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

UNDP: Report on internal audit and investigations

Summary

The present report provides information on the activities of the Office of Audit and Investigations (OAI) for the year ended 31 December 2015. As requested by the Executive Board in its decision 2015/13, this report includes: (a) an opinion, based on the scope of work undertaken, on the adequacy and effectiveness of the organization's framework of governance, risk management and control; (b) a concise summary of work and the criteria that support the opinion; (c) a statement of conformance with the internal audit standards being adhered to; and (d) a view on whether the resourcing of the function is appropriate, sufficient and effectively deployed to achieve the desired internal audit coverage. In the same decision, the Board also asked for: (a) timely information on any challenges in discharging oversight responsibilities; (b) review of recruitment procedures; and (c) presentation of the organizational risk assessment. In addition, this report addresses requests made by the Board in previous decisions, such as the financial losses identified by investigations as well as the manner and amount of recovery (decision 2014/21), the titles of all internal audit reports issued during the year and ratings received (decision 2013/24), significant issues related to the public disclosure of internal audit reports (decision 2012/18), lessons learned from joint audits and cases of fraud and action taken in cases of misconduct (decision 2011/22) and requests from any non-Member State for disclosure of reports pre-2012 (decision 2011/23). The management response to this report is presented separately (decision 2006/13) and the annual report of the Audit Advisory Committee is appended to this report (per DP/2008/16/Rev.1).

Elements of a decision

The Executive Board may wish to: (a) take note of the present report; (b) express its continuing support for strengthening the internal audit and investigation functions of UNDP; and (c) take note of the annual report of the Audit Advisory Committee.

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Annexes (available on the Executive Board website)

1. Charter of the Office of Audit and Investigations
2. Office of Audit and Investigations audit reports issued in 2015 pertaining to UNDP
3. Recommendations unresolved for 18 months or more
4. Summary of substantiated investigation cases in 2015, by type of allegation
5. Criteria supporting OAI opinion

Appendix (available on the Executive Board website)

Annual report of the Audit Advisory Committee for the calendar year 2015

Introduction

1.   The UNDP Office of Audit and Investigations (OAI) submits to the Executive Board its annual report on internal audit and investigation activities for the year ended 31 December 2015. The report also contains information in response to decisions of the Executive Board as noted herein.

I. Assurance in UNDP

Mandate of the Office of Audit and Investigations

2.   OAI aims to provide UNDP with an effective system of independent and objective internal oversight designed to improve the effectiveness and efficiency of UNDP operations in achieving its developmental goals and objectives. The purpose, authority and responsibility of OAI are defined in the charter approved by the Administrator.

3.   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. OAI hereby confirms its organizational independence. In 2015, OAI was free from interference in determining its audit scope, performing its work and communicating its results.

4.   OAI has an effective quality assurance and improvement programme that covers both internal audit and investigation functions. Post-audit client surveys undertaken in 2015 showed that clients were satisfied with the conduct of audits. Periodic external quality assurance reviews are done every five years. The second external review for investigations finalized in 2015 resulted in an overall opinion that OAI fully adhered to its underlying policies, principles and guidelines and that it conducted its investigative work in a professional and proficient manner. The second external review for internal audit done in 2012 confirmed the continued general conformance of OAI with the international standards for the professional practice of internal auditing. The third external review for internal audit is due to take place in 2017. In the meantime, the internal review done in 2014-2015 showed substantial and continuous improvements since the last external review.

5.   OAI continued to receive strong support from UNDP senior management. The OAI Director participated in meetings of the expanded Organizational Performance Group (with other oversight office heads), which enabled him to discuss long-outstanding recommendations and other audit-related matters of corporate significance with potential risk to UNDP. OAI continued to hold regular meetings with central and regional bureaux to discuss key and recurring audit and investigation issues.

6.   The Audit Advisory Committee, as one of the UNDP external independent oversight bodies, continued to provide advice to the Administrator to promote the effectiveness of UNDP internal audit and investigation functions. In 2015, the Committee reviewed the OAI 2015 annual workplan and its implementation through quarterly progress reports. The Committee reviewed OAI audit and investigation activities in the 2014 annual report presented by OAI to the Executive Board in 2015. During all of its periodic meetings in 2015, the Committee held private sessions with the Director of OAI, in accordance with the Committee's terms of reference.

Coordination with external auditors

7.   UNDP external auditors (United Nations Board of Auditors) continued to rely on OAI audits as well as OAI quality assurance review processes for third-party audits[1] of projects implemented by non-governmental organizations and national governments (known as NGO/NIM projects).

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[1] In this context, "third-party audits" refer to audits that are neither conducted by OAI nor on behalf of OAI. The audits of NGO/NIM projects are conducted by supreme audit institutions or audit firms engaged and managed by UNDP country offices.

Basis for providing independent assurance to the Administrator

8.   For purposes of providing assurance on governance, risk management and control, the annual workplan of OAI for 2015 covered an appropriate mix of business units, functions and activities at the headquarters, regional and country levels, directly implemented (DIM) projects, and grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund). Upon endorsement of the Audit Advisory Committee, the Administrator approved the 2015 annual workplan. During 2015, there were no challenges encountered in discharging oversight responsibilities that necessitated timely information to the Executive Board, per decision 2015/13.

Organizational risk assessment for annual work planning (decision 2015/13)

9.   OAI formulated the 2015 audit plan after conducting a risk assessment of its auditable areas in UNDP as a whole. The office undertook the planning process in a participative manner, holding a series of discussions with senior management and heads of concerned bureaux. It also consulted the United Nations Board of Auditors to ensure proper audit coverage of UNDP and to minimize duplication of efforts in providing assurance to the Administrator and the Executive Board.

10.   OAI has been using a risk assessment methodology since 2006, annually refining and expanding it to cover the varied components of its audit universe. Separate risk assessment models were used to identify audits for country offices, DIM projects, Global Fund programmes/projects, headquarters and regional business units. In late 2015, OAI further developed an aggregate risk model covering all the components of the audit universe for purposes of preparing the 2016 workplan.

11.   The OAI risk assessment methodology covered the whole risk assessment process from risk identification to risk measurement, risk prioritization and risk ranking. The risk indicators used were both quantitative and qualitative, and were classified as to whether they were strategic, contextual, political, operational or financial, in line with the UNDP enterprise risk management categories of risks. The final OAI risk ranking determines the frequency of audits, but may be adjusted after consultations with management. Generally, those entities ranked 'very high risk' were being audited every two years, those ranked 'high risk' every three years, 'medium risk' every four years and 'low risk' every five to six years.

Audit reports issued

12.   In 2015, OAI issued 116 audit reports: 8 headquarters audits; 38 country office audits; 16 Global Fund grant audits (including two consolidated reports); 49 DIM project audits; and 5 inter-agency audits (see figure 1). In accordance with decision 2013/24, annex 2 presents the titles of all internal audit reports issued in 2015 and their ratings.

13.   Considering that most of the audit reports issued in 2015 covered activities of UNDP offices during 2014, the audit results generally reflected the status of programmes and operations in 2014. The 103 audits at the country level covered about $2.5 billion (53 per cent) of approximately $4.7 billion of UNDP 2014 field-level expenditures. An additional $1.92 billion in expenditures were covered by third-party audits of NGO/NIM projects.

**Figure 1. Number and type of audit reports issued in 2015**
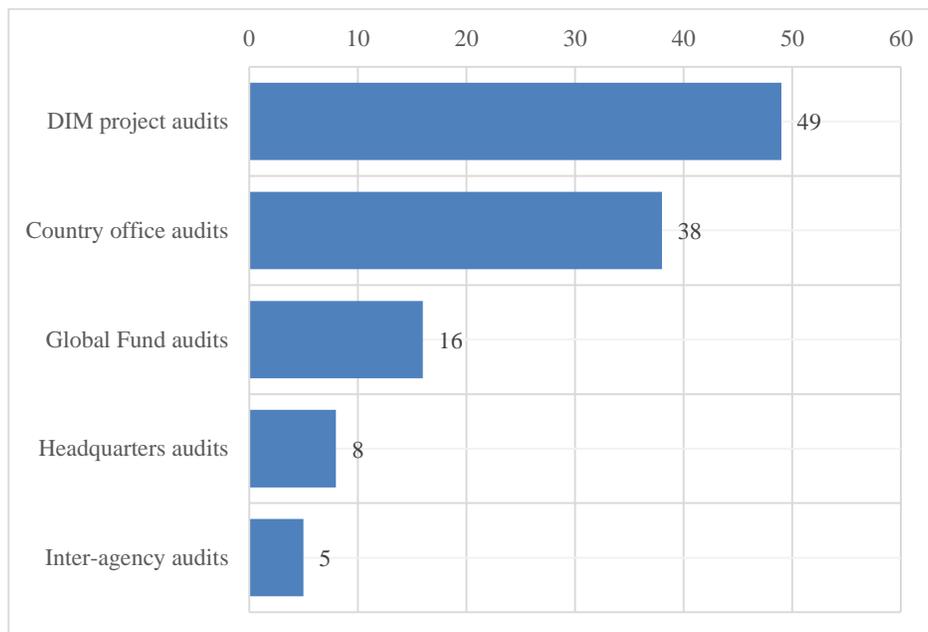
Audit ratings

14.   Based on audit results, OAI assigns an audit rating for the majority of its reports that reflects the adequacy and effectiveness of the governance, risk management and control processes at the audited entity level. Exceptions include follow-up audits, solely financial audits of DIM projects performed by audit firms on behalf of OAI, consolidated reports on several audits and other audits with restricted scope and objectives.

15.   Of the 116 reports, 51 did not contain an overall rating. Of the remaining 65 reports, 20 reports (31 per cent) had a 'satisfactory' rating; 38 reports (58 per cent) had a 'partially satisfactory' rating; and 7 reports (11 per cent) an 'unsatisfactory' rating (see figure 2). The comparison of the distribution of audit ratings in 2015 to that in 2014 shows a slight decrease of 'satisfactory' ratings (by 5 per cent) and a slight increase in 'partially satisfactory' and 'unsatisfactory' ratings (by 1 and 4 per cent, respectively). The reports with an 'unsatisfactory' rating pertained to five country office audits and two DIM audits.

Figure 2. Comparison of audit ratings (2015 versus 2014)
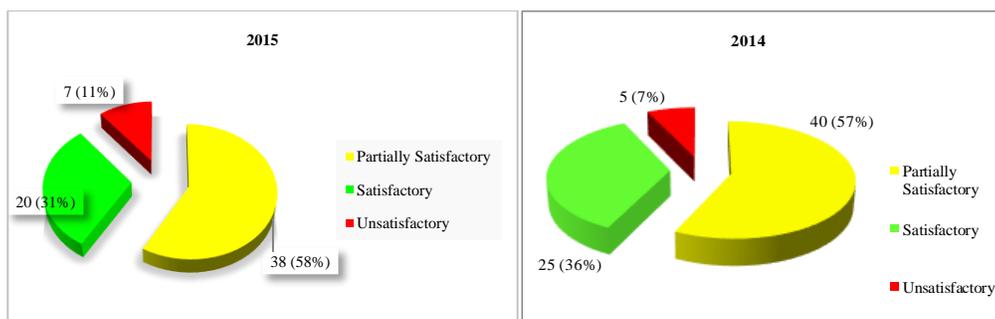
16.   For DIM projects, there are two types of audits: (a) a financial audit encompassing statements of project expenditure, fixed assets and cash; and (b) a combined financial audit and an audit of

internal control systems. The audits that are solely financial and are performed by audit firms result in an audit opinion on expenditure, assets and, as applicable, the cash at hand, but are not in the form of the OAI-defined audit rating. Of the 49 DIM audits undertaken in 2015, 45 were solely financial audits for which the audit firms issued 34 unqualified and 11 qualified opinions on the statements of project expenditures. The net financial impact for the projects with qualified opinions and disclaimers of opinion was $1.8 million (0.1 per cent of the total audited expenditure). The 32 audits for statements of fixed assets resulted in 27 unqualified, 4 qualified and 1 adverse opinion. The net financial impact of those other-than-unqualified opinions was $346,000.

II. Disclosure of internal audit reports

17.   As per Executive Board decision 2012/8, UNDP makes public all OAI audit reports from 2012 onward, while ensuring that the integrity and quality of information disclosed is maintained through the due diligence and quality assurance processes of OAI. OAI also continues to share final reports with Member States when they contain findings related to them, giving them three weeks to review and provide comments regarding the need to protect sensitive issues, thereby respecting the need to protect information contained in audits prior to their publication.

18.   In 2015, UNDP publicly disclosed 116 internal audit reports, of which 11 were partially redacted because they contained sensitive information. There were 4,844 visits to the disclosure webpage (http://audit-public-disclosure.undp.org/), a 30 per cent increase from 2014.

19.   Apart from publicly disclosed reports, in 2015 OAI received a request from the Government of the Netherlands to access 13 reports issued prior to 2012 (three issued in 2009, two issued in 2010 and eight issued in 2011). In accordance with Executive Board decision 2011/23, OAI hereby informs the Board that no other request was received in 2015 from a non-Member State, donor intergovernmental organization or the Global Fund about access to audit reports prior to 2012.

III. Staffing and budget

20.   As of 31 December 2015, OAI had a total of 81 approved posts compared to 80 approved posts in 2014. However, one post was frozen until further notice; therefore, OAI had 80 active posts in 2015.

Recruitment process (decision 2015/13)

21.   Of the 80 active posts, 77 posts were encumbered and three were vacant. On a quarterly basis in 2015, OAI monitored its vacancy rate and the average number of months posts had been vacant. Against a self-defined acceptable level of a 7 per cent vacancy rate, OAI achieved a better overall vacancy rate of 4 per cent. Against a target of six months for a post to remain vacant, OAI achieved a better average of five months.

Budget

22.   In 2015, OAI had an overall approved budget of $18.4 million. This budget was initially funded at $13.1 million (71 per cent) from core resources and $5.3 million (29 per cent) from other resources. OAI eventually received $17.5 million (see figure 3). The difference of $900,000 was due to $800,000 held back by UNDP management for unforeseen costs and risks and to $100,000 corresponding to the frozen post.

23.   The $17.5 million budget was $300,000 lower than the $17.8 million received in 2014. In addition to the $17.5 million, $1 million in direct costs for the audit of DIM projects were charged to the respective budgets of each of the DIM projects that were audited. In addition, OAI also received a contribution of $150,000 from the Bureau for Policy and Programme Support for the investigations activities relating to the social and environmental compliance of UNDP.

Figure 3. OAI resources in 2015

	(Millions of United States dollars)
Audit	10.2
Investigations	5.5
Management and support	1.7
Audit Advisory Committee	0.1
Total	**17.5**

Impact of budget constraints on audit mandate (decision 2015/13)

24. As a result of budgetary and resource constraints, OAI deferred certain audit activities to 2016, but the deferment did not significantly impact the ability of OAI to achieve the desired internal audit coverage and provide audit assurance in 2015. Overall, there were no challenges during the year that impacted the office's ability to discharge its oversight responsibilities.

IV. Significant internal audit results

A. Headquarters audits

25. The eight headquarters audits pertained to two headquarters business units, four corporate functions, one programme and one project. The audit of the Legal Office was rated 'partially satisfactory' and recommended improvements in the operation of the office regarding the management of disciplinary cases as well as improvements in the organizational structure and capacity. The audit of cost-recovery practices was rated 'partially satisfactory' and recommended the full implementation of the new direct project cost methodology, as well as better documentation of the basis for the distribution of General Management Support among units. The information and communications technology audit of electronic funds transfer by the UNDP Treasury Division was rated 'satisfactory' and resulted in recommendations to establish a regular review and update of procedures governing the electronic payment process, to review the contract held with the bank, and to finalize the standard operating procedure regarding the headquarters bank reconciliation process.

26. Of the eight audits, five were conducted using a performance audit approach, focusing on the efficiency and effectiveness of systems and procedures.

Performance audits

27. The audit of monitoring practices raised recommendations aimed at improving weaknesses in the design of the process, enhancing capacity and developing additional tools. The audit of travel management recommended continuing efforts for a cost-effective management of travel and more efficient pre- and post-travel management in UNDP. The audit of procurement management recommended the promotion of efficiency and cost savings through improvements of information technology tools used across the organization, as well as improving the way UNDP identifies and selects suitable vendors and the tracking of procurement risks as a whole. The audit of a regional programme for Africa recommended the systematic implementation of the most important components in the project portfolio and improving the monitoring of the programme and its projects. Finally, the audit of a project in the Africa region recommended revising and complementing the programme document in order to reflect changes made to the initial plan.

28. Altogether, the eight headquarters audit reports resulted in 43 recommendations, of which 12 (28 per cent) were ranked as high priority.

B. Country office audits

29. The 38 country office audit reports issued in 2015 included 37 audits of general scope and 1 audit of a specific office function (safety and security management). The significant issues are grouped according to the audit area/sub-area in figure 4; those noted in at least five offices are considered recurring.

Figure 4. Recurrent country office audit issues
(Presented according to the sub-area with the most number of recommendations, see figure 5)

Audit area/sub-area	Recurrent audit issues
Governance and strategic management	• Financial sustainability of the office at risk (10 offices) • Inadequate organizational structure, including missing terms of reference, unclear roles and responsibilities, and inconsistent Atlas profile roles (6 offices) • Inadequate risk management and monitoring (5 offices)
Programme activities/project management	• Inadequate project implementation, including weak monitoring and evaluation, project assurance activities not performed, delayed project closure and weak project design (21 offices)
Operations/financial management	• Inadequate controls over cash advances, including delayed liquidation of cash advances, and incorrect recording of cash advances* (9 offices) • Inadequate management of funds transfer and bank reconciliation (5 offices)
Operations/procurement	• Weaknesses in procurement management, including procurement plans not prepared,* lack of procurement staff capacity, procurement cases not submitted to the procurement review committees,* and weak justification for direct contracting (16 offices) • Inadequate management of individual contracts, including terms of payments, deliverables and milestones that were not properly defined* (8 offices)
Operations/human resources	• Weaknesses in human resource management, including missing human resources plans (recruitment and staff learning),* non-completion of mandatory trainings of staff and inadequate management of staff benefits and entitlements (6 offices) • Weaknesses in recruitment process, including not conducting proper evaluation of candidates' technical qualifications and not maintaining adequate documentation (6 offices) • Non-completion of performance management development assessment and mandatory training courses* (5 offices)
Programme activities/programme management	• Inadequate programme management, including lack of programme oversight, weak management of programme resources and programme evaluation not conducted (10 offices)
Operations/general administration	• Weaknesses in travel management, including non-compliance with the travel policy and procedures relating to procurement of air tickets and daily subsistence allowances (8 offices) • Weak security measures, including business continuity plans not updated and tested (6 offices)

Audit area/sub-area	Recurrent audit issues
	• Inadequate asset management, including not properly documenting and safeguarding assets and not conducting regular physical verification of assets (6 offices)
United Nations system coordination/harmonized approach to cash transfer (HACT)	• Inadequate implementation of HACT, including macro- and micro-assessments not conducted and assurance plan not prepared (10 offices)

* Issues reported in 2014 as also recurrent.

30.   Altogether, these audits resulted in 262 recommendations, 78 (30 per cent) of which were rated high priority (see figure 5).

**Figure 5. Distribution and prioritization of
country office audit recommendations in 2015 reports**
(Total recommendations: 262)
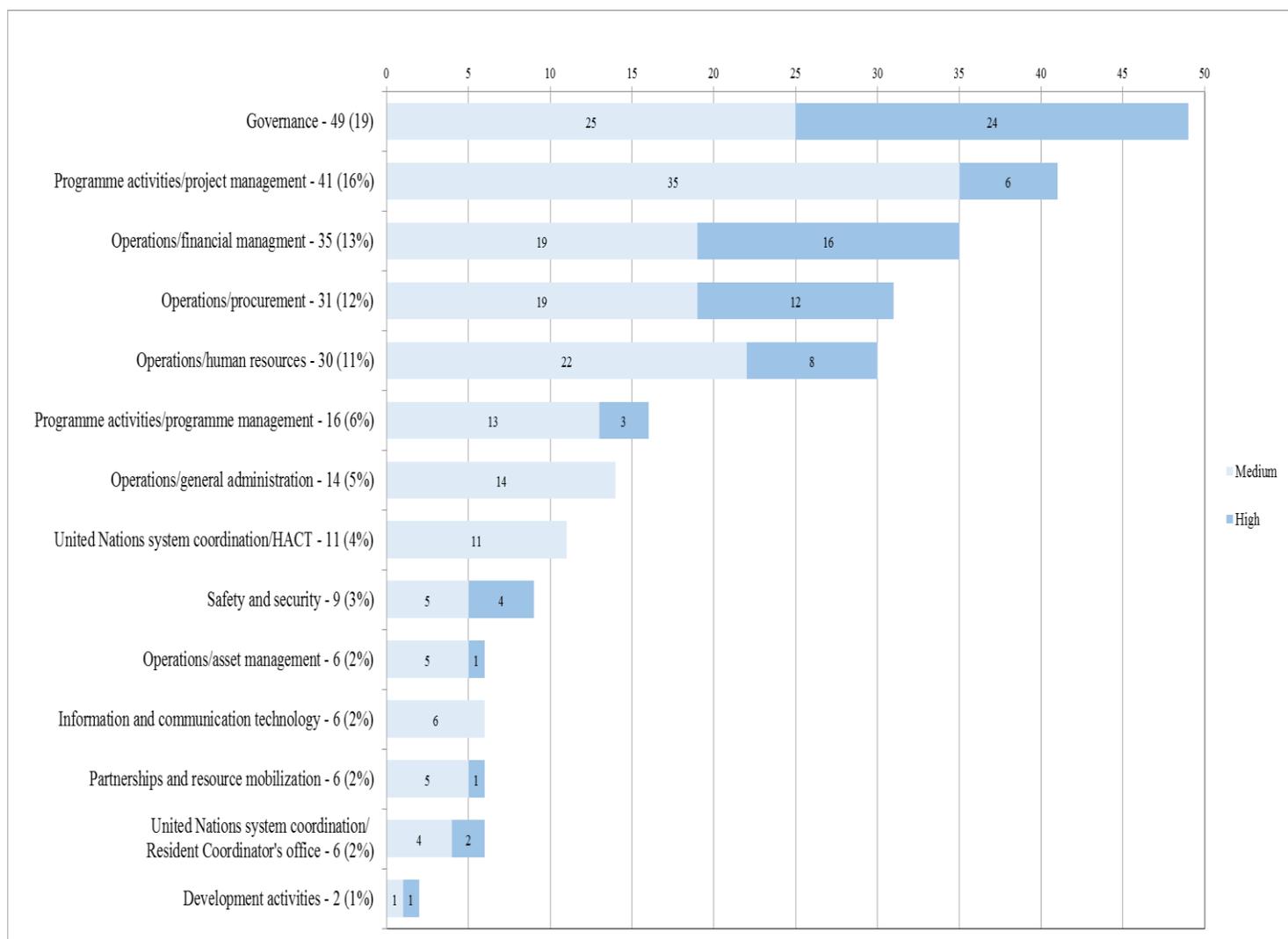
C.   Global Fund audits

31.   In 2015, a total of 16 reports were issued pertaining to audits of Global Fund grants, 14 relating to grants managed by UNDP as principal recipient and 2 separate consolidated reports on various audits of UNDP country offices as principal recipients as well as audits of subrecipients of Global Fund grants managed by UNDP country offices. The 14 audit reports covered the management of Global Fund grants in 14 country offices (three in Africa, five in the Arab States, three in Europe and the Commonwealth of Independent States, two in Latin America and the Caribbean and one in the Asia and the Pacific region).

32.   The 14 audit reports related to grants managed by UNDP as principal recipient contained 53 recommendations (see figure 6), the majority (66 per cent) of which were in the areas of: (a) procurement and supply chain management; (b) subrecipient management/monitoring; and (c) governance/capacity-building and exit strategy. The significant issues are grouped according to the audit area in figure 7; those noted in at least three offices are considered recurring.

**Figure 6. Distribution and prioritization of
Global Fund audit recommendations in 2015 reports**
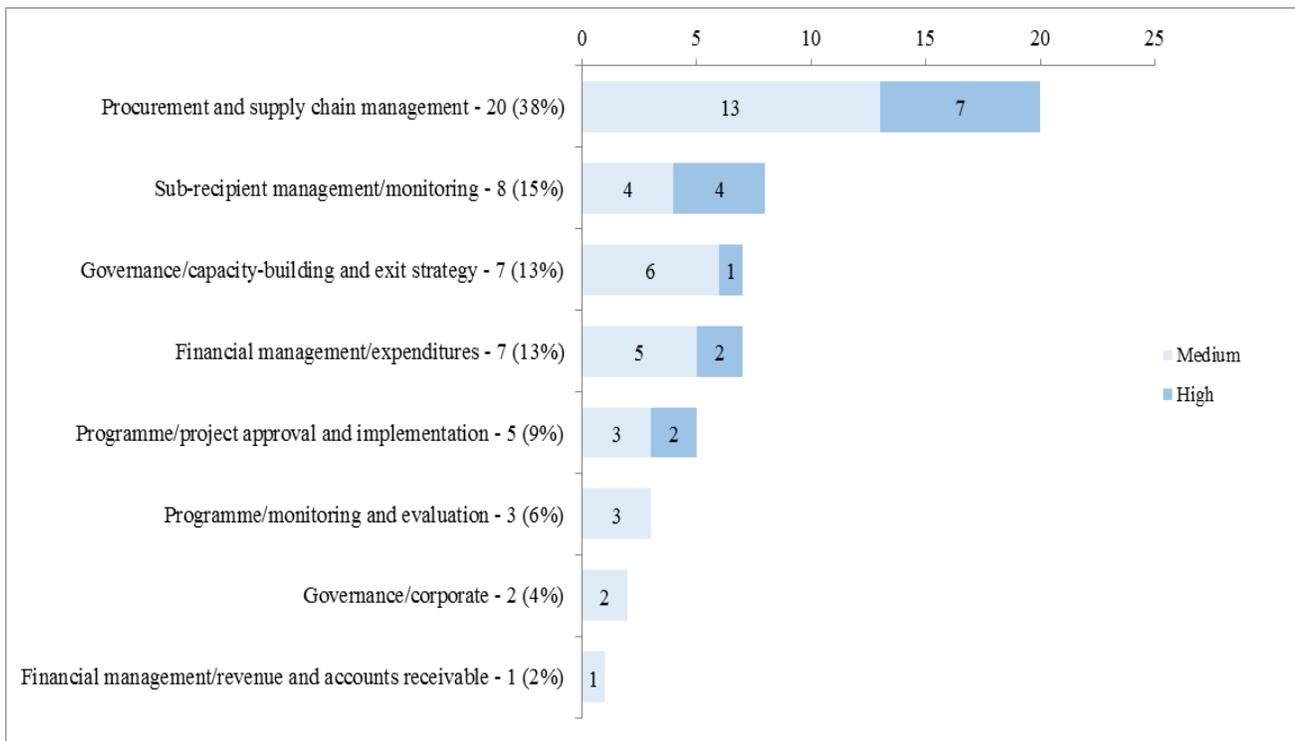(Total recommendations: 53)

Figure 7. Recurrent global fund audit issues

Audit area/sub-area	Recurrent audit issues
Procurement and supply management	• Weaknesses in asset management (4 offices) • Weaknesses in inventory management, distribution and storage (4 offices) • Inadequate quality control over pharmaceutical products (3 offices)
Subrecipient management/monitoring	• Inadequate monitoring of subrecipients (5 offices)
Governance/capacity-building and exit strategy	• Weak capacity-building of implementing partners (3 offices)

D. Project audits

33.   Projects directly implemented by UNDP may be reviewed as part of the audit of an office or may be audited separately, especially if the project expenditure is significant and/or presents high risks. In 2015, 49 DIM projects were audited separately, with a total audited expenditure amounting to $1.4 billion.

34.   DIM audits resulted in 125 recommendations (see figure 8), with a significant number of recommendations under the area of finance (46 per cent) such as inaccurate recording, allocation and classifications of project expenditures in the combined delivery report, and lack of supporting documents justifying accounting entries. Other areas with a notable number of recommendations were project management, procurement and asset management.

**Figure 8. Distribution and prioritization of
DIM audit recommendations in 2015 reports**
(Total recommendations: 125)
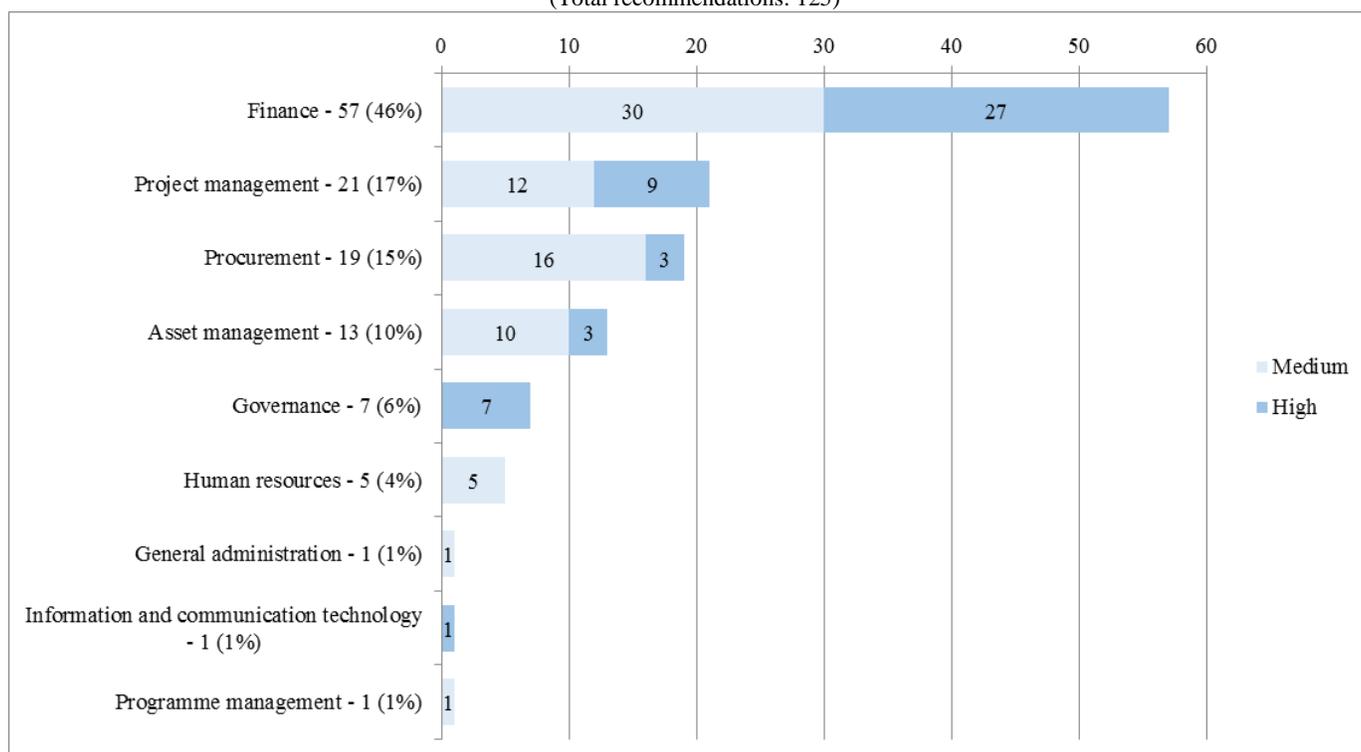
E. Inter-agency audits

35. In 2015, OAI issued four inter-agency reports as a result of joint or coordinated audit work among the internal audit services of several United Nations organizations (the Food and Agriculture Organization of the United Nations, the United Nations Educational, Scientific and Cultural Organization, the United Nations Children's Fund and the United Nations Industrial Development Organization, as well as UNFPA.

36. The audit of the United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries (UN-REDD) concluded that UNDP should further develop a results-based reporting framework reflecting key priorities for UN-REDD and UNDP, and develop plans to sustain knowledge and capacities when national programmes in Phase I end and assess benefits, costs and risks for UNDP in continuing to use UNOPS as an executive partner. Other recommendations included enhancements to procurement, programme and project management areas.

37. The audit of Delivering as One in Malawi identified the need for improving the role of UNDP as coordinator of the United Nations system in the country. Recommendations raised included enhancements in the management and accountability framework, a robust quality review of the United Nations Development Assistance Framework (UNDAF) and joint annual workplans and improvements in the design of the UNDAF and in the terms of reference of the Malawi One UN Fund. Further, the audit recommended improving the monitoring and evaluation plan, the reporting of results and the business operating strategy and its implementation mechanism.

38. The audit of the managing agent function for the South Sudan Common Humanitarian Fund resulted in recommendations aiming to address lack of processes, metrics and documentation for timeliness of the various disbursements performed by the UNDP country office, as well as overall funds management. The audit of the administrative agent function for South Sudan Common Humanitarian Fund did not result in any recommendations.

Lessons learned from inter-agency audits (decision 2011/22)

39. Since 2009, based on audit frameworks agreed with members of the United Nations Representatives of Internal Audit Services (UN-RIAS), OAI has participated in inter-agency audits and has issued a total of 17 inter-agency audit reports covering selected multi-partner trust funds, Delivering as One and the HACT. The experience showed that inter-agency audits require more time to plan, conduct and report than others, owing to the necessity to obtain consultations and inputs from the internal audit services and management of participating organizations.

40. At the annual meeting of UN-RIAS in September 2015, OAI volunteered to perform meta-analysis of the Delivering as One audits. OAI also volunteered to lead a UN-RIAS working group study to pursue different methods of joint audit cost recovery, with a view to increasing audit coverage over joint governance and programmatic activities of the United Nations Development Group field programmes.

V. Follow-up to audit recommendations

41. The overall implementation rate of audit recommendations was 85 per cent at 31 December 2015, which was higher than the rate achieved in 2014 (81 per cent). This covered all reports issued by OAI from 1 January 2013 to 30 November 2015. There were 50 recommendations that had not been fully implemented for more than 18 months (see annex 3 for complete listing).This is an increase from 2014, when 20 recommendations were outstanding for more than 18 months. Recommendations from inter-agency audits were not included in the count of long-outstanding recommendations as the monitoring of the implementation of recommendations involved other United Nations agencies and these normally require a longer implementation time.

42. Of the 50 recommendations, 22 (44 per cent) were ranked 'high priority' and 22 were outstanding for at least 24 months. Ten of these recommendations pertained to the Office of Human Resources and seven pertained to the UNDP country office in Central African Republic.

43.   It is also worth mentioning that for recommendations raised in audit reports issued in 2015, the implementation rate as of 31 December 2015 was 52 per cent, indicating that immediate actions were taken by management on the audit issues raised by OAI.

VI. Review of audits of projects executed by non-governmental organizations and/or national governments

44.   The 2015 NGO/NIM audit plan consisted of 957 NGO/NIM projects that were selected based on an OAI audit risk assessment. These selected projects had a total expenditure of $1.92 billion, representing 77 per cent of the $2.5 billion of NGO/NIM project expenses for fiscal year 2014. The audits were conducted by supreme audit institutions or audit firms engaged and managed by UNDP country offices. The audit reports were due for submission on 30 April 2015.

45.   As of 31 December 2015, OAI had received 951 audit reports or 99.4 per cent of the 957 reports expected from 835 NGO/NIM projects from 109 country offices.

46.   Timely submission of reports for two country offices (Argentina and Yemen) remained an issue despite follow-up by OAI. As of 31 December 2015, reports for six projects had not been submitted, representing total expenses of $10.4 million from Argentina (two projects, $6 million) and Yemen (four projects, $4.4 million). In the case of the Argentina country office, while noting a significant improvement, several audit reports remained outstanding at the end of 2015. In the case of the Yemen country office, the audit process was postponed due to the security crisis in the country.

OAI review results

47.   Of the 951 reports received, OAI has reviewed 442 in depth, representing $1.56 billion in expenses or 81 per cent of the audited expenses. In the majority of cases, the NGO/NIM auditors found that financial expenses were presented fairly and issued an 'unqualified' opinion in respect of $1.84 billion (96 per cent) of the total $1.92 billion of audited expenses.

48.   Most country offices (82 per cent) received an overall 'satisfactory' rating from OAI for fiscal year 2014, compared to 75 per cent for fiscal year 2013; 14 per cent received 'partially satisfactory' ratings, compared to 17 per cent in 2013; and 4 per cent received 'unsatisfactory' ratings in 2014, a reduction from the 8 per cent reported for 2013 (see figure 9). The overall rating encompassed four elements: (a) strength of existing internal controls; (b) timely follow-up of audit recommendations; (c) compliance with audit scope requirements; and (d) timely administration of audit exercise. OAI issued review letters drawing the attention of the country offices to areas requiring improvement.

Figure 9. Results of OAI assessment of the quality of NGO/NIM audit reports

	Overall rating			
	Fiscal year 2014 (Audits conducted in 2015)		Fiscal year 2013 (Audits conducted in 2014)	
Rating	Number of countries	%	Number of countries	%
Satisfactory	89	82	87	75
Partially satisfactory	15	14	20	17
Unsatisfactory	4	4	9	8
Total number of country offices	108	100	116	100

Key NGO/NIM audit issues and actions taken thereon

49.   The NGO/NIM audit reports that were reviewed in detail contained 1,036 issues, with the majority (71 per cent) ranked 'medium priority'. Most of the issues (49 per cent) pertained to financial management compared to 46 per cent for fiscal year 2013. The other areas relate to project progress and rate of delivery, procurement, human resources, management and use of equipment, record keeping systems and controls, and management structure.

50.   OAI monitored the actions taken by the country offices to address the NGO/NIM audit issues and noted that as of 31 December 2015, 80 per cent of the 1,036 audit issues had been adequately addressed.

Audit opinions and net financial impact

51.   For the reports with modified opinions, OAI calculated the total net financial impact for fiscal year 2014 to be a net overstatement of $6.1 million, i.e., 0.3 per cent over the total audited expenditure ($1.92 billion). This is lower than in 2013 ($92.2 million). The net financial impact was due to modified opinions on 73 projects in 28 countries. The qualifications were mainly due to unsupported expenses (27 projects), incorrect recording of advances/expenses (19 projects) and unrecorded expenses (12 projects).

Audit of harmonized approach to cash transfers

52.   In 2014, seven country offices (Bhutan, Cape Verde, Democratic Republic of the Congo, Indonesia, Morocco, United Republic of Tanzania and Viet Nam) which follow the HACT procedures planned the required audits of implementing partners. As of 31 December 2015, OAI had received 61 audit reports from four of the seven country offices. Of the 61 reports, 51 received an 'unqualified' and 10 a 'modified' opinion on the financial statements.

VII. Investigations

53.   During 2015, OAI opened 370 new cases, a significant (24 per cent) increase over the number of cases opened in 2014 (299). OAI also carried over 162 cases from 2014, bringing the total caseload in 2015 to 532, an 11 per cent increase over 2014 (478 cases).

54.   Of the 532 cases, 328 were closed by OAI in 2015, a 4 per cent increase over 2014 (316 cases). At the end of 2015, 204 cases were carried over to 2016 (see figure 10).

Figure 10. OAI caseload, 2014 and 2015

Caseload	2014	2015
Carry-over as of 1 January	179	162
Intake during the year	299	370
Total cases during the year	**478**	**532**
Closed (from cases carried over)	149	114
Closed (from intake)	167	214
Total closed	**316**	**328**
Carried forward as of 31 December	162	204

Type of complaints

55.   Complaints relating to financial irregularities (procurement fraud; theft and embezzlement; misuse of UNDP resources; misrepresentation, forgery and false certification; and entitlements fraud)

continued to be the largest category of cases, constituting 61 per cent of the total number of cases received by OAI in 2015, a 6 per cent increase compared to 2014 (55 per cent) (see figure 11).[2]

Figure 11. Types of complaints received in 2015

Types of complaints received in 2015

- Other failure to comply with obligations 18.1%
- Procurement fraud 31.1%
- Retaliation against whistleblowers 0.3%
- Failure to comply with local law/abuse of privileges and immunities 0.8%
- Assault and threat 1.1%
- Sexual exploitation and sexual abuse 2.4%
- Misuse of UNDP resources 2.7%
- Improper recruitment 4.9%
- Workplace harassment 5.7%
- Abuse of authority 5.9%
- Misrepresentation, forgery and false certification 7.0%
- Entitlements fraud 8.6%
- Theft and embezzlement 11.4%

56.   Africa is the region from which OAI received the most complaints in 2015 (120 cases), followed by the Asia and Pacific region (98 cases), Arab States (46 cases), Europe and the Commonwealth of Independent States (41 cases) and Latin America and the Caribbean (23 cases). OAI received 13 cases from headquarters and 29 cases involving staff members or other personnel on UNDP contracts assigned to other United Nations agencies (see figure 12).

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[2] In 2015, OAI changed the category entitled 'misrepresentation' to 'misrepresentation, forgery and false certification', which is now included in complaints related to financial irregularities. This category was not included in the 55 per cent reported in 2014.

Figure 12. Cases received in 2015 by region
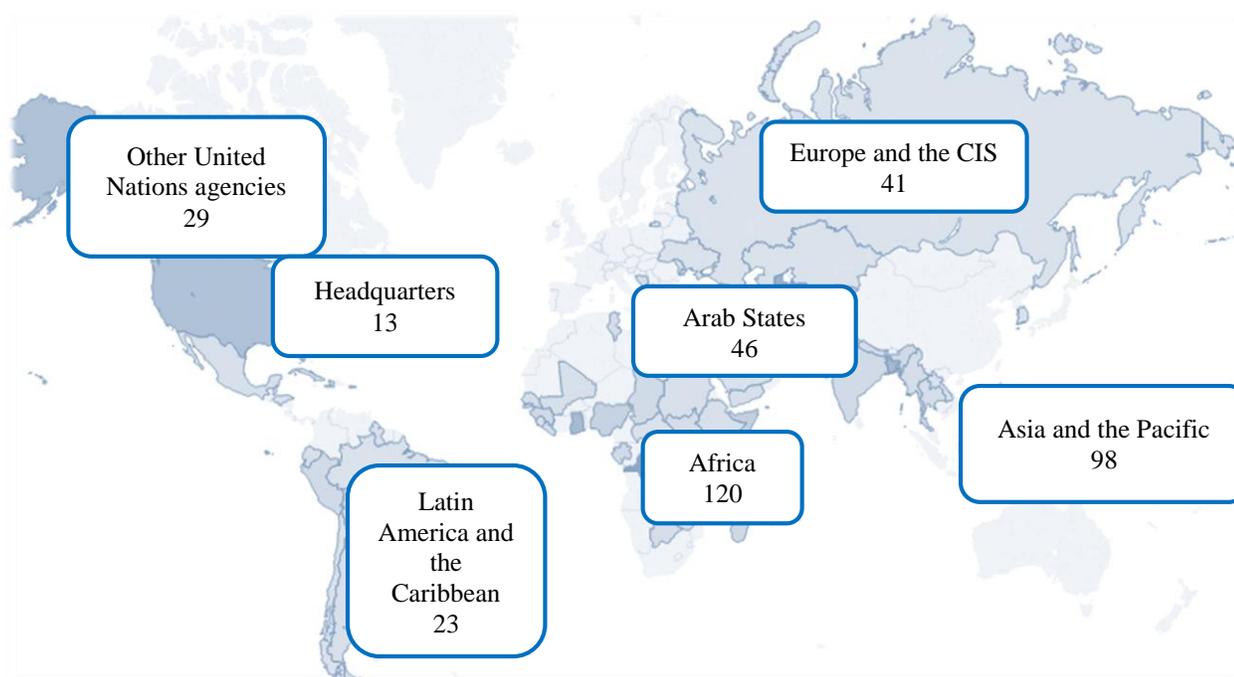
Processing of cases

57.   Of 328 cases that were closed in 2015, 135 cases (41 per cent of the cases finalized) were closed after an initial assessment. Of these 135 cases, 118 were closed because of insufficient evidence of wrongdoing to justify an investigation, because the allegations did not fall within the OAI mandate or because an investigation was not warranted. Seventeen cases were referred to other offices for appropriate action (see figure 13).

58.   The closing of the remaining 193 cases came as a result of a full investigation, of which 50 cases (26 per cent) resulted in an investigation report establishing evidence of misconduct or other wrongdoing, a decrease of 15 per cent over the total number of investigation reports issued in 2014 (59 investigation reports). The other 143 cases were found to be unsubstantiated and were closed after investigation (see figure 13).

59.   At the end of 2015, five cases were still under assessment and 199 cases were under investigation.

Figure 13. Disposition of cases

Actions Taken	Number of cases in 2014	Number of cases in 2015
After assessment		
- Closed, investigation not warranted	209	118
- Referred to other offices within UNDP	22	17
Total	**231**	**135**

After investigation		
*Closed (not substantiated)**	**26**	**130³**
Closed *(substantiated)*		
- Submitted to Legal Office	26	13
- Submitted to country offices	6	16
- Submitted to Vendor Review Committee	22	15
- Submitted to other organizations	2	3
- Submitted to other UNDP offices	3	3
- Other investigation reports	**-**	**-**
Subtotal *(substantiated)*	**59**	**50**
Management letters		
- Issued as final product *(not substantiated)**		**13**
- Issued in addition to final product		18
Total cases closed after investigation	**85**	**193**
Total cases closed during the year	**316**	**328**
Investigation reports issued	**59**	**50**
Management letters issued	**16**	**31**

* Total not substantiated in 2015 = 143 (130+13)

Substantiated cases

60.   The misconduct identified in the 50 substantiated investigations was mostly: procurement fraud (18 cases or 36 per cent); entitlements fraud (12 cases or 24 per cent); other failure to comply with obligations (5 cases or 10 per cent); and misrepresentation, forgery and false certification (4 cases or 8 per cent) (see figure 14).

Figure 14. Cases substantiated in 2015 by category

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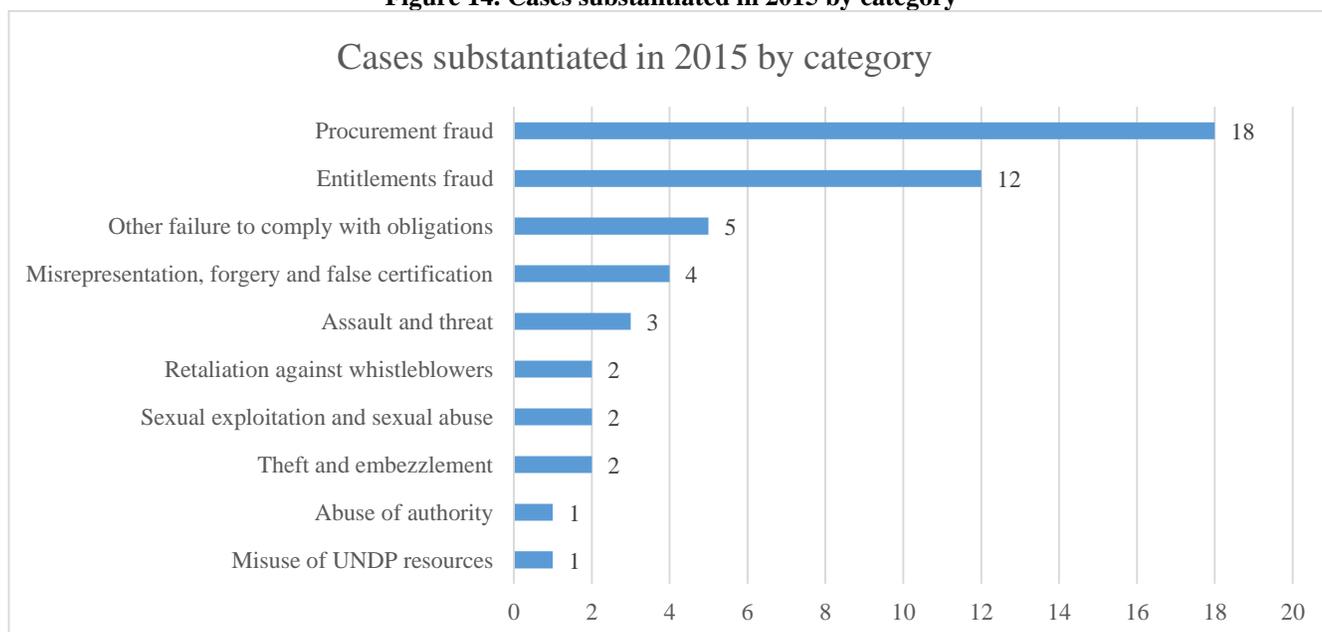
[3] The increase in number of cases 'Closed (not substantiated)' is due to a revision in 2015 of the way OAI categorizes its disposition of cases.

61.   Of these 50 cases, 28 per cent occurred in Asia and the Pacific region, 26 per cent in the Africa region and 14 per cent in Europe and the Commonwealth of Independent States (see figure 15).

Figure 15. Cases substantiated in 2015, by region
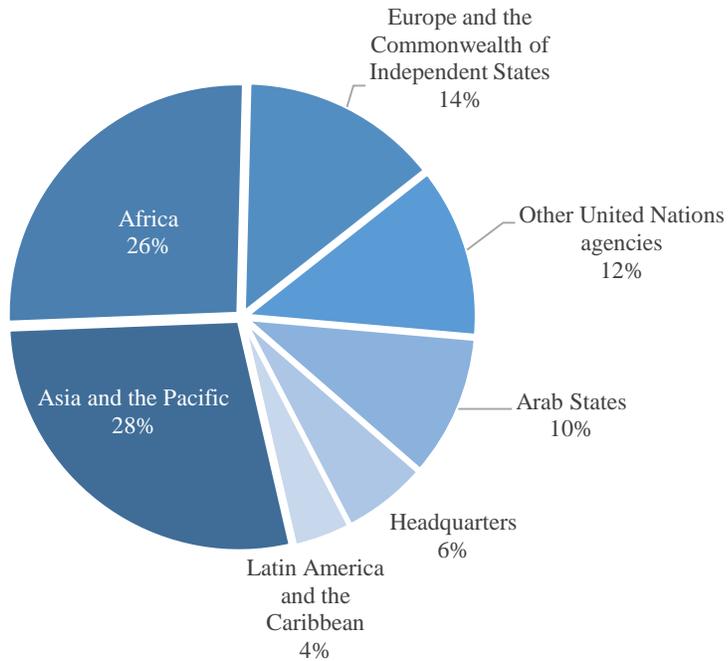
62.   The 50 substantiated cases involved 17 contractors (service contract holders and individual contractors), 16 staff members, 15 vendors, 1 United Nations Volunteer and 1 implementing partner (see figure 16).

Figure 16. Cases substantiated by contractual status
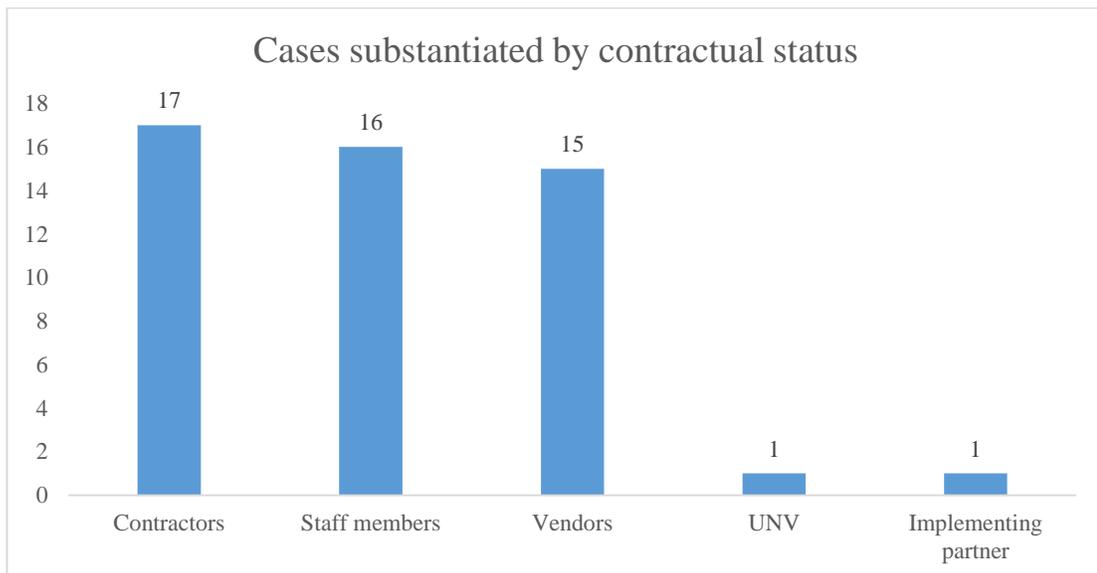
Management letters

63.   In 2015, OAI issued 31 management letters to relevant business units to address weaknesses in internal controls, as noted by investigators. This represents a 93.8 per cent increase compared to 2014, when 16 management letters were issued.

Financial losses and recovery thereof (decisions 2014/21 and 2015/13)

64.   The total financial loss for UNDP that was substantiated in investigation reports from OAI during 2015 amounted to approximately $1 million (see annex 4).

65.   As of the date of preparation of this report, UNDP has recovered approximately $14,300 (or 1.4 per cent) of the total loss identified in investigation reports during 2015.

66.   As of 31 December 2015, a total of approximately $10,800 had been recovered for the loss to UNDP of approximately $900,000 identified in investigation reports issued during 2014.[4] Out of the $900,000, the Legal Office indicated that the loss amount of $652,087 identified in one case was not a recoverable loss.

67.   As of 31 December 2015, a total of approximately $15,000 had been recovered for the loss to UNDP of approximately $3.3 million identified in investigation reports issued during 2013.

68.   In addition, an amount of approximately $2.8 million was recovered in previous years, in four cases reported in different years. These amounts were not, however, reported as losses during their respective reporting year as the investigations had not been finalized.

69.   Also in 2015, OAI initiated a project to assess the UNDP rate of recovery of assets lost due to fraud and theft during recent years and to suggest methods to increase the rate of recovery in the future. The results of this project were presented to the UNDP Organizational Performance Group, which agreed to establish a task team chaired by the Bureau for Management Services, to work further on this issue.

Actions taken in cases of misconduct (decision 2011/22)

70.   Follow-up actions taken by other offices (i.e., the Legal Office, the Advisory Panel on Disciplinary Measures, the Ethics Office, country offices, the Vendor Review Committee and regional bureaux) in the cases substantiated by OAI are detailed below.

71.   Based on the 13 investigation reports sent to the Legal Office concerning staff members, two staff members were dismissed and two were separated from service with compensation in lieu of notice.[5] In the case of one staff member who had resigned prior to the completion of the investigation, a letter was placed in his file pursuant to Article 72 of the Legal Framework indicating that he would have been charged with misconduct had he remained employed with the organization. One staff member was exonerated.

72.   Of the remaining reports sent to the Legal Office, seven were still under review at the end of 2015.

73.   Of the three investigation reports submitted to another organization, one was submitted to the Advisory Panel on Disciplinary Measures concerning United Nations Volunteers and was still under

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[4] In 2014, the total financial loss that was substantiated in investigation reports from OAI amounted to approximately $6.1 million. However, $5.2 million of this amount was the result of four investigations involving funds that were provided to the Multi-Partner Trust Fund Office and transferred to and implemented by another United Nations organization, which issued contracts to vendors leading to fraud and theft. The investigative body for the other United Nations organization issued reports substantiating the loss, which were endorsed by OAI for the purpose of requesting sanctions against the vendors. The financial accounting and reporting for these funds rests with the other United Nations organization and not with UNDP. Thus, this amount has not been included in this paragraph.

5 Pursuant to Staff Rule 10.2 (viii), one of the disciplinary measures that may be imposed on staff members is separation from service, which can be with notice or compensation in lieu of notice. In lieu of the notice, compensation equivalent to salary, applicable post adjustment and allowances corresponding to the relevant notice period as per the contract, at the rate in effect on the last day of service, may be paid.

review as of 31 December 2015. The two other reports were submitted to another organization for independent review and were also still under review at the end of 2015.

74.   Two investigations reports were submitted to the Ethics Office. In one case, the Ethics Office made its independent determination that no retaliation existed and issued appropriate recommendations. In the other case, the Ethics Office made its independent determination that the complainant did suffer retaliation and issued appropriate recommendations.

75.   Of the 16 reports that were submitted to country offices, four service contract holders had their contracts terminated and one had his/her contract not renewed. Two service contracts were not renewed due to reasons independent of the investigation. Three service contract holders had resigned prior to the finalization of the investigation.

76.   The remaining six reports sent to country offices were still under review at the end of 2015.

Other investigation reports

77.   In 2015, 12 investigation reports (involving 15 cases) were submitted to the Vendor Review Committee (the internal technical body tasked with making recommendations to the Chief Procurement Officer about requests for vendor sanctions). All 12 reports remained under review by the Committee at the end of 2015.

78.   One investigation report was submitted to another UNDP bureau in 2015.

79.   Four requests for a referral to national authorities were submitted by OAI to the Legal Office in 2015.

Social and environmental compliance

80.   The year 2015 was transformational for the Social and Environmental Compliance Unit within the OAI Investigations Section. Following two years of design and construction, the unit became operational on 1 January 2015. During 2015 it continued to enhance its operational architecture, promoted awareness of internal and external stakeholders about the compliance review function, received and analysed a number of relevant complaints and inquiries and registered its first case (in India). It conducted an outreach mission to Kenya and participated in a leading role at the annual meeting of the International Accountability Mechanisms. Its transparency tool, known as the 'Registry', went live on its website and is performing to specifications. Its case management system is nearing completion. It continued its collaboration with the Stakeholder Response Mechanism (within the Bureau for Policy and Programme Support) on a number of issues including complaints intake, joint newsletters, shared webpages and the implementation of the case management system. It continued to create a number of awareness-raising materials, including its own newsletter, website and multimedia outreach products.

VIII.   Coordination within the United Nations system

81.   As the chair of the UN-RIAS, the OAI Director continued to lead UN-RIAS activities which included bimonthly 'virtual meetings'; the Bilateral Donors' Oversight Network; engagement supervisions on inter-agency joint audits; and various normative activities on development and harmonization of audit tools and methodology.

82.   In September 2015, OAI formed an inter-agency working group for hosting the 2016 UN-RIAS annual meeting to be held in September 2016. OAI led the continued engagement of UN-RIAS in discussions with the European Union on the Pillar Assessed Grant or Delegation Agreement (PAGODA) and the establishment of UN-RIAS working groups on joint audit cost recovery and organization-wide audit opinion. OAI participated in the UN-RIAS working group session on engagement-level audit opinion and actively participated and supported discussions at the UN-RIAS 'virtual meetings' throughout 2015.

83.   OAI continued to interact with Member States and counterparts to identify and share best practices, discuss matters of common interest and promote cooperation with audit and investigation

services in the United Nations system and with other multilateral organizations. The Deputy Director, Head of Investigations, OAI, was appointed in September 2015 as Vice-Chair for the United Nations Representatives of Investigative Services.

IX. Advisory and other audit services

Advisory services

84.   OAI continued to provide advice to all levels of management at headquarters, regional centres and country offices. The advice covered a wide range of subjects, such as NGO/NIM and DIM audit processes and reporting, assessment for the HACT, human resources processes and information and communication technology policies. The office also regularly reviewed audit clauses in contribution agreements with donors, when requested.

85.   OAI also provided resource support to the UNDP Guinea country office for the Ebola initiative for a period of six months.

Audit and investigation services for the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women)

86.   Based on a service agreement dated 7 December 2013 with the Executive Director of UN-Women, OAI continued to provide internal audit and investigation services in 2015. This agreement expired on 6 December 2015 and was renewed for another two years. OAI has a dedicated UN-Women Audit Unit, with four posts fully funded by UN-Women. The internal audit and investigation activities of OAI in this regard are reported separately to the Executive Board of UN-Women.

X. Opinion

87.   UNDP management is responsible for maintaining the adequacy and effectiveness of UNDP governance, risk management and control. In accordance with the UNDP oversight policy as part of the UNDP accountability framework (DP/2008/16/Rev.1), the United Nations Board of Auditors provides independent external oversight through, among others, audits of the UNDP financial statements and related financial procedures, accounting system, internal financial controls and administration and management of UNDP in general. OAI provides independent internal oversight through internal audits on the adequacy and effectiveness of the UNDP governance, risk management and control framework. The primary objective of the work performed by the United Nations Board of Auditors is to express an opinion on UNDP financial statements and is different from the objective of the work carried out by OAI.

88.   Decision 2015/13 requires OAI to provide an opinion, based on the scope of work undertaken, on the adequacy and effectiveness of the organization's framework of governance, risk management and control framework. The OAI opinion is based on the audit reports issued between 1 January and 31 December 2015, the majority of which covered UNDP activities in 2014. A concise summary of the audit work that supports the opinion is included in chapter IV of the present report and the supporting criteria are described in annex 5. The OAI risk assessment methodology, which increases the frequency of audits of high risk entities, is described in chapter I.

89.   It is the opinion of OAI that, based on the scope of work undertaken, the adequacy and effectiveness of the UNDP framework of governance, risk management and control covered in the audit reports issued in 2015 were, in aggregate, partially satisfactory, which means that they were generally established and functioning but needed improvement. The implementation ratio of audit recommendations as per 31 December 2015 of 85 per cent is acceptable when compared to the target set in the UNDP Integrated Results and Resources Framework. This implementation rate gives comfort that, in general, appropriate and timely action is taken, as and when improvements in the governance, risk and control are necessary.

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