property Committee, the balanced scorecard system and the implementation of UNOPS executive office directives and instructions.

49. The pillars of the UNOPS accountability framework and oversight policies that are external include: the United Nations General Assembly, the Secretary-General, the Executive Board, the United Nations Board of Auditors, the Joint Inspection Unit (JIU), the Advisory Committee on Administrative and Budgetary Questions, and the Fifth Committee of the General Assembly.

VII. Disclosure of internal audit reports

50. IAIG complies with Executive Board decisions 2008/37 and 2012/18 and the procedures approved therein regarding disclosure of internal audit reports. Public disclosure of audit reports continues to be positive, leading to enhanced transparency and accountability.

51. Accordingly, IAIG has published, on the UNOPS public website, executive summaries of internal audit reports issued before 30 June 2012 and the complete internal audit reports issued after 1 December 2012. Since November 2011, all functional and thematic audit reports have been posted on the UNOPS public website, except when withheld for confidentiality reasons, on an exceptional basis.

VIII. Advisory services

52. The IAIG mandate includes the provision of advisory services to management, generally upon their request. Advisory activities in 2018 involved providing formal or informal advice, analysis or assessment, be it in relation to internal audit or investigative activities. When providing advisory services, IAIG maintained its objectivity and did not assume management responsibilities, such as implementation of advice.

53. During 2018, IAIG provided increased advisory services to management in: (a) supporting management in formalizing risk management through, for example, the enterprise portfolio and the project management system; (b) advancing continuous auditing and data analytics by providing periodic reports to management; (c) advising on audit clauses in project agreements; (c) participating in management meetings such as the Corporate Operations Group and the Operational Governance Panel; and (d) coordinating and supporting JIU as well as the annual report on UNOPS implementation of JIU recommendations.

54. Furthermore, the group advised management on the governance, risk and compliance framework, and on integration of vendor databases. IAIG also continued to conduct internal compliance evaluations, required to maintain UNOPS ISO certifications, and IAIG reported to senior management recurring audit issues requiring attention in field offices and projects.

IX. Investigations

55. IAIG is the sole entity in UNOPS responsible for conducting investigations into allegations of fraud, corruption, abuse of authority, workplace harassment, sexual exploitation, retaliation and other acts of misconduct.

56. In 2018, IAIG handled complex investigations involving multiple employees and vendors. As a result, IAIG referred 77 employees and 35 vendors for sanctions, a significant increase from 2017 when IAIG referred 34 employees and 25 vendors. IAIG nonetheless completed these cases more quickly than in previous years. The average time taken in 2018 to close cases (3.8 months) was 21 per cent shorter than in 2017 and 42 per cent shorter than in 2016. At end 2018, only one case had been open for more than six months compared to three cases at end 2017.

57. IAIG continued to focus on cases involving fraud and financial irregularities. As a result, UNOPS recovered \$135,127 of misappropriated funds in 2018 based on investigations conducted by IAIG (\$34,630 relating to 2018 investigations and \$100,497 relating to investigations of previous years).

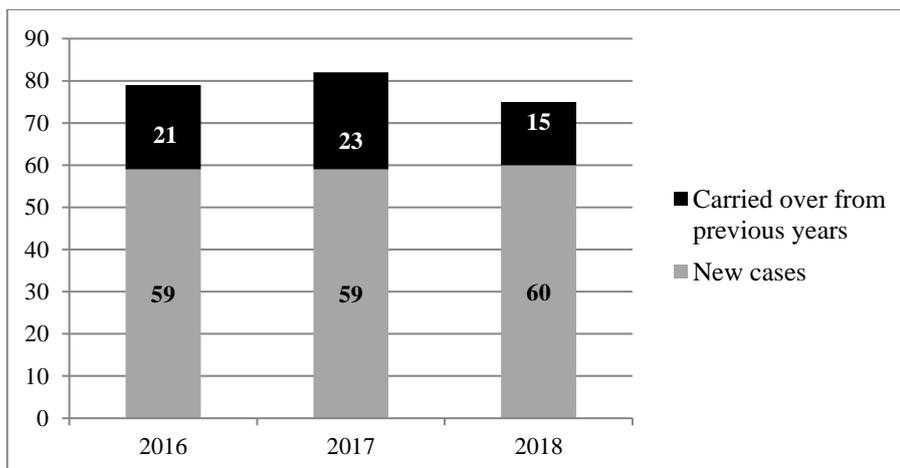
A. Complaint intake

58. In 2018, IAIG received 151 complaints, a 36 per cent increase compared to 2017 (111 complaints). IAIG opened 60 cases based on these complaints, a slight increase from 2017 (59 cases). The remainder (91) were found to be outside the IAIG mandate or could be more appropriately handled by a different unit. To assist with the increase in complaints received, approval has been given for IAIG to upgrade one of its positions, effective from 2019.

B. Cases opened

59. In addition to the 60 cases opened in 2018, there were 15 cases carried over into 2018 from previous years (figure 5).

Figure 5. Number of cases opened, 2016-2018

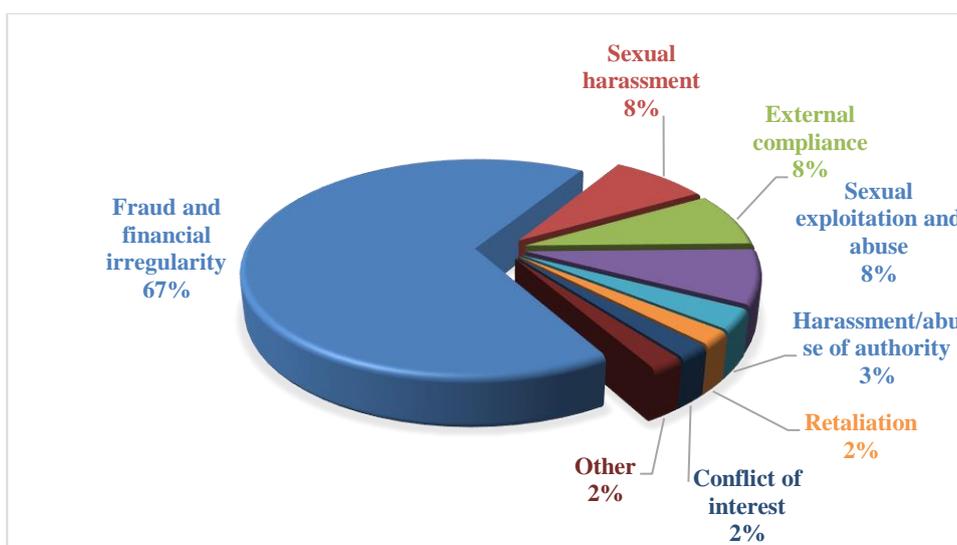


60. Of the 60 cases opened in 2018, 62 per cent were referred by management or personnel, 25 per cent were received via other means (external entities such as the medical insurance provider or United Nations organizations), 8 per cent originated

from IAIG audits, and the remaining 5 per cent were received through the UNOPS fraud hotline.

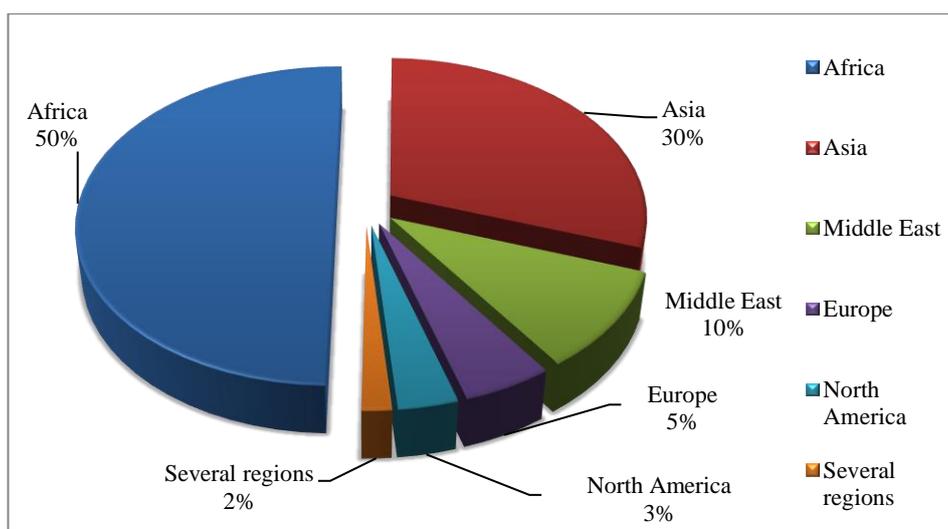
61. The majority of cases opened in 2018 (40 cases or 67 per cent) involved alleged fraud or financial irregularities (procurement fraud, entitlement fraud, theft, embezzlement or misuse of resources). Five cases involved sexual exploitation and abuse, and another five cases involved sexual harassment. The remainder involved other misconduct: external compliance (medical insurance fraud and violation of local laws) (five cases); harassment and/or abuse of authority (two cases); conflicts of interest (one case); retaliation (one case) and other types, such as misuse of UNOPS assets (one case).

Figure 6. Types of cases opened in 2018



62. Africa is the region from which IAIG opened the most cases in 2018 (30 cases or 50 per cent), followed by Asia (18 cases), and the Middle East (six cases). IAIG also opened three cases in Europe, two cases in North America, and one case involving several regions.

Figure 7. Geographic distribution of cases opened in 2018



C. Outcome of investigations

63. When a complaint is received, IAIG conducts an initial review to determine whether the allegations fall within its mandate and jurisdiction. If it does, IAIG

conducts either a preliminary assessment or an investigation, depending on several factors, such as sufficiency of evidence or seriousness of allegations.

64. If the allegations against a UNOPS personnel member are substantiated, IAIG refers the case to the Human Resources Legal Officer for disciplinary action, in accordance with operational instruction OI.IAIG.2018.01. If the case involves a UNOPS vendor, the matter is referred to the Vendor Review Committee, pursuant to operational instruction PG.2017.02. Retaliation cases are referred to the Ethics Officer, under operational instruction OI.Ethics.2018.01.

65. In 2018, IAIG closed 59 cases (see table 6 below).

Table 6. Investigation caseload in 2018

	Number of cases	Per cent
Caseload in 2018		
• Cases carried over from previous years	15	20
• Cases received in 2018	60	80
Total	75	100
Cases closed in 2018	59	79
Cases carried over to 2019	16	21

66. IAIG investigated and completed its cases more quickly in 2018, due in part to continued emphasis on triaging, which allowed IAIG to focus on the most serious cases. The average time for IAIG to complete a case in 2018 was 3.8 months, compared to 4.8 months in 2017 and 6.6 months in 2016. As of 31 December 2018, IAIG had only one case that had been open for more than six months and no case older than 12 months. In comparison, on 31 December 2017, IAIG had three cases that had been open for more than six months.

67. Of the 59 cases that IAIG closed in 2018, 35 (59 per cent) were substantiated.⁸ In 22 cases (37 per cent), IAIG concluded that allegations were not substantiated. Allegations in the two remaining cases were outside of the IAIG mandate and IAIG referred these cases to a different United Nations organization.

Substantiated cases

68. The 35 substantiated cases (refer to annex 4) involved 77 personnel members and 35 vendors. IAIG referred the personnel members to the Human Resources Legal Officer for disciplinary action and the vendors to the Vendor Sanctions Committee. The majority of the cases where misconduct was found involved fraud or financial irregularities (22 cases).

Table 7. Outcome of investigation cases in 2018

Outcome	Count
A. Cases not substantiated	
• After initial review or preliminary assessment	15
• After investigation	7
Subtotal	22
B. Cases outside UNOPS mandate	2
C. Cases substantiated	35
Total	59

⁸ Four cases involved allegations against employees of implementing partners; these partners found the allegations substantiated and took appropriate action. As a result, IAIG did not refer them to the Vendor Review Committee.

Financial losses and recovery thereof

69. The total financial loss substantiated in investigation cases by IAIG in 2018 amounted to \$130,725. This amounts to less than 0.1 per cent of UNOPS total annual resources. IAIG referred this loss to management for recovery. In 2018, management recovered \$135,127 from losses identified during this year and previous years. IAIG is working with the Legal Group to engage a service provider to help locate and recover additional misappropriated funds.

Management letters

70. In 2018, IAIG issued 15 management letters to relevant business units, raising 15 recommendations for addressing weaknesses in internal controls, as identified by investigators. IAIG utilizes the audit recommendations tracking tool to ensure that recommendations given in these letters are addressed in a timely manner.

Action taken in cases of misconduct (2018)

71. IAIG referred 77 personnel members to the Human Resources Legal Officer in 2018:

- (a) eight individuals were disciplined: two were demoted and six had their contracts terminated;
- (b) seven individuals separated from UNOPS before the investigation was completed, and 47 individuals separated after IAIG referred the case to the Human Resources Legal Officer. Letters were placed in their files indicating they would have been charged with misconduct had they remained employed with the organization;
- (c) the cases for 15 individuals were pending at the end of 2018.

Action taken in cases of misconduct (prior cases)

72. UNOPS also addressed matters against 10 individuals whose cases originated prior to 2018. Four individuals were terminated and one received a written censure. The remaining five individuals had left the organization, and UNOPS placed notes in their files indicating they would have been charged with misconduct had they remained employed with the organization.

Vendor sanctions

73. IAIG referred 13 cases involving 35 vendors and 20 company principals to the Vendor Review Committee in 2018. The committee took action in four of the 13 cases. As a result, UNOPS debarred nine vendors and 10 company principals for three years, eight vendors and five company principals for five years, and one vendor and three company principals for seven years. The committee also censured three vendors and three company principals.⁹ The committee was still reviewing the other nine cases at end 2018.

74. In addition, the committee took action in seven cases that originated prior to 2018. In these cases, UNOPS debarred two vendors for one year, three vendors and one company principal for three years, and two vendors and one company principal for five years. The committee also issued a written censure to one vendor.

75. To date, UNOPS has sanctioned 126 vendors and company principals based on IAIG findings. More details, including all UNOPS entries to the United Nations ineligibility list, are publicly available on the UNOPS website.

⁹ The censures do not affect their eligibility to do business with UNOPS or the United Nations, but they would be considered an aggravating factor in any future proceeding. UNOPS operational instruction PG.2017.02 on vendor sanctions, section 6.1.1.

76. The IAIG continuous auditing and data analytics programme crosschecks sanctioned personnel and vendors against transactions as a prevention mechanism.

D. Strengthening the investigative capacity

77. In 2018, IAIG had five dedicated professionals, who were supported by an investigative assistant. IAIG continued to rely upon consultants for additional support.

78. IAIG used the services of a company with which it has a long-term agreement to perform its forensic computer services. IAIG also started using an eDiscovery tool to conduct a portion of the forensic analysis internally. This tool has increased the efficiency of investigators in their review of data.

79. IAIG continues to focus its limited resources on serious cases and refers less serious matters to the appropriate offices. For instance, IAIG has continued to work closely with senior managers, who may undertake initial reviews of allegations on its behalf. IAIG has also worked with the People and Change Group on cases of harassment and abuse of authority.

80. In addition, IAIG provided support to senior management in relation to protection against sexual exploitation and abuse. It helped set up the UNOPS Working Group on Preventing Sexual Exploitation and Abuse, supported management's implementation of many initiatives from the Secretary-General, and works closely with United Nations organizations through the United Nations Representatives of Investigative Services to address these issues. IAIG also provided training on sexual exploitation and abuse to its investigators in 2018.

81. Similarly, IAIG supported management in strengthening protection against sexual harassment, by participating in an inter-agency vetting database for employees separated for sexual harassment.

82. IAIG is also in the process of improving its complaint intake system. In 2018, IAIG conducted a procurement process for an online portal that will guide complainants and prompt them to provide relevant information. This new portal will increase the efficiency of IAIG in reviewing complaints.

E. Fraud prevention

Training

83. IAIG recognizes the high-risk environments in which UNOPS operates and is committed to strengthening preventative measures, particularly in the field of fraud. In 2013, UNOPS introduced a 'standards of conduct' workshop for its personnel. The objectives are to proactively raise the awareness of UNOPS employees on the importance of operating in line with the highest ethical standards, aligning the work UNOPS does with the UNOPS vision, mission and values, as well as training personnel to spot potential issues and know how to report them. In 2018, 199 personnel were trained in these workshops.

84. IAIG also worked with the Procurement Group to develop training on ethics and fraud prevention in procurement. The objective of this online course is to raise awareness on fraud risks in procurement, and gives personnel the tools to identify potential red flags. It was made available to all personnel from January 2018 and is mandatory for all personnel with key roles in procurement.

85. During the Procurement Group retreat in October 2018, IAIG provided procurement practitioners with scenario-based training on how red flags identified during internal audits lead to investigations of fraud and misconduct.

86. In 2018, IAIG supported the Bangkok Shared Services Centre to verify all separating personnel during exit procedures, ensuring there were no outstanding issues concerning them. IAIG is currently working to automate this process.

X. Summary of follow-up of internal audit recommendations

A. Implementation of audit recommendations issued in 2018 and prior years

87. In line with the International Professional Practices Framework for Internal Auditing, the IAIG annual work plan included follow-up and monitoring activities to ensure that management actions have been effectively implemented. IAIG also tracks recommendations resulting from investigations. In 2018, IAIG worked closely with management to ensure deliberate targets for implementation were established and monitored based on internal scorecards.

88. Table 8 shows the outcome for all audit recommendations issued between 2008 and 2018. Of the audit recommendations issued in or prior to 2016, 99.8 per cent were implemented. The overall implementation rate at 31 December 2018 was 96 per cent, which is a considerable improvement compared to the 2017 rate of 92 per cent, and demonstrates high management responsiveness. The decrease in the number of recommendations issued in 2018 (160 recommendations) compared to the 315 recommendations issued in 2017 stems from an overall improvement of internal controls in the organization. Management took immediate action to address the 2017 audit opinion.

B. Recommendations unresolved for 18 months or more

89. The number of audit recommendations issued more than 18 months before 31 December 2018 (on or before 30 June 2017) that remained unresolved was 12 (7 per cent) out of 176 outstanding recommendations. This is to be compared with the figure for the end of 2017, when 12 (3 per cent) of 357 recommendations were outstanding. Nine recommendations reported as outstanding for more than 18 months in last year's annual report are now closed, while three recommendations remain open. Details are provided in annex 1.

Table 8. Status of implementation of audit recommendations issued before 31 December 2018

Number of audit recommendations	2008-2016	2017			2018			2008-2018
	Total	Internal audits and reviews	Project audits	Total	Internal audits and reviews	Project audits	Total	Total
Implemented/closed	4,203	165	106	271	23	15	38	4,512
<i>as a percentage</i>	99.8%	83%	92%	86%	20%	35%	24%	96%
Under implementation	10	35	9	44	94	28	122	176
<i>as a percentage</i>	0.24%	17%	8%	14%	80%	65%	76%	4%
Total	4,213	200	115	315	117	43	160	4,688

XI. Operational issues

A. Resources

90. During 2018, the internal audit section consisted of one manager (P5), two internal auditors (P4 and I-ICA3), four audit specialists (one P3 and three I-ICA 2),¹⁰

¹⁰ I-ICA: International Individual Contractor Agreement.

one data analytics officer (I-ICA 1) and one audit assistant (L-ICA 5).¹¹ To reduce information technology risks and ensure information and communications technology related standards and controls compliance, the Chief Information and Security Officer position at I-ICA 3 was approved as an addition to the IAIG structure for 2019.

91. The investigations section is composed of one manager (P5), one investigator (P3), three investigation specialists (I-ICA 2) and one investigative assistant (L-ICA 5). To assist with the increase in complaints, management enabled IAIG to upgrade one of its I-ICA 2 positions to I-ICA 3, effective from 2019.

92. The Director (D1) provides general direction and support to the entire group.

93. The total budget for IAIG in 2019 is \$3.227 million (\$3.227 million in 2018), with \$1.980 million (\$2,028 million in 2018) allocated to audit activities and \$1.247 million (\$1.199 million in 2018) allocated to investigative activities. This will be supplemented by investment budget support and regional office based support. The total budget for 2018 was originally \$3.036 million, the increase in the 2018 budget was primarily due to the addition of a Chief Information and Security Officer (I-ICA 3) position in the IAIG structure at end 2018.

94. IAIG has increased its audit engagement output and number of personnel, while keeping overall costs constant. Delivering better assurance for less cost continues to be a key priority in line with the UNOPS goal of operational efficiency.

95. The IAIG internal structure is supplemented by guest auditors, third-party professional firms, and experts, such as investigative experts and computer forensics specialists. IAIG continued to retain a part-time editor for quality assurance of its audit reports.

B. Collaboration with professional bodies, other groups and units

96. IAIG continued its involvement with the Representatives of Internal Audit Services of the United Nations Organizations and the Representatives of the Internal Investigations Services of the United Nations Organizations, coordinating internal audit and investigative activities among United Nations organizations.

97. IAIG participated in the networking group of the Heads of Internal Audit of International Organizations in Europe in April 2018. In October 2018, IAIG participated in the Anti-Corruption Conference hosted by the Government of Denmark and organized by the International Anti-Corruption Conference. In November, IAIG participated in the Sexual Exploitation and Abuse Investigative Bodies Meeting, and the Syria Interest Working Group of the United States Agency for International Development.

98. In 2018, IAIG signed two new cooperation agreements, one with the United States Department of State and one with the Caribbean Development Bank. This brings to 14 the number of cooperation agreements that UNOPS has signed with significant UNOPS partners. These agreements strengthen the confidence clients have in UNOPS, and serve as a strong assurance-building tool for field colleagues negotiating for client funds.

99. With the objective of enhancing its investigation function, IAIG collaborated with various UNOPS units: the Legal Group, the People and Change Group, the Ethics Office, and several regional and country offices. IAIG was able to resolve many issues raised through official and other channels without proceeding into investigation, due to inter-departmental cooperation and support from senior management. At the same time, IAIG advice continues to be sought by other groups, as reflected in its “for-information-only” caseload.

¹¹ L-ICA Local Individual Contractor Agreement

100. As in previous years, IAIG coordinated its annual work plan with the United Nations Board of Auditors, with which it also shared its audit results and final audit reports.

101. IAIG continued in 2018 to work closely with the JIU to strengthen internal oversight within UNOPS.

102. IAIG maintained its partnership with the Association of Certified Fraud Examiners, which will help to raise UNOPS standard of practice and recognition among other international organizations. IAIG also continued its formal relationship with the Institute of Internal Auditors, to whose international professional practices framework it adheres and of which all IAIG auditors are members.

103. Auditors also met their continuing professional education requirements and maintained their respective audit and accounting designations and memberships.

C. Strengthening the audit function

104. IAIG works to continuously improve its professional practices, internal policies and procedures to remain relevant and current. IAIG has also expanded the use of its online work planning and resource allocation tool (Wrike™), which has significantly improved productivity and information flow.

105. Throughout 2018, IAIG has undertaken new and continuous improvement initiatives, such as the automation and visualization of its annual risk assessment dashboard, auditing for fraud, and supporting the governance, risk and compliance framework initiative.

D. Data analytics and continuous audit

106. As communicated in the annual report 2017, IAIG developed a dashboard and exception reports in oneUNOPS to enable continuous auditing and to communicate anomalies to management so corrective action can be taken. IAIG continued to embed data analytics throughout its audit activities to monitor risks and issues proactively, and to prevent and detect possible fraudulent and anomalous transactions. This initiative addresses requests from the Executive Board and Audit Advisory Committee that IAIG boost proactive audit and investigation efforts.

107. In 2018, IAIG underwent an external assessment of its data analytics initiative. The aim was to enable IAIG to be proactive in fraud detection and prevention and to perform faster, cheaper, better audits in an innovative manner. As a result, the dashboards now show the results of 13 algorithms developed by IAIG to identify issues such as duplicate vendors, duplicate payments, sanctioned vendors and personnel, overspent projects and procurement anomalies.

108. In August 2018, IAIG upgraded the data analytics position responsible for continuous auditing and fraud detection and prevention to I-ICA 1 to reflect the level of skills required and the critical roles and responsibilities performed.

109. In 2018, IAIG issued two reports on its findings by using data analytics. While no fraud was identified, the use of data analytics revealed that some processes were prone to risks and lapses in controls. These issues were referred to management for action. Some of the key findings in 2018 are as follows:

- (a) a total of 46 duplicate vendors were identified;
- (b) UNOPS transacted with three sanctioned vendors for \$93,588;
- (c) a total of 85 duplicate payments amounting to \$15,283 were identified;
- (d) close to a quarter (1,560 of 6,461, or 24 per cent) of individual contractor agreements awarded in 2018 were retroactive, and 47 of these contracts were not awarded by an appropriate level of authority;

- (e) procurement process: (i) five instances where the cumulative value of awards over the last 12 months to the same vendor for the same project/purpose exceeded \$50,000, without appropriate approvals; and (ii) nine non-purchase-order payments each equal-to-or-above \$2,500 amounting to \$37,003 were approved by field offices;
- (f) project management: 31 ongoing projects had cash deficits amounting to \$5.4 million and six financially frozen projects had cash deficits amounting to \$1.2 million.

110. The use of data analytics by IAIG has proved to be an effective tool to enhance controls. Management took corrective action to address these internal control weaknesses and, in 2018, evidence of the value added to UNOPS included the following:

- (a) of the duplicate payments amounting to \$15,283, \$14,296 was recovered;
- (b) the frequency of ICA awards retroactively approved across UNOPS fell from 27 per cent in the first six months of 2018 to 16 per cent during the last six months.

E. Counter-fraud audit initiatives

111. IAIG, together with other United Nations organizations, identified the need to review how fraud is approached as part of its internal audit assignments. In 2018, IAIG continued to expand its fraud focus in each internal audit engagement.

112. Specific initiatives towards a stronger fraud focus in audits in 2018 included: (a) development of a procurement and contract management audit programme that provides detailed guidance and standard audit procedures to ensure thorough review of the procurement function, including identifying fraudulent red flags; (b) enhancement of the audit planning memorandum to include a fraud-specific audit focus and audit approach; and (c) a new succinct audit report format.

113. The data analytics initiative described earlier is also directed at fraud detection and prevention. Each audit includes individually designed data analytics tests that cover risks, such as duplicate payments, engagement of sanctioned vendors, and the splitting of procurement.

114. Because of this approach, during 2018 internal audit engagements, four cases of presumptive fraud were referred for investigation, one of which was substantiated, resulting in repercussions for the vendor and personnel involved.

F. Key issues identified based on new IAIG initiatives

115. During 2018, owing to robust audit efforts, including its enhanced audit programme, IAIG identified material audit issues that were referred to management for action. The issues included:

- (a) overspent projects in excess of \$1.1 million, which may result in write-offs from operational reserves;
- (b) transfers between projects amounting to \$1.98 million due to lack of available funds in the receiving project;
- (c) late receipting resulting in a misstatement of recorded project delivery by \$53.6 million;
- (d) early receipting resulting in an understatement of recorded project delivery by \$0.9 million;
- (e) commitments raised after project end date amounting to \$1 million, which may be rejected by funders;
- (f) purchase orders created after receipt of goods/services amounting to \$1.2 million;

- (g) recurring errors in accounting records, such as the use of incorrect expense accounts, amounting to \$2.2 million;
- (h) issuance of a contract \$2.5 million in excess of the approved award;
- (i) two payments amounting to \$125,000 paid to the wrong vendor;
- (j) payments amounting to \$46,825 not supported by adequate documents;
- (k) inadequate oversight and transparency in human resources processes, such as:
 - (i) inappropriate use of desk reviews and unjustified extensions, (ii) inappropriate use of long-term agreements to retain desk review hires and bypass UNOPS recruitment process, and (iii) frequent errors in I-ICA fee calculations.

116. Finally, costs that could have been avoided, amounting to \$154,789, were identified through the IAIG internal audits of field missions.

117. Management actions on the above issues are followed up on as part of IAIG tracking on implementation of internal audit recommendations.

G. Governance, risk management and compliance framework

118. UNOPS continued to progress in 2018 implementing the governance, risk and compliance framework, the objective of which is to increase UNOPS capacity to “reliably achieve our objectives, while addressing uncertainty and acting with integrity”, and to support required behavioural changes to better implement UNOPS activities.

119. The framework introduces a “three lines of defence” model that helps ensure the organizational structure best supports and facilitates compliance. IAIG, as the independent internal assurance provider, is the third line of defence.

120. In 2018, IAIG support to the governance, risk and compliance framework included:

- (a) proactively raising awareness of UNOPS personnel on the importance of operating in line with the highest ethical standards, through the delivery of the ‘standards of conduct workshop’ to field colleagues during each field audit mission;
- (b) participating in progress meetings on the internal development of the enterprise portfolio and project management system, to be launched in April 2019;
- (c) building further on implementation of the IAIG continuous reporting tool in oneUNOPS, and acting as an incubator for monitoring tests that can be handed over to second line of defence units (which will support the continuous improvement of the UNOPS compliance framework);
- (d) continuously supporting and providing insight to the Legislative Framework Committee (IAIG has provided contributions and commented on key UNOPS policies, instructions and guidance).

H. External quality assessment

121. IAIG demonstrates its commitment to improving its internal audit function by undergoing periodic external assessments of its conformance to Institute of Internal Auditors (IIA) standards every five years. The internal audit activity underwent independent external quality assessments in 2012 and 2017 and was found to “generally conform” to the standards and to comply with the institute’s code of ethics. This is the highest IIA rating offered. An external peer review of the investigations function was conducted in 2015.

I. Technology enabling initiatives

122. IAIG will be proactively collaborating with other units on information and communications technology initiatives, including Google Suite, development of a tool for integrated management and monitoring of oversight recommendations, and the

internal development of the enterprise portfolio and project management system. Throughout 2018, IAIG has attended the monthly Operational Governance Panel meetings to ensure that IAIG is up to date with technological initiatives and to enable IAIG to better understand risk and synergies for UNOPS. IAIG will adapt its work plan to cater to these initiatives, should further traction take shape as 2019 evolves.

123. In 2018, IAIG collaborated closely with colleagues from the UNOPS Infrastructure and Project Management Group and the People and Change Group in the development of UNOPS knowledge management strategy, which is a key component of the UNOPS Strategic Plan, 2018-2021. In 2019, IAIG will support activities that can help put the knowledge management strategy into practice, including through strategic use of institutional knowledge derived from oversight recommendations.

124. At end 2018, IAIG finalized the recruitment of the Chief Information Security Officer, who will support UNOPS as technology continues to advance, and who will be responsible for establishing and maintaining a vision, strategy and programme to ensure information assets and technologies are adequately protected. The officer will play a key role in identifying, strengthening, influencing and maintaining processes across UNOPS to address risks and vulnerabilities in and information technology, including cyber security and threats, as well as being an enabler in supporting UNOPS technology advancements.

XII. Audit Advisory Committee

125. During 2018, the Audit Advisory Committee continued to review the IAIG annual work plan and budget, the quality assurance and improvement plan and final internal audit reports, and to provide advice on increasing the effectiveness of the internal audit and investigation functions. The Audit Advisory Committee annual report for 2018 is included in annex 3.
