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Programme, the United Nations
Population Fund and the
United Nations Office for
Project Services**

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Internal audit and oversight

UNDP: Report on internal audit and investigations

Summary

The present report provides information on the activities of the Office of Audit and Investigations for the year ended 31 December 2016. As requested by the Executive Board in its decision 2016/13, this report includes: an opinion, based on the scope of work undertaken, on the adequacy and effectiveness of the UNDP framework of governance, risk management and control; a concise summary of work; and the criteria that support the opinion.

The report addresses: requests made by the Board in previous decisions, such as adherence to a statement of conformance with the internal audit standards; a view as to whether the resourcing of the function is appropriate, sufficient and effectively deployed to achieve the desired internal audit coverage; timely information on challenges in discharging oversight responsibilities; review of recruitment procedures; and presentation of the organizational risk assessment (all listed in decision 2015/13).

It includes: the financial losses identified by investigations, and 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 and Evaluation Advisory Committee is appended to this report (DP/2008/16/Rev.1).

Elements of a decision

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



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Appendix (available on the Executive Board website)

Annual report of the Audit and Evaluation Advisory Committee for 2016

Introduction

1. The UNDP Office of Audit and Investigations submits to the Executive Board its annual report on internal audit and investigation activities for the year ended 31 December 2016. 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. The Office of Audit and Investigations aims to provide UNDP with an effective system of independent and objective internal oversight to improve the effectiveness and efficiency of UNDP operations in achieving its developmental goals and objectives. The purpose, authority and responsibility of the Office are defined in the charter approved by the Administrator.

3. The *International Professional Practices Framework* of the Institute of Internal Auditors requires 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. The Office confirms its organizational independence. In 2016, it was free from interference in determining its audit scope, performing its work and communicating its results.

4. The Office has an effective quality assurance and improvement programme that covers both internal audit and investigation functions. Post-audit client surveys undertaken in 2016 showed that clients were satisfied with the conduct of audits. Periodic external quality assurance reviews are conducted every five years. The second external review for investigations finalized in 2015 resulted in an overall opinion that the Office adhered to its underlying policies, principles and guidelines, and conducted its investigative work in a professional and proficient manner. The third external review for internal audit is due to take place in 2017. The internal reviews performed in 2014-2015 and in 2016 showed continuous improvement since the last external review.

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

6. The Audit and Evaluation Advisory Committee, an external independent oversight body of UNDP, continued to provide advice to the Administrator on maximizing the effectiveness of UNDP internal audit and investigation functions. In 2016, the Committee reviewed the 2016 annual work plan of the Office and its implementation through quarterly progress reports. The Committee reviewed audit and investigation activities in the 2015 annual report presented to the Executive Board in 2016. In accordance with its terms of reference, the Committee held private sessions with the Director of the Office during each of its periodic meetings in 2016.

Coordination with external auditors

7. UNDP external auditors (United Nations Board of Auditors) continued to rely on audits of the Office of Audit and Investigations and its quality assurance review processes for third-party audits¹ of projects implemented by non-governmental organizations and national governments.

¹ "Third-party audits" refers to audits that are conducted neither by nor on behalf of the Office of Audit and Investigations. The audits of projects implemented by non-governmental organizations and national governments 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 work plan of the Office for 2016 covered the appropriate combination of business units, functions and activities at the headquarters, regional and country levels; directly implemented projects; and grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund). Following its endorsement by the Audit and Evaluation Advisory Committee, the Administrator approved the 2016 annual work plan. During 2016, there were no challenges encountered in discharging oversight responsibilities that necessitated timely information to the Executive Board pursuant to decision 2015/13.

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

9. The Office of Audit and Investigations formulated the 2016 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 and being informed by the results from risk assessment models. It 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.

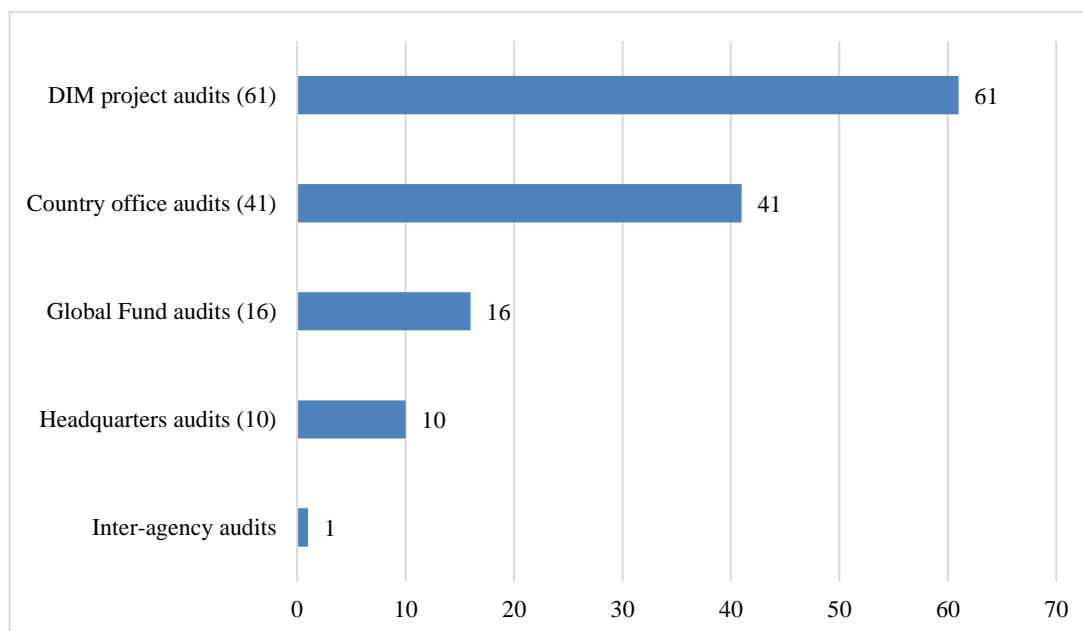
10. The Office has been using a risk assessment methodology since 2006, refining and expanding it annually to cover the varied components of its audit universe. Separate risk assessment models were used to identify audits for country offices, directly implemented projects, Global Fund programmes and projects, and headquarters and regional business units. In late 2015, the Office developed an aggregate risk model covering all the components of the audit universe in preparation for the 2016 work plan.

11. The risk assessment methodology covered the risk assessment process from risk identification to risk measurement and risk ranking. Both quantitative and qualitative risk indicators were used – classified as strategic, contextual, political, operational or financial – in line with the UNDP enterprise risk management categories of risks. The final risk ranking, which determines the frequency of audits, may be adjusted after consultation with management. Generally, entities ranked ‘very high risk’ are 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 2016, the Office issued 129 audit reports pertaining to UNDP: 10 headquarters audits; 41 country office audits; 16 Global Fund audits (including two consolidated reports); 61 audits of directly implemented projects; and one inter-agency audit (see figure 1). In accordance with decision 2013/24, annex 2 presents the titles and ratings of all internal audit reports issued in 2016.

13. Considering that most of the audit reports issued in 2016 covered activities of UNDP offices during 2015, the audit results generally reflected the status of programmes and operations in 2015. The 118 country-level audits covered about \$3.2 billion (68 per cent) of approximately \$4.7 billion of UNDP field-level expenditures. An additional \$1.7 billion in expenditures were covered by third-party audits of non-governmental organization and nationally implemented projects.

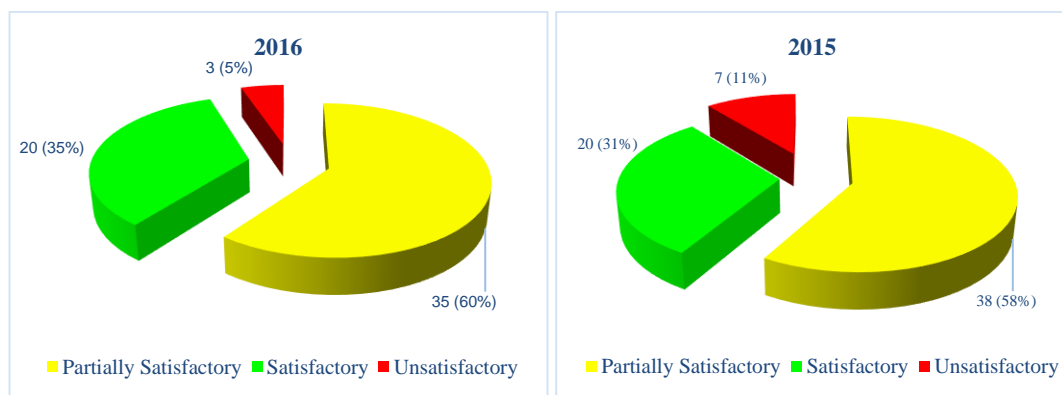
Figure 1. Number and type of audit reports issued in 2016

DIM = Directly implemented

Audit ratings

14. Based on audit results, the Office 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 directly implemented projects, and consolidated reports on several audits.

15. Of the 129 reports, 71 did not contain an overall rating. Of the remaining 58 reports, 20 (35 per cent) had a 'satisfactory' rating; 35 (60 per cent) had a 'partially satisfactory' rating; and three (5 per cent) an 'unsatisfactory' rating (see figure 2). The comparison of the distribution of audit ratings in 2016 with that of 2015 shows a stable figure for 'satisfactory' ratings, a slight increase in 'partially satisfactory' ratings (by 2 per cent), and a decrease in 'unsatisfactory' ratings (by 6 per cent). The reports with 'unsatisfactory' ratings pertained to one headquarters process, one headquarters office, and one country office.

Figure 2. Comparison of audit ratings (2016 versus 2015)

16. There are two types of audits of directly implemented projects: (a) a financial audit, encompassing statements of project expenditure, fixed assets and cash; and (b) a combined financial audit and audit of internal control systems. Those that are solely financial, and are performed by audit firms, result in an audit opinion on expenditure, assets and, where applicable, cash-at-hand. These solely financial audits do not entail the use of the audit rating defined by the Office. Of the 61 such audits undertaken in 2016, 53 pertained to UNDP directly implemented projects and eight to the audit of UNCDF-related directly implemented projects. Out of the 53 audits, 49 were solely financial audits, for which the audit firms issued 42 unqualified and seven qualified opinions on the statements of project expenditures. The net financial misstatement reported for the projects with qualified opinions was \$3.3 million (0.8 per cent of the total audited expenditure of \$437.9 million). The 35 audits of statements on fixed assets resulted in 30 unqualified and four qualified opinions and one disclaimer of opinion. The net financial misstatement of those other-than-unqualified opinions was \$474,729.

II. Disclosure of internal audit reports

17. In 2016, UNDP publicly disclosed 127 internal audit reports, six of which were partially redacted because they contained sensitive information (<http://audit-public-disclosure.undp.org>). There were 4,710 visits to the disclosure webpage, similar to the 4,844 visits in 2015.

18. In accordance with decision 2011/23, the Office hereby informs the Board that no request was received in 2016 from a non-Member State, a donor intergovernmental organization or the Global Fund for access to non-disclosed audit reports prior to 1 December 2012, when the disclosure policy for internal audit reports was implemented pursuant to decision 2012/8.

III. Staffing and budget

19. As of 31 December 2016, the Office had a total of 81 approved posts (including one temporary appointment post for the Social and Environmental Compliance Unit). Two posts were frozen until further notice. The Office thus had 79 active posts in 2016, compared with 80 in 2015. This figure excludes four posts funded by UN-Women and one Junior Professional Officer post.

Recruitment process (decision 2015/13)

20. Of the 79 active posts, 75 were encumbered and four were vacant. Recruitment for three of the four vacant posts had been completed by 31 December 2016; they were expected to be filled by the end of first quarter, 2017. Recruitment for the fourth vacant post will be initiated in 2017. In 2016, on a quarterly basis, the Office monitored its vacancy rate and the average number of months the staff positions had been vacant. It succeeded in having an overall vacancy rate of 5 per cent against a self-defined level of 7 per cent, and achieved an average rate of four months for a post to be encumbered, against an accepted period of six months.

Budget

21. In 2016, the Office had an overall approved budget of \$18.3 million funded from core and other resources. It eventually received an allocation of \$17.1 million (see figure 3). The difference between the budget approved and the budget received in 2016 of \$1.2 million, or 6.5 per cent, represents an amount held back by UNDP management for unforeseen costs and risks. The amount held back did not have a significant impact on activities, as the actual amounts incurred for staff costs and operating expenses were lower than those budgeted.

22. In addition to the allocated \$17.1 million, a total of \$1.3 million in direct audit costs was charged to the respective budgets of each directly implemented project that was audited in 2016.

Figure 3. Resources in 2016

| | <i>(in \$ millions)</i> |
|---|-------------------------|
| Audit | 9.7 |
| Investigations | 5.5 |
| Management and support | 1.8 |
| Audit and Evaluation Advisory Committee | 0.1 |
| Total | 17.1 |

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

23. Overall, there were no significant challenges during the year that impacted the ability of the Office to discharge its oversight responsibilities.

IV. Significant internal audit results

A. Headquarters audits

24. The 10 headquarters audits pertained to two headquarters business units, six institutional functions, one programme and one project (information technology audit). The audit rated the United Nations Office for South-South Cooperation as ‘unsatisfactory’. The report recommended improvements in the areas of organizational structure and strategic management, partnerships and resource mobilization, programme and project activities, and operations, mainly in the administration of human resources and travel. The audit also rated UNDP vendor management as ‘unsatisfactory’ and actions were recommended to address weaknesses in the vendor sanctions process, the decentralized vendor management system, inadequate guidance for post-qualification processes and weaknesses in the Atlas vendor management module. The information and communications technology audit rated the cloud computing project as ‘satisfactory’; however, it recommended improved project management through adherence to the initially approved methodology for every project, and assurance that a specific risk assessment be conducted.

Performance audits

25. Three audits were conducted using a performance audit approach, focusing on the efficiency and effectiveness of systems and procedures.

26. The audit of the Regional Bureau for Arab States raised recommendations aimed at improving the oversight of the regional programme and projects, the recruitment of staff to fill vacant positions, and the quality of operational support provided to country offices. The audit of the UNDP financial sustainability and effectiveness exercise concluded that, overall, the exercise was conducted in line with relevant policies and requirements and was effective in reviewing the financial sustainability of country offices; it recommended the introduction of a new change management policy. The audit of UNDP results-based management assessed the relevant policies and practices as ‘satisfactory’, and recommended actions to clarify the guidance on the concept and use of ‘theory of change’ to improve the quality assessment process and increase the use of ‘TRAC-2’ as an incentive to promote evidence of good performance at the country office.

27. Altogether, the 10 headquarters audit reports resulted in 46 recommendations, of which 14 (30 per cent) were ranked ‘high priority’.

B. Country office audits

28. The 41 country office audit reports issued in 2016 included 40 audits of general scope and one audit of a specific office function (financial management). The significant issues are grouped according to the audit area or sub-area in figure 4; those noted in at least five offices are considered ‘recurrent’.

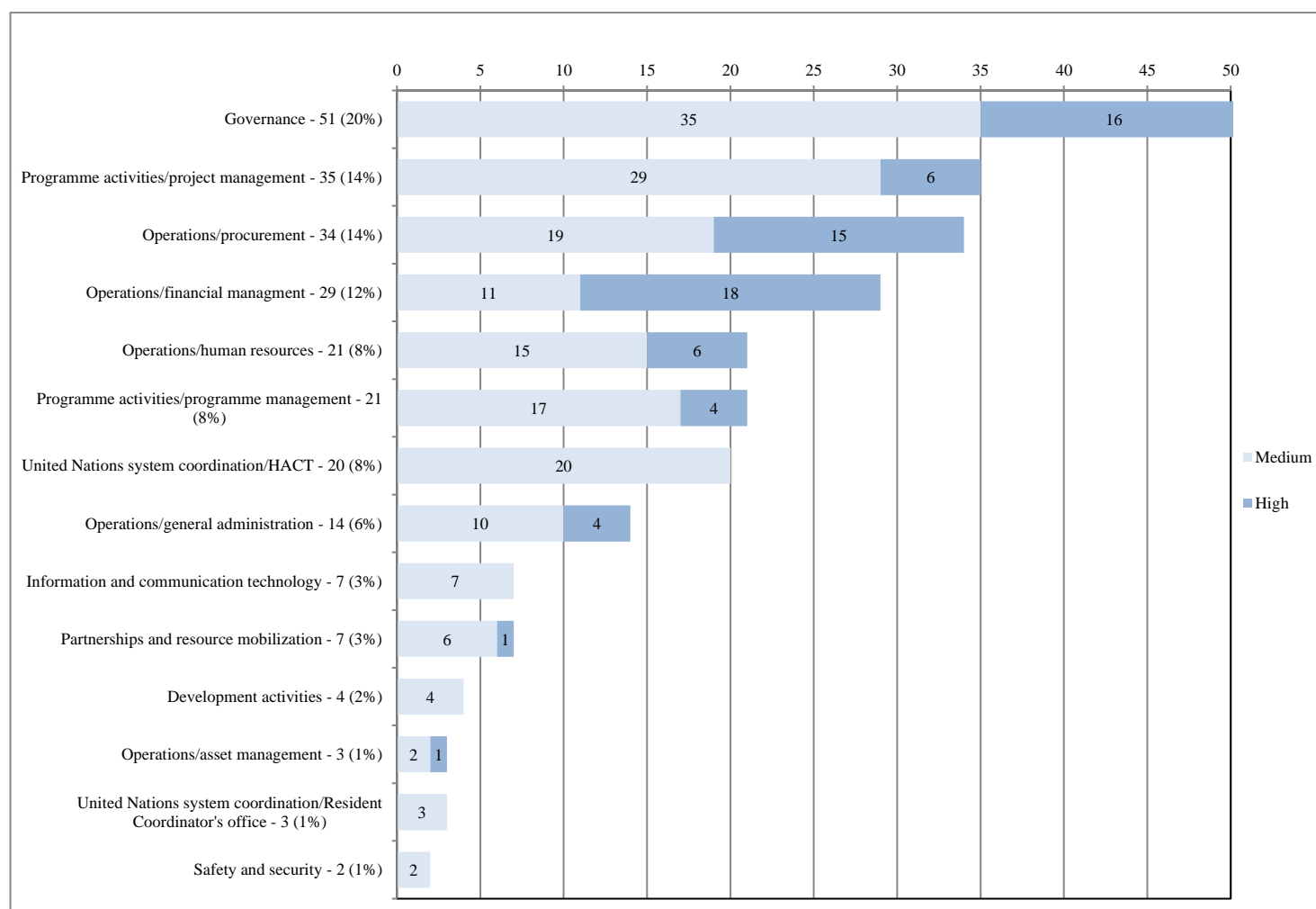
Figure 4. Recurrent country office audit issues
(Presented according to the sub-area with the most recurrent issues)

| Audit area or sub-area | Recurrent audit issues |
|--|---|
| Governance and strategic management | Financial sustainability of the office at risk, mainly due to low programme delivery, declining extrabudgetary reserves, and high operational costs* (15 offices). Inadequate organizational structure, unclear roles and responsibilities, and conflicting and inconsistent Atlas profiles and roles* (9 offices). |
| Operations/financial management | Inadequate controls over cash advances, including delayed liquidation of cash advances, delays in recovering costs for support services, and inadequate oversight of payments* (21 offices). |
| Operations/procurement | Weaknesses in procurement management such as lack of transparency during evaluation of offers, lack of vendor checks prior to their creation, lack of justification for direct contracting, delays in procurement planning, non-submission to the appropriate procurement review committees, weak use of e-requisitions, and ineffective procurement oversight (19 offices). Inadequate management of individual contracts, including terms of payment, and deliverables and milestones that were not properly defined* (5 offices). |
| United Nations system coordination/harmonized approach to cash transfers | Inadequate implementation of the harmonized approach to cash transfers, including macro- and micro- assessments not conducted and assurance plans not prepared* (20 offices). |
| Programme activities/project management | Inadequate project implementation, including weak monitoring and evaluation, delays in preparing annual work plans related to projects, and unclear project baselines, indicators, and targets* (18 offices). |
| Programme activities/programme management | Inadequate programme management, including absence of annual review of country programmes (10 offices). Lack of resource mobilization strategy (5 offices). |
| Operations/human resources | Weaknesses in human resources management, including non-completion of mandatory trainings of staff and performance management and development processes, and inadequate controls in recruitment of personnel* (8 offices). Inadequate management of service contracts, such as engaging service contract holders to perform core functions and not complying with the <i>UNDP Service Contract User Guide</i> (6 offices). |
| Operations/information and communications technology | Weaknesses in information and communications technology management, such as untested disaster and recovery plan and inadequate maintenance of back-up media (7 offices). |
| Operations/general administration | Weaknesses in travel management, including late submission of travel requests and lack of supporting documents to travel claims or requests* (5 offices). |

* Issues also recurrent in 2015.

29. Altogether, the above audits resulted in 251 recommendations, 71 (28 per cent) of which were rated 'high priority' (see figure 5).

Figure 5. Distribution and prioritization of country office audit recommendations in 2016 reports
(Total recommendations: 251)



HACT = harmonized approach to cash transfers

C. Global Fund audits

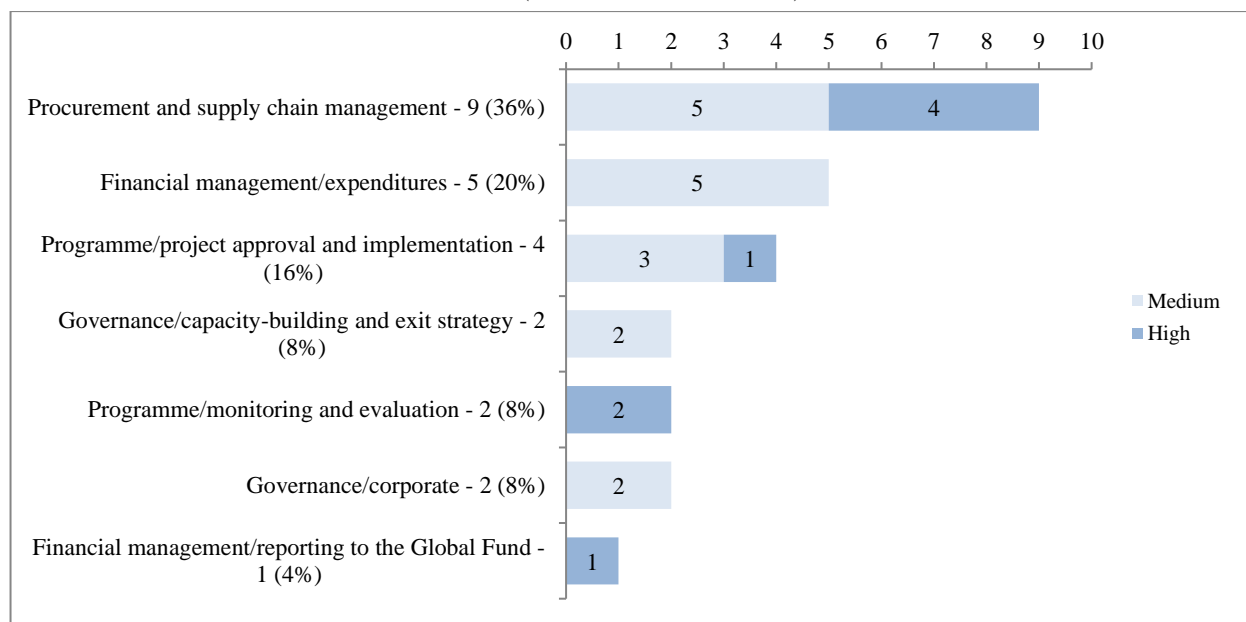
30. Sixteen reports were issued in 2016, 14 of which related to grants managed by UNDP as principal recipient and two of which were consolidated reports. They covered the management of Global Fund grants in 10 country offices (four in Africa, four in the Arab States, one in Latin America and the Caribbean and one in the Asia and the Pacific region).

31. The 14 audit reports related to grants managed by UNDP as principal recipient contained 25 recommendations (see figure 6), the majority (66 per cent) of which were in the areas of: (a) procurement and supply chain management; and (b) financial management/expenditures and programme/project monitoring and evaluation processes. The significant issues are grouped according to the audit area in figure 7.

Figure 6. Recurrent Global Fund audit issues

| Audit area/sub-area | Recurrent audit issues |
|--|--|
| Procurement and supply chain management | Weaknesses in inventory management, such as weak information system to track and monitor pharmaceutical products and their stock levels (4 offices). Lack of testing pharmaceutical products (2 offices). |
| Project management/monitoring and evaluation | Gaps in project management, such as monitoring and evaluation processes, oversight and management of project funds (2 offices). |

Figure 7. Distribution and prioritization of Global Fund audit recommendations in 2016 reports
(Total recommendations: 25)

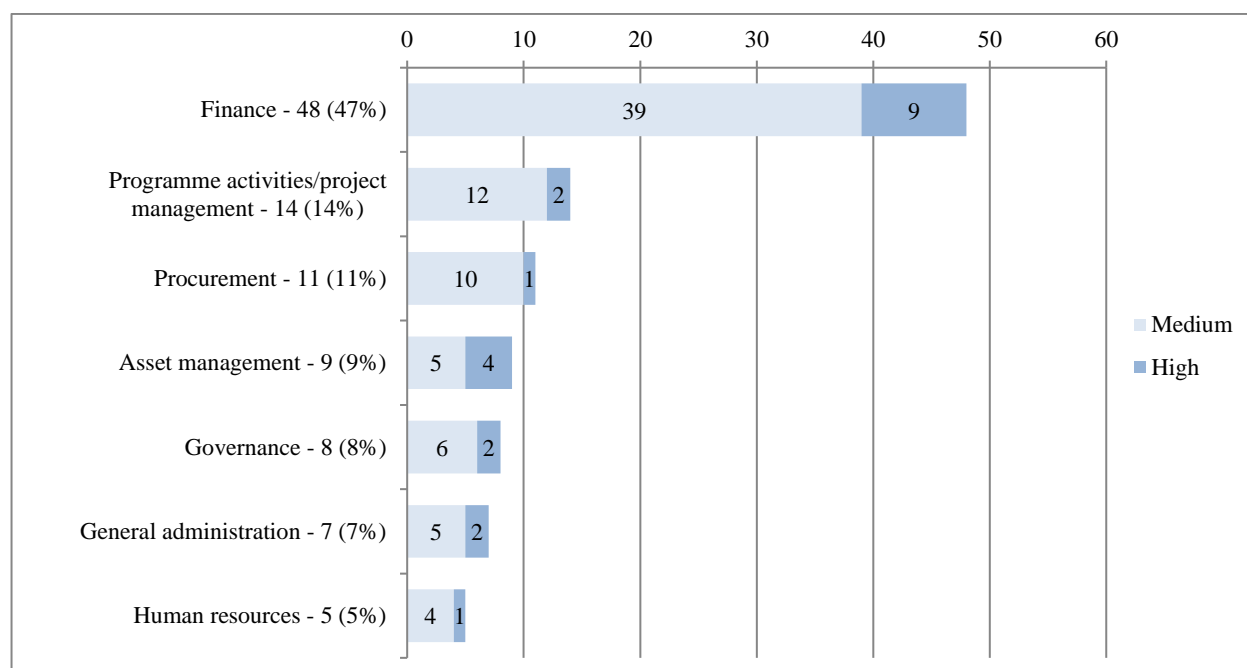


D. Project audits

32. Projects directly implemented by UNDP can be reviewed as part of the audit of an office or can be audited separately, especially if the project expenditure is significant for the office or presents high risks. In 2016, 61 directly implemented projects were audited separately, with a total audited expenditure amounting to \$464.4 million. Out of these, 53 were directly implemented by UNDP and amounted to \$437.9 million. The remaining eight projects were directly implemented by UNCDF.

33. Audits of directly implemented projects resulted in 102 recommendations (see figure 8), with a significant number of recommendations under the area of operations/financial management (47 per cent), such as inaccurate recording and a lack of supporting documents to justify accounting entries. Other areas with a notable number of recommendations were project management, procurement, asset management, and governance.

Figure 8. Distribution and prioritization of audit recommendations concerning directly implemented projects in 2016 reports
(Total recommendations: 102)



E. Inter-agency audits

34. In 2016, the Office of Audit and Investigations issued one inter-agency report as a result of joint and coordinated audit work among the internal audit services of several United Nations organizations (Office of Internal Oversight Services, UNFPA, and UNOPS).

35. The joint audit of the governance arrangement for the South Sudan Common Humanitarian Fund resulted in recommendations aiming to clarify the role of the Fund Advisory Board in the reserve allocation process; to improve the sharing of capacity assessment reports and project audit reports in the joint Office for the Coordination of Humanitarian Affairs-UNDP technical secretariat; and to complete the implementation of the risk mitigation process.

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

36. Since 2009, based on audit frameworks agreed with members of the United Nations Representatives of Internal Audit Services, the Office has both led and participated in inter-agency audits and has issued 18 inter-agency audit reports covering selected multi-partner trust funds, 'delivering as one', and the harmonized approach to cash transfers. The experience continued to show that inter-agency audits require significantly more time to plan, conduct and report than others, owing to the need for consultations and inputs from the internal audit services and management of participating organizations.

37. In 2016, the Office performed a meta-analysis of 'delivering as one' joint audits and reported the results to the Representatives. The analysis quantified and proved the costly and time-consuming nature of inter-agency joint audits. The Office plans to introduce measures to increase efficiency in the inter-agency joint audits in 2017, including more reliance on parallel audits rather than joint audits and improved risk-based selection and focus on the audit subject areas.

V. Follow-up to audit recommendations

38. The overall implementation rate of audit recommendations was 87 per cent as of 31 December 2016, slightly above the rate achieved in 2015 (85 per cent). The rate covered all reports issued by the Office from 1 January 2014 to 30 November 2016. There were 17 recommendations that had not been fully implemented for 18 months or more (see annex 3 for complete listing). This is a major improvement from 2015, when 50 recommendations were outstanding for 18 months or more. 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 organizations and thus normally require a longer implementation time.

39. Of the 17 recommendations, four (24 per cent) were ranked ‘high priority’. Three of the 17 recommendations pertaining to the Office of Human Resources had been outstanding for at least 24 months. Five of those pertained to the UNDP offices in Guinea-Bissau, Argentina, Mauritania and Cuba (Global Fund grants), and the remaining nine were related to the headquarters audits of UNDP fast-track policies and procedures, the Legal Office, and travel management.

40. The implementation rate as of 31 December 2016 for recommendations raised in audit reports issued in 2016 was already at 54 per cent (higher than the 52 per cent reported as of 31 December 2015), indicating that immediate action was taken by management on the majority of audit issues raised by the Office.

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

41. The Office reviews annual audits of nationally implemented UNDP projects executed by non-governmental organizations or national governments. The audits for fiscal year 2015 were conducted by supreme audit institutions or audit firms engaged and managed by UNDP country offices. The audit reports were due for submission by 30 April 2016. As of 31 December 2016, the Office had received 894 audit reports, with eight audit reports still outstanding from the Islamic Republic of Iran, Iraq and Nicaragua. For the Islamic Republic of Iran, and Iraq, the projects could not be audited as those countries’ governments would not allow private firms to conduct audits of their institutions. In the case of Nicaragua, the outstanding audits did not take place due to an earlier decision by the Government to suspend all programmatic activities until further notice.

Office of Audit and Investigations review results

42. Of the 894 reports received, the Office has reviewed 435 in depth, representing \$1.4 billion in expenses (82 per cent of the audited expenses). In the majority of cases, the auditors of non-governmental organization/nationally implemented projects found that financial expenses were presented fairly, and issued an ‘unqualified’ opinion in respect of \$1.6 billion (95 per cent) of the total \$1.7 billion of audited expenses.

43. Review letters, drawing the attention of the country offices to areas requiring improvement, were issued to all 112 country offices that submitted audit reports. Eighty-one countries (72 per cent) received an overall ‘satisfactory’ rating from the Office for fiscal year 2015, compared to 82 per cent for fiscal year 2014; 23 countries (21 per cent) received ‘partially satisfactory’ ratings, compared to 14 per cent in 2014; and eight countries (7 per cent) received ‘unsatisfactory’ ratings in 2014, an increase from the 4 per cent reported for 2014 (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. The ‘unsatisfactory’ ratings were due mainly to the materiality of the net financial misstatement, inadequate follow-up of audit observations, and the severity of observations raised in the reports.

Figure 9. Results of assessment of the quality of audit reports of non-governmental organization/nationally implemented projects

| Rating | Overall rating | | | |
|---------------------------------|--|-----|--|-----|
| | Fiscal year 2015 (Audits conducted in 2016) | | Fiscal year 2014 (Audits conducted in 2015) | |
| | Number of countries | % | Number of countries | % |
| Satisfactory | 81 | 72 | 89 | 82 |
| Partially satisfactory | 23 | 21 | 15 | 14 |
| Unsatisfactory | 8 | 7 | 4 | 4 |
| Total number of country offices | 112 | 100 | 108 | 100 |

Key audit issues in non-governmental organization/nationally implemented projects and actions taken

44. The audit reports of non-governmental organization/nationally implemented projects that were reviewed in detail contained 1,430 issues, the majority of which (73 per cent) were ranked medium priority. Forty-nine per cent of the issues pertained to financial management.

45. The Office monitored the actions taken by the country offices to implement the audit recommendations and noted that, as of 31 December 2016, 81 per cent of the 1,430 audit issues had been adequately addressed.

Audit opinions and net financial misstatement

46. For the reports with modified opinions, the Office calculated the total net financial misstatement for fiscal year 2015 to be a net overstatement of \$8.9 million, or 0.5 per cent over the total audited expenditure (\$1.7 billion). This is slightly higher than in 2014 (\$6.1 million). The net financial misstatement was due to modified opinions on 79 projects in 35 countries. The qualifications were due mainly to unsupported expenses (27 projects), ineligible expenses (17 projects) or incorrect recording of advances or expenses (15 projects).

Audit of harmonized approach to cash transfers

47. For financial year 2015, eight country offices (Bhutan, Cabo Verde, the Democratic Republic of the Congo, Indonesia, Morocco, Thailand, the United Republic of Tanzania, and Viet Nam), which follow the harmonized approach to cash transfer procedures, planned the required financial or internal control audits of implementing partners.

48. As of 31 December 2016, the Office had received 30 of the 49 audit reports planned and had completed the review of 21 audit reports. For the internal control reports, the auditors provided a 'satisfactory' rating for five reports and a 'partially satisfactory' rating for the remaining eight. For the financial audit reports, the auditors provided 'unqualified' opinions for seven and a 'qualified' opinion for one, with a net financial misstatement of \$56,131.

VII. Investigations

49. During 2016, the Office opened 205 new cases and carried over 204 cases from 2015, bringing the 2016 caseload to 409.

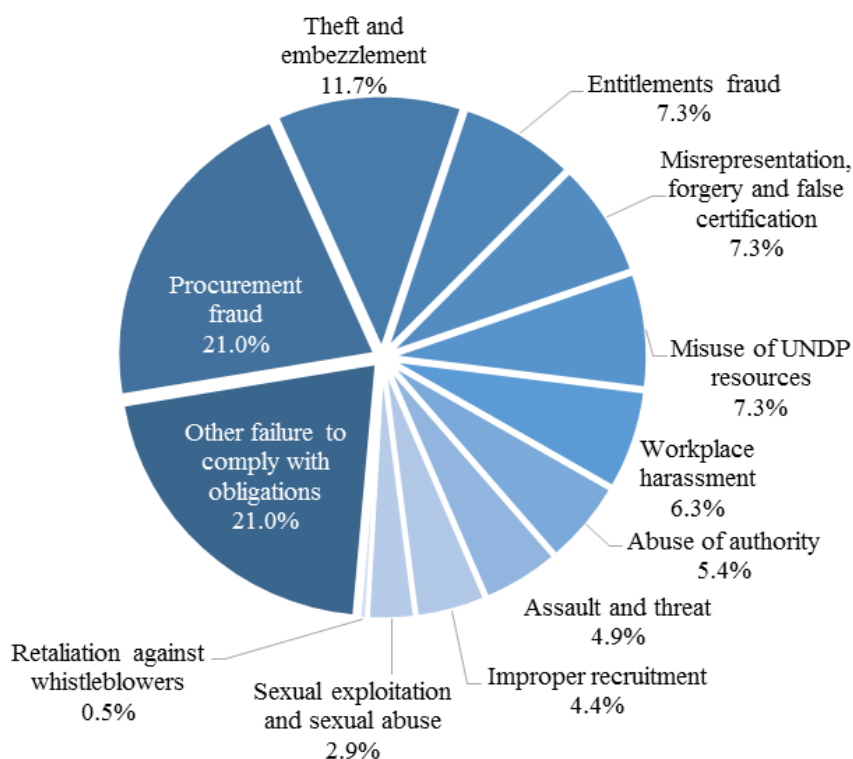
50. The Office closed 233 of those 409 cases in 2016. At the end of 2016, 176 cases were carried over to 2017 (see figure 10).

Figure 10. Office of Audit and Investigations caseload, 2015 and 2016

| Caseload | 2015 | 2016 |
|------------------------------------|------------|------------|
| Carry-over as of 1 January | 162 | 204 |
| Intake during the year | 370 | 205 |
| Total cases during the year | 532 | 409 |
| Closed (from cases carried over) | 114 | 128 |
| Closed (from intake) | 214 | 105 |
| Total closed | 328 | 233 |
| Carried forward as of 31 December | 204 | 176 |

Types of complaints

51. Complaints relating to financial irregularities (procurement fraud; theft and embezzlement; misuse of UNDP resources; misrepresentation, forgery and false certification; and entitlements fraud) constituted 54.6 per cent of the cases received by the Office in 2016, a 6.4 per cent decrease compared to the 61 per cent recorded in 2015 (see figure 11).

Figure 11. Types of complaints received in 2016

52. Africa is the region from which the Office received the most complaints (60 cases) in 2016, followed by the Asia and the Pacific region (39 cases), Arab States (29 cases), Europe and the Commonwealth of Independent States (22 cases) and Latin America and the Caribbean (11 cases). The Office received seven cases from headquarters and 37 cases involving staff members or other personnel on UNDP contracts assigned to other United Nations organizations (see figure 12).

Figure 12. Cases received in 2016, by region

| | No. of cases received |
|---|-----------------------|
| Africa | 60 |
| Asia and the Pacific | 39 |
| Other United Nations organizations | 37 |
| Arab States | 29 |
| Europe and the Commonwealth of Independent States | 22 |
| Latin America and the Caribbean | 11 |
| Headquarters | 7 |
| Total | 205 |

Processing of cases

53. Of 233 cases that were closed in 2016, 75 (32 per cent of the cases finalized) were closed after an initial assessment. Of those 75 cases, 68 were closed because evidence of wrongdoing was insufficient to justify an investigation; because the allegations did not fall within the mandate of the Office; or because an investigation was not warranted. Seven cases were referred to other offices for appropriate action (see figure 13).

54. The remaining 158 cases were closed as a result of an investigation in which 66 cases (42 per cent) resulted in an investigation report establishing evidence of misconduct or other wrongdoing, an increase of 32 per cent over the total number of cases (50) closed with investigation reports in 2015. As one investigation report can be issued to close more than one case in instances of misconduct where there is more than one perpetrator, the 66 cases that were substantiated in 2016 resulted in the issuance of 60 investigation reports. The other 92 cases were found to be unsubstantiated and were closed after investigation (see figure 13).

55. At the end of 2016, 15 cases were still under assessment and 161 under investigation.

Figure 13. Disposition of cases

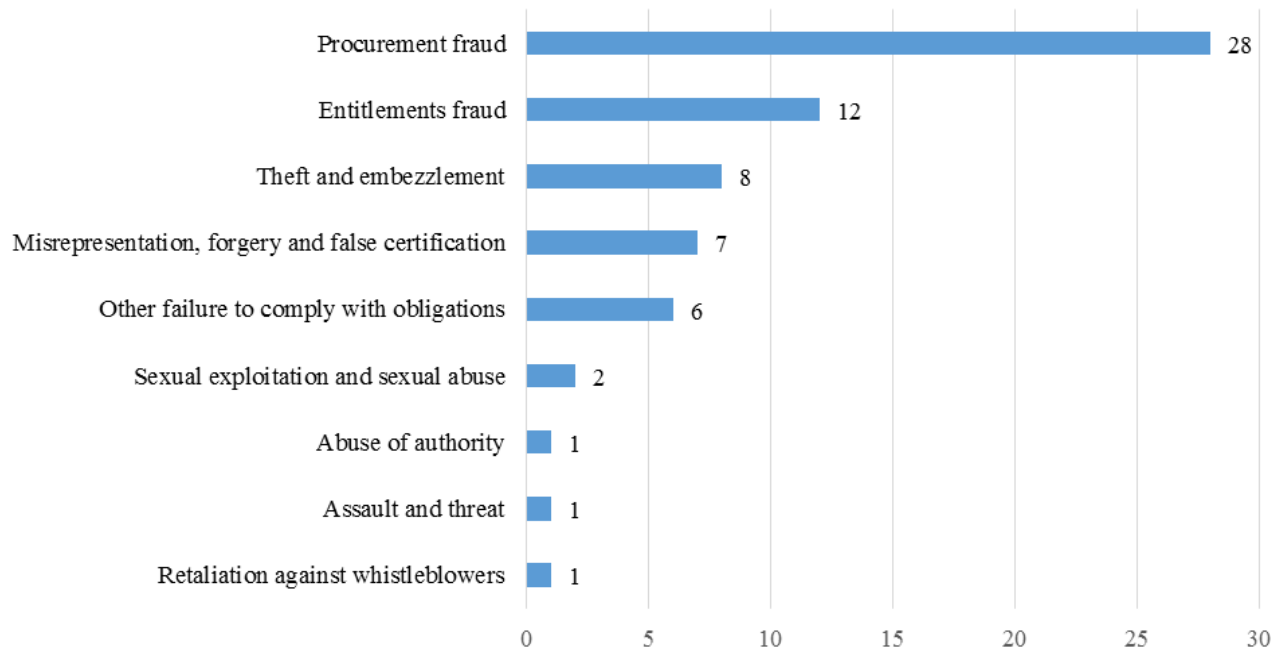
| Actions taken | No. of cases 2015 | No. of cases 2016 |
|---|-------------------|-------------------|
| <i>After assessment</i> | | |
| Closed, investigation not warranted | 118 | 68 |
| Referred to other UNDP offices | 17 | 7 |
| Total | 135 | 75 |
| <i>After investigation</i> | | |
| Closed (<i>not substantiated</i>) | 143 | 92 |
| Closed (<i>substantiated</i>) | | |
| - Submitted to Legal Office | 13 | 23 |
| - Submitted to country offices | 16 | 13 |
| - Submitted to Vendor Review Committee | 15 | 25 |
| - Submitted to other organizations | 3 | 3 |
| - Submitted to other UNDP offices | 3 | 2 |
| - Other investigation reports | - | - |
| Subtotal (<i>substantiated</i>) | 50 | 66 |
| Total cases closed after investigation | 193 | 158 |

| | | |
|---|------------|------------|
| <i>Total cases closed during the year</i> | 328 | 233 |
| <i>Investigation reports issued</i> | 47 | 60 |
| <i>Management letters issued</i> | 31 | 15 |

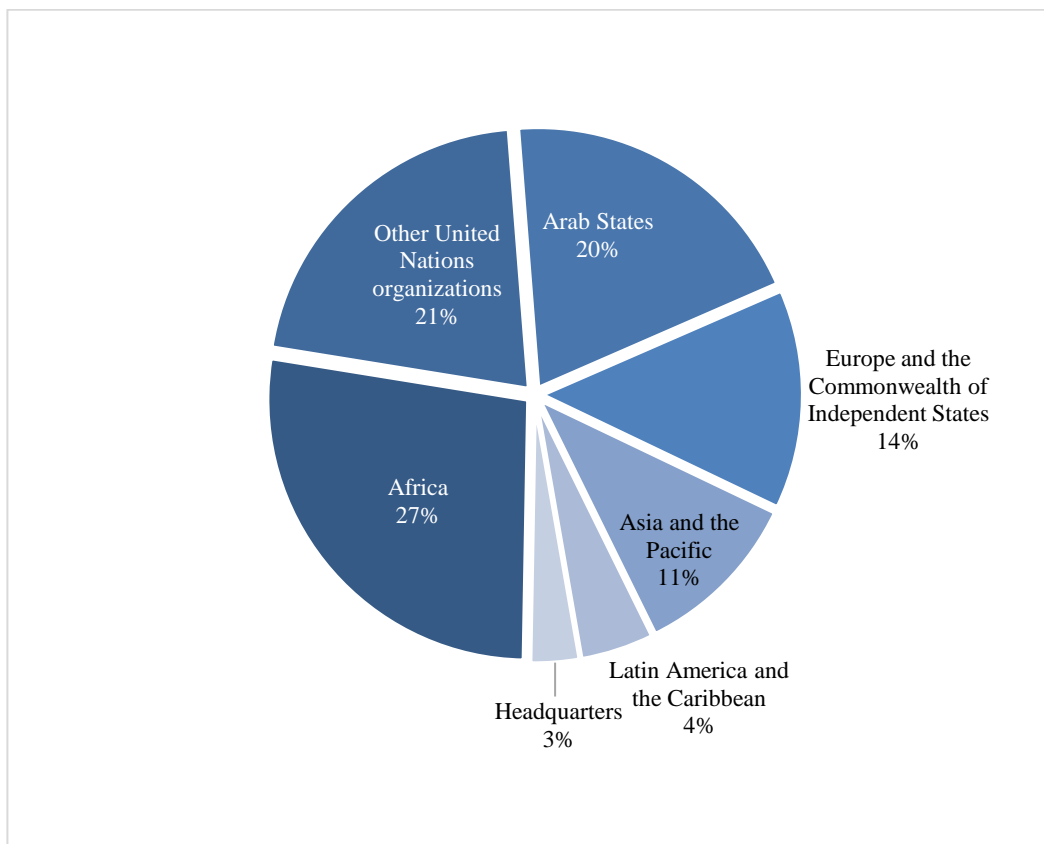
Substantiated cases

56. The misconduct identified in the 66 substantiated investigations was mostly procurement fraud (28 cases, or 42 per cent), entitlements fraud (12 cases, or 18 per cent), and theft and embezzlement (8 cases, or 12 per cent) (see figure 14). A summary of the substantiated investigations in 2016, by type of allegation, is included in annex 4.

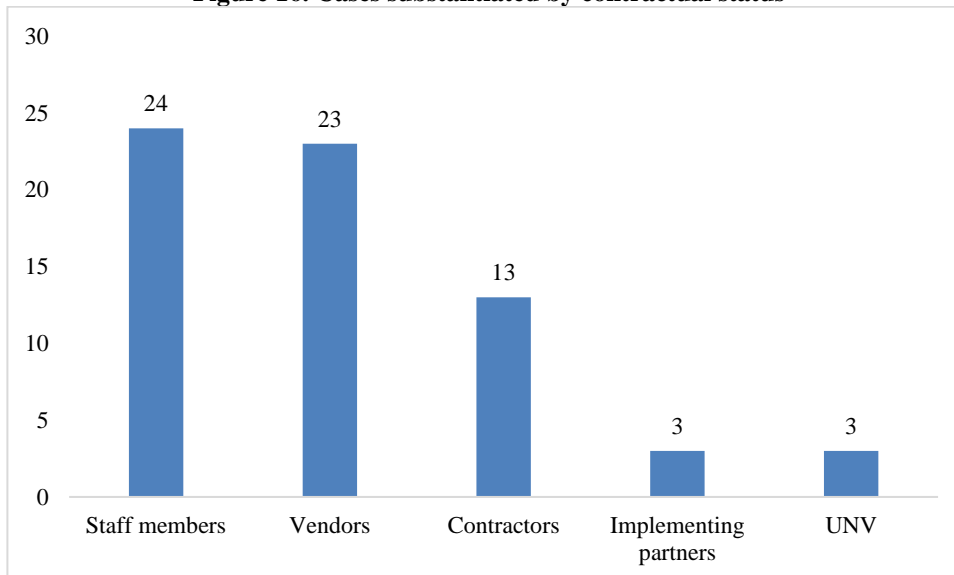
Figure 14. Cases substantiated in 2016 by category



57. Of the 66 substantiated cases, 27 per cent occurred in the Africa region and 20 per cent in the Arab States region (see figure 15).

Figure 15. Cases substantiated in 2016, by region

58. The 66 substantiated cases involved 24 staff members, 23 vendors (including an individual contractor), 13 contractors (service contract holders), three implementing partners, and three United Nations Volunteers (see figure 16).

Figure 16. Cases substantiated by contractual status

Management letters

59. In 2016, the Office issued 15 management letters to relevant business units to address weaknesses in internal controls, as noted by investigators.

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

60. The total financial loss for UNDP that was substantiated in investigation reports from the Office during 2016 amounted to approximately \$1.46 million (see annex 4). The loss related to six cases of theft and embezzlement, including one Global Fund grant case, four cases of entitlements fraud and one case of misrepresentation, forgery and false certification. As of the date of preparation of this report, UNDP had recovered approximately \$42,000 (2.9 per cent) of the loss identified. In addition, approximately \$2.23 million was recovered in 2016 in seven cases reported in previous years. Part of that amount was not reported as loss during the respective reporting year as investigation reports had not been issued in three of these cases.

61. In 2016, a task force chaired by the Bureau for Management Services was established to look at the recovery of assets lost due to fraud and theft in recent years. The Office participated in the task force, which explored the challenges in asset recovery, as well as best practices and solutions, in order to increase the rate of recovery.

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

62. Follow-up actions taken by other offices (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 the Office are detailed below.

63. Based on the 23 investigation reports sent to the Legal Office concerning staff members in 2016, three staff members were dismissed. For five staff members who had separated prior to the completion of the investigation, a letter was placed in their file pursuant to Article 72 of the Legal Framework indicating that they would have been charged with misconduct had they remained employed with the organization. Two staff members were exonerated of misconduct and received a reprimand letter. The remaining 13 reports sent to the Legal Office were still under review at the end of 2016.

64. The Office submitted three investigation reports to the Advisory Panel on Disciplinary Measures concerning United Nations Volunteers. Based on those three reports, two United Nations Volunteers were dismissed. One report was still under review at the end of 2016.

65. The Office submitted one investigation report to the Ethics Office, which made its independent determination that the complainant had suffered retaliation and reported the matter to the Legal Office.

66. Of the 13 reports that the Office submitted to country offices, two service contract holders had their contracts terminated, while the contracts of five were not renewed. Five service contract holders had resigned prior to the finalization of the investigation. The remaining report was still under review by the country office at the end of 2016.

Other investigation reports

67. In 2016, the Office submitted 19 investigation reports (involving 25 cases) to the Vendor Review Committee. All 19 reports remained under review by the Committee at the end of 2016. One investigation report was submitted to another UNDP bureau in 2016. The Office submitted to the Legal Office four requests for referrals to national authorities in 2016, for transmittal to the Office of Legal Affairs of the United Nations Secretariat. As of 31 December 2016, the Office of Legal Affairs had referred one case to the national authorities.

Social and environmental compliance

68. The Social and Environmental Compliance Unit within the Investigations Section of the Office investigated two cases in 2016. In addition to those cases, the Unit continued to analyse complaints and inquiries from various external stakeholders.

VIII. Coordination within the United Nations system

69. As the chair of the United Nations Representatives of Internal Audit Services in 2015-2016, the Director of the Office of Audit and Investigations continued to lead the Representatives' activities, which included bimonthly 'virtual meetings'; consultations with the Bilateral Donors' Oversight Network; engagement supervisions on inter-agency joint audits; and the development and harmonization of audit tools and methodology.

70. In September 2016, the Office hosted the 2016 Representatives' annual meeting, where the working group session on engagement-level audit opinion concluded on a four-tier opinion, to be made available to participating organizations.

71. The Office 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 other multilateral organizations. The Deputy Director and Head of Investigations, Office of Audit and Investigations, served as Vice-Chair for the United Nations Representatives of Investigative Services during 2015-2016. The Office is a member of the Secretariat of the Conference of International Investigators, and agreed in 2016 to co-host, with the United Nations Secretariat, UNICEF and UNFPA, its annual conference in New York in 2017. Planning and preparation work is under way.

IX. Advisory and other audit services

Advisory services

72. The Office 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 audit processes for non-governmental organization/nationally implemented projects and directly implemented projects and reporting, assessment for the harmonized approach to cash transfers, human resources processes, and information and communication technology policies. The Office regularly reviewed audit clauses in contribution agreements with donors, as requested.

73. In 2016, the Investigations Section continued to provide briefings to all UNDP regional bureaux and other offices, including the Bureau for Management Services, as well as to individual country offices, when required, on lessons learned from previous cases, with an emphasis on fraud prevention and early detection to mitigate the risk of fraud.

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

74. Based on a two-year service agreement dated 6 December 2015 with the Executive Director of UN-Women, the Office continued to provide internal audit and investigation services to UN-Women in 2016. The Office has a dedicated UN-Women Audit Unit, with four posts fully funded by UN-Women. The internal audit and investigation activities of the Office in this regard are reported separately to the Executive Board of UN-Women.

X. Opinion

75. The Office provides independent internal oversight through internal audits on the adequacy and effectiveness of the UNDP governance, risk management and control framework. 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 audits of the UNDP financial statements and related financial procedures, accounting system, internal financial controls and administration, and the overall management of UNDP. The primary objective of the work performed by the United Nations Board of Auditors, as distinct from that of the Office of Audit and Investigations, is to express an opinion on UNDP financial statements.

76. Decision 2016/13 requires the Office to provide a rationale for the overall opinion presented in 2016, following its introduction in 2015 (decision 2015/13), based on the scope of work undertaken, and on the adequacy and effectiveness of the framework of governance, risk management and control framework of UNDP.

77. The opinion of the Office is based on the audit reports issued between 1 January and 31 December 2016, the majority of which covered UNDP activities in 2015. A summary of the audit work that supports the opinion is included in chapter IV of the present report, and the supporting criteria and the methodology used to form the audit opinion are described in annex 5. The risk assessment methodology of the Office, which increases the frequency of audits of high-risk entities, is described in chapter I.

78. Based on the scope of work undertaken and the adequacy and effectiveness of the UNDP framework of governance, it is the opinion of the Office of Audit and Investigations that the elements of risk management and control covered in the audit reports issued in 2016 were, in aggregate, partially satisfactory, meaning that they were generally established and functioning but needed improvement. The 87 per cent implementation ratio of audit recommendations as at 31 December 2016 was above 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 mechanisms are necessary.

Annex 1: Charter of the Office of Audit and Investigations

Introduction

1. The UNDP Financial Regulation 4.01 stipulates that the Office of Audit and Investigations shall be responsible for the internal audit of UNDP. “It 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. The Office of Audit and Investigations shall exercise operational independence in the performance of its duties.”
2. The UNDP Financial Regulation 4.02 states that the Office of Audit and Investigations shall be responsible for assessing and investigating allegations of fraud and corruption committed by UNDP personnel or committed by others to the detriment of UNDP.
3. Financial Regulation 4.03 stipulates that the internal audit function’s purpose, authority and responsibility shall be further defined in the Charter of the Office of Audit and Investigations.
4. This Charter sets out the purpose, authority and responsibility, policies and procedures applicable to the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP).

Mission of OAI

5. The mission of OAI is to provide UNDP an effective system of independent and objective internal oversight that is designed to improve the effectiveness and efficiency of UNDP’s operations in achieving its developmental goals and objectives through the provision of (i) internal audit and related advisory services, and (ii) investigation services.

Scope of work

6. The internal oversight services cover all programmes, operations and activities undertaken by UNDP at its headquarters and its country offices, regional service centers, liaison offices and offices in any other location. The services also cover UNDP’s coordination function as well as the activities of UNDP’s affiliated entities, which include the United Nations Capital Development Fund and United Nations Volunteers. However, the investigation function in respect to United Nations Volunteers is restricted to persons working in UNDP projects or working on UNDP premises.

(A) Internal Audit

7. Internal auditing is an independent, objective assurance and advisory activity designed to add value and improve the operations of UNDP. It helps UNDP accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.
8. OAI shall undertake its internal audits in accordance with the International Standards for the Professional Practice of Internal Auditing and the Code of Ethics established by the Institute of Internal Auditors (IIA) as adopted by the Representatives of Internal Audit Services of the United Nations Organizations, Multilateral Financial Institutions and Associated Intergovernmental Organizations (RIAS).
9. OAI will audit risk exposures relating to UNDP’s governance, risk management and controls to ensure:
 - (i) achievement of the organization’s strategic objectives;
 - (ii) reliability and integrity of financial and operational information;
 - (iii) effectiveness and efficiency of operations;
 - (iv) safeguarding of assets; and
 - (v) compliance with legislative mandates, regulations and rules, policies and procedures.
10. OAI shall assess and make appropriate recommendations for improving the governance, risk management and controls in the organization.
11. In order to provide the audit services efficiently and effectively, the Director shall prepare and submit for the review of the Audit Advisory Committee and approval of the Administrator
 - (a) Every four years: An internal audit and investigation strategy covering a four-year period and aligned with the period of coverage by the UNDP Strategic Plan; and

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(b) Annually: A risk-based annual work plan that is flexible and adaptable to the emerging needs and issues.

12. The approval requirement does not prevent OAI from auditing any other area within the purview of its mandate, which OAI deems necessary.
13. In preparing the annual work plan, OAI shall consult with the management of bureaus and offices, the United Nations Board of Auditors, and where appropriate, other stakeholders. OAI shall apply a risk-based methodology, including risks and concerns identified by management to identify and prioritize engagements to be undertaken during the year. OAI aims at covering all UNDP country offices on a cycle ranging from two to five years, depending on financial exposure and other risks.
14. In cooperation with the Internal Audit Services of other United Nations system organizations, OAI shall initiate and coordinate joint audits of inter-agency activities, including Multi Partner Trust Funds, Joint Programmes and Delivering as One Programmes.
15. OAI shall submit its audit reports to the Administrator, the Head of the Bureau concerned and the Head of the audited unit. OAI aims at submitting its final audit reports within three months after the completion of audit field work.
16. In addition, OAI may submit special reports to the Administrator and senior management on cross-cutting or other significant issues, such as those related to specific functions, processes and programmes, including the potential for the improvement to processes.
17. In accordance with decision 2012/18 of the UNDP Executive Board, OAI shall make publicly available all internal audit reports issued from 1 December 2012. In exceptional cases, reports may be redacted, or withheld in their entirety, at the discretion of the Director of OAI. In accordance with Executive Board decisions 2008/37 and 2011/23, the Director of OAI may disclose, upon request, internal audit reports issued prior to 1 December 2012 and after 19 September 2008, to Member States and, in case of audits of projects (co-)funded by intergovernmental organizations or by the Global Fund, to the donor concerned.
18. OAI shall periodically inform the Audit Advisory Committee and the Administrator of:
 - (i) Progress made in the implementation of the annual plan, changes made thereto and other issues related to the implementation of the plan;
 - (ii) Summaries of significant and systemic audit findings; and
 - (iii) Action taken by management on the implementation of audit recommendations.
19. OAI shall review and assess audit reports prepared by third party auditors on audits of nationally implemented projects and projects implemented by Non-Governmental Organizations (“NGO/NIM audits”) and on audits of implementing partners in the context of the Harmonized Approach to Cash Transfers (“HACT audits”). OAI may review and assess any other third party audit reports related to UNDP funded activities.
20. In addition to assurance services, OAI provides advisory services at the request of management on issues from an internal control perspective, on the design and adoption of practices and procedures that add value to the organization and contribute to the improvement of risk management and operational effectiveness.
21. OAI shall provide such advisory services in accordance with IIA standards, taking care to ensure that OAI’s independence and objectivity are not compromised.

(B) Investigations

22. OAI shall assess and conduct investigations into allegations of misconduct, such as fraud, theft and embezzlement, corruption, abuse of privileges and immunities, sexual exploitation and sexual abuse, workplace harassment and abuse of authority, retaliation on whistleblowers, or other acts or omissions in conflict with the general obligations of staff members that involve UNDP staff and other personnel.
23. OAI may assess and conduct investigations into allegations of fraud and other financial irregularities committed by contractors, implementing partners and other third parties, deemed to be detrimental to UNDP.
24. In addition, OAI may undertake proactive investigations in high risk areas that are susceptible to fraud, corruption and other wrongdoings.

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25. OAI shall assume the function of compliance review for UNDP's social and environmental policies and procedures. In that regard, OAI will operate a reporting mechanism and will assess all reports received to determine whether an investigation is required or whether the issue raised is more appropriately dealt with through the separate Grievance Handling process. Where the assessment determines that an investigation is warranted, OAI will investigate allegations of non-compliance with UNDP's social and environmental policies and procedures. On the basis of the evidence collected during the investigation, OAI will recommend action to bring a project into compliance.
26. OAI shall have sole responsibility for the conduct of all investigations within UNDP.
27. OAI shall conduct investigations in accordance with the Uniform Principles and Guidelines for Investigations endorsed by the 10th Conference of International Investigators, with the UNDP Legal Framework for Addressing Non-Compliance with the United Nations Standards of Conduct, and with the OAI Investigation Guidelines.
28. The assessment, investigation and reporting of alleged non-compliance with UNDP's social and environmental policies and procedures will be conducted in accordance with generally accepted international processes.
29. OAI shall maintain reporting facilities (telephone hotline, web-based reporting facility, email, postal address and other means as appropriate) that function around the clock to facilitate staff, management and others to report any instances of fraud, corruption or other wrongdoings. OAI will operate separate mechanisms for the reporting of alleged non-compliance with UNDP's social and environmental policies and procedures.
30. OAI shall maintain an effective system for the recording and management of all cases.
31. OAI shall prepare an annual work plan for the efficient and timely management of all investigations. The plan shall be submitted to the Administrator for approval after review and advice by the Audit Advisory Committee.
32. OAI shall submit its investigation reports concerning UNDP staff members to the Legal Support Office for consideration and disciplinary or administrative action, as appropriate.
33. In cases involving contract personnel, OAI shall submit its investigation reports to the Head of Office concerned for administrative or other action, as appropriate.
34. In case the investigation results in credible allegations of criminal conduct, OAI shall prepare a case file with a recommendation for referral to national law enforcement authorities, as appropriate, for criminal investigation and prosecution.
35. In cases where a vendor is found to have engaged in 'proscribed practices' (corrupt practice, fraudulent practice, coercive practice, collusive practice, unethical practice or obstruction), OAI shall submit its investigation report to the UNDP Vendor Review Committee for consideration of appropriate action in accordance with UNDP's Vendor Sanctions Procedures.
36. OAI shall submit its investigation reports as soon as possible, based on the priority of the case and available resources.
37. OAI shall also submit reports to the Administrator and senior management on weaknesses in controls, processes, deficiencies in regulations and guidance that are identified in the course of investigations with recommendations for addressing these weaknesses and further strengthening the accountability framework in the organization.

Responsibility and Authority

38. The Director of OAI is accountable to the Administrator for the provision of internal audit and investigation services in accordance with the provisions of the Financial Regulations and Rules and this Charter.
39. The Director of OAI shall report to the Administrator on the performance of OAI against agreed key performance indicators.
40. The Director of OAI shall maintain a quality assurance and improvement program that covers all aspects of the internal audit and investigations activity.
41. The Director of OAI shall be responsible for selecting and maintaining a cadre of audit and investigation staff with sufficient knowledge, skills, experience, and professional certifications in order to provide the independent and objective internal oversight services envisaged in this Charter. In addition to staff, the Director may engage consultants and experts as necessary for the performance of the functions under this Charter.

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42. The Director of OAI shall engage and manage all staff and apply resources allocated to OAI in accordance with the relevant regulations, rules, policies and procedures established by UNDP.
43. OAI shall have:
 - (i) Free access to the organization's records, personnel and premises, as necessary, in its opinion, for the performance of its duties; and
 - (ii) The assistance and cooperation of all UNDP personnel deemed necessary for the discharge of responsibilities under this Charter. This includes communicating directly with all levels of staff and management as well as requesting any staff member to furnish all information and explanation that are deemed necessary for the completion of any audit or investigation.
44. Management and staff shall have the responsibility to provide a written response to all OAI audit and investigation reports within a reasonable period of time.
45. The Director and staff of OAI are not authorized to:
 - (i) Perform any operational, managerial or supervisory duties for UNDP or its affiliates;
 - (ii) Initiate or approve accounting transactions external to OAI; and
 - (iii) Direct the activities of any UNDP personnel not employed by OAI, except to the extent that such personnel have been appropriately assigned to OAI teams or to otherwise assist OAI.

Independence

46. OAI shall exercise operational independence in the conduct of its duties. It shall be free from interference in determining the scope of its audit and investigations, performing the work and communicating results.
47. The Director of OAI shall be appointed for a term of five years, with the possibility of renewal once for a maximum of five years, and shall be barred from re-entry into UNDP after the expiry of his/her term. The Administrator shall consult with the Audit Advisory Committee on the appointment, performance evaluation, extension and dismissal of the Director of OAI.
48. The Director shall have free and unrestricted access to the Chairpersons of the Executive Board and the Audit Advisory Committee and to the Board of Auditors.
49. The Director and staff of OAI shall abide by the United Nations Code of Conduct as well as the IIA's Code of Ethics to which they are subject to and shall at all times maintain and safeguard their independence, objectivity and professionalism in fulfilling the responsibilities assigned under this Charter.
50. The Director and staff of OAI must refrain from assessing specific operations for which they were previously responsible. Functions for which the Director and staff of OAI have responsibility shall not be audited by OAI. Allegations of misconduct against OAI staff members, which require an investigation, shall not be investigated by OAI.
51. The Director and staff of OAI must avoid being placed in situations which might create any conflict of interest that may impair their judgment on audit and investigation matters. The Director or staff concerned shall declare any conflict of interests or impairment that may affect their participation in an audit or investigation engagement and accordingly discharge themselves from such participation.
52. The Director of OAI shall bring to the attention of the Audit Advisory Committee any impairment to independence, objectivity or professionalism.

Resources

53. OAI shall be provided with the necessary resources, including appropriately trained and experienced professionals, in order to fulfil its responsibilities under this Charter. The budget of OAI shall be approved by the Administrator on the basis of the request submitted by the Director of OAI in accordance with the strategy and the annual work plan, after review and advice by the Audit Advisory Committee.
54. The Director of OAI shall keep the Audit Advisory Committee apprised on the funding and staffing of OAI.

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Cost Reimbursable Services

55. OAI may provide internal audit and investigation services to other organizations of the United Nations system on a cost reimbursement basis. The cost of supervising and/or conducting specific audits of UNDP projects may be charged to those projects.

Coordination with the United Nations Board of Auditors

56. In planning its audits, OAI shall interact regularly with the Board of Auditors in order to optimize audit coverage and avoid duplication of assurance work. OAI shall share with the Board of Auditors information on issues of mutual interest.

Accountability to the Executive Board

57. OAI shall independently prepare and submit to the Executive Board, after review by the Audit Advisory Committee, an annual report for each completed calendar year on its activities, resources, disclosure of audit reports, significant audit findings, systemic weaknesses identified in audits, action taken by management to implement audit recommendations and such other matters as may be requested by the Executive Board.
58. In the annual report, the Director of OAI shall confirm to the Executive Board the organizational independence of the internal audit and investigation functions.

Approval and revision of the Charter

59. This revised version of the Charter was reviewed and endorsed by the Audit Advisory Committee and has been approved by the Administrator.
60. The Charter shall be reviewed at least every two years, or more often, if required. Any revision shall be approved by the Administrator after consultation with the Audit Advisory Committee and shall be brought to the attention of the Executive Board.

Approved by the Associate Administrator on behalf of the Administrator
27 December 2013

Annex 2: Office of Audit and Investigations audit reports issued in 2016 pertaining to UNDP

| | Audit Type | Report No. | Audit Subjects | Rating |
|-----------------|--------------------|------------|---|------------------------|
| Headquarters | | | | |
| 1 | Performance audits | 1549 | UNDP Results Based Management | Satisfactory |
| 2 | | 1601 | Financial Sustainability and Effectiveness Exercise at the local and regional level | Satisfactory |
| 3 | | 1697 | UNDP Regional Bureau for Arab States | Satisfactory |
| 4 | Compliance audits | 1602 | UNDP Vendor Management | Unsatisfactory |
| 5 | | 1576 | UNDP Enterprise Risk Management | N/A |
| 6 | | 1557 | Cloud computing project | Satisfactory |
| 7 | | 1551 | UNDP Global programme on Justice and Security Sector Reform (JSSR) | Satisfactory |
| 8 | | 1580 | United Nations Office for South-South Cooperation | Unsatisfactory |
| 9 | | 1560 | UNDP Asset Management | Satisfactory |
| 10 | | 1559 | UNDP Egypt | Partially Satisfactory |
| 11 | | 1716 | UNDP Communication Management | Partially Satisfactory |
| 12 | Inter-Agency | 1558 | South Sudan Common Humanitarian Fund | Partially Satisfactory |
| 13 | Global Fund grants | 1698 | Consolidated report on audits of UNDP as PR of grants for the Global Fund | N/A |
| 14 | | 1607 | Consolidated report on the audits of sub-recipients of grants from the Global Fund | N/A |
| Country offices | | | | |
| | Africa | | | |
| 15 | General Scope | 1695 | UNDP Ethiopia | Partially Satisfactory |
| 16 | | 1729 | UNDP Burundi | Partially Satisfactory |
| 17 | | 1624 | UNDP Angola | Partially Satisfactory |
| 18 | | 1699 | UNDP Republic of Congo | Partially Satisfactory |
| 19 | | 1603 | UNDP Rwanda | Partially Satisfactory |
| 20 | | 1569 | UNDP Mali | Partially Satisfactory |
| 21 | | 1599 | UNDP Tanzania | Partially Satisfactory |
| 22 | | 1579 | UNDP Namibia | Unsatisfactory |
| 23 | | 1550 | UNDP Eritrea | Satisfactory |
| 24 | | 1497 | UNDP Burkina Faso | Partially Satisfactory |

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| | Audit Type | Report No. | Audit Subjects | Rating |
|----|-------------------|-------------------|--|------------------------|
| 25 | | 1730 | UNDP Zimbabwe | Satisfactory |
| 26 | | 1719 | UNDP Mauritius and Seychelles | Partially Satisfactory |
| 27 | | 1712 | UNDP Senegal | Partially Satisfactory |
| 28 | Follow-up | 1570 | UNDP The Islamic Republic of Mauritania - Follow up Audit | N/A |
| 29 | | 1565 | UNDP Chad - Follow-up Audit | N/A |
| 30 | | 1739 | UNDP Guinea Bissau - Follow up Audit | N/A |
| 31 | DIM Projects | 1696 | UNDP Madagascar - Projet d'Appui au Cycle Electo (Project No. 70692) | N/A |
| 32 | | 1665 | UNDP Burkina Faso - Projet d'Appui aux Elections (Project ID 00087567) | Satisfactory |
| 33 | | 1670 | UNDP Burundi - Appui au Cycle Electoral 2015 (Project ID 00077432) | N/A |
| 34 | | 1666 | UNDP Central African Republic - Appui Institutionnel (Project ID 00072855) | Satisfactory |
| 35 | | 1667 | UNDP Central African Republic - Projet d'Appui (Project ID 00086140) | Satisfactory |
| 36 | | 1668 | UNDP Democratic Republic of the Congo - Politiques et Prog (Project No.00072471) | Satisfactory |
| 37 | | 1669 | UNDP Senegal - Programme d'Urgence de Develop (Project ID 00086871) | Partially Satisfactory |
| 38 | | 1671 | UNDP Mali - Project Elections 2012-2014 (Project No. 00064570) | N/A |
| 39 | | 1680 | UNDP- Nigeria Capacity for Governance Programme - 00056855 | N/A |
| 40 | | 1681 | UNDP Tanzania- Democratic Empowerment Project- 00068932 | N/A |
| 41 | | 1688 | Pôle Stratégies de développement et Finances publiques | Partially Satisfactory |
| 42 | | 1683 | UNCDF Somalia- Somalia UNJPLG II - MPTF pass- 87943 | N/A |
| 43 | | 1684 | UNCDF Uganda- Mobile Money for the Poor UNCD- 89778 | N/A |
| 44 | | 1687 | UNCDF Thailand – Clean Start (Award No. 71250, Project No. 84836) | N/A |
| 45 | | 1692 | UNCDF Senegal – Youth Start Second Phase (Projects No. 00060993 and 00060994) | N/A |
| 46 | | 1693 | UNCDF Niger - Appui au Developpement (Project No. 70259) | N/A |
| 47 | | 1694 | UNCDF Democratic Republic of the Congo - PASMIF II- Belgium (Project No. 75050) | N/A |

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| | Audit Type | Report No. | Audit Subjects | Rating |
|-------------|--------------------|------------|---|------------------------|
| 48 | Global Fund grants | 1686 | UNDP South Sudan Global Fund Project 64223 | N/A |
| 49 | | 1725 | UNDP South Sudan Global Fund Project 90124 | N/A |
| 50 | | 1726 | UNDP South Sudan Global Fund Project 91065 | N/A |
| 51 | | 1571 | UNDP Mali - Global Fund | Partially Satisfactory |
| 52 | | 1562 | UNDP Zimbabwe- Global Fund | Partially Satisfactory |
| 53 | | 1735 | UNDP Guinea Bissau - Global Fund | Partially Satisfactory |
| 54 | Follow-up | 1567 | UNDP Chad Grants From the Global Fund to Fight Aids, Tuberculosis And Malaria | N/A |
| | Audit Type | Report No. | Audit Subjects | Rating |
| Arab States | | | | |
| 55 | General Scope | 1606 | UNDP Lebanon | Partially Satisfactory |
| 56 | | 1577 | UNDP Syria | Partially Satisfactory |
| 57 | | 1564 | UNDP United Arab Emirates | Partially Satisfactory |
| 58 | | 1568 | UNDP Algeria | Partially Satisfactory |
| 59 | Follow-up | 1700 | UNDP Iraq - Follow - up Audit | N/A |
| 60 | DIM Projects | 1646 | UNDP PAPP - PAL/KFW- V (Project No: 41098 | N/A |
| 61 | | 1648 | UNDP PAPP - Construction of 100 housing UN (Output No: 70416) | N/A |
| 62 | | 1650 | UNDP PAPP - Community Resilience Program (Output No: 84013) | N/A |
| 63 | | 1649 | UNDP PAPP -Export Development 1 (Output No: 78517) | N/A |
| 64 | | 1651 | UNDP PAPP -Capacity of Justice & Security (Output No: 88270) | N/A |
| 65 | | 1647 | UNDP PAPP - Emergency Support & Advanced (Project No: 50123 (6 outputs)) | N/A |
| 66 | | 1652 | UNDP PAPP - Rapid Support for Small Infrastructure (Proj No: 78805 (2 outputs)) | N/A |
| 67 | | 1673 | UNDP Somalia- Enhancing Climate Resilience- 00084974 | N/A |
| 68 | | 1674 | UNDP Somalia- Support to the Federal State- 00085367 | N/A |
| 69 | | 1675 | UNDP Somalia- Constitutional Review- 00085369 | N/A |
| 70 | | 1676 | UNDP- Somalia- Electoral Assistance- 00085370 | N/A |
| 71 | | 1677 | UNDP Somalia- Joint Programme on Rule of Law- 00085372 | N/A |

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| | Audit Type | Report No. | Audit Subjects | Rating |
|----|--------------------|------------|---|------------------------|
| 72 | DIM Projects | 1678 | UNDP Somalia- Institutional Capacity Develop- 00085379 | N/A |
| 73 | | 1679 | UNDP Somalia- Gender Equity and Women's Empo- 00085380 | N/A |
| 74 | | 1644 | UNDP Lebanon - Lebanese Hosting Communities (Output No: 84708) | N/A |
| 75 | | 1645 | UNDP Lebanon - Rehabilitation of Saida Dump (Output No: 83622) | N/A |
| 76 | | 1653 | UNDP Syria - Socio-Economic Recovery (Output No: 86651) | N/A |
| 77 | | 1641 | UNDP Iraq - Local Area Development EU (Output No: 94013) | N/A |
| 78 | | 1643 | UNDP Iraq - Fund Facility for Stabilization (Output No: 95684) | N/A |
| 79 | Global Fund grants | 1711 | UNDP Djibouti - Continue the fight against HIV (Project No74979) | N/A |
| 80 | | 1737 | UNDP Djibouti - Support to Djibouti's National Tuberculosis (Project No77460) | N/A |
| 81 | | 1654 | UNDP Iraq GF - Support to TB and HIV Programs (Output No: 00056801) | N/A |
| 82 | | 1578 | UNDP Syria - Global Fund | Partially Satisfactory |
| | Europe and CIS | | | |
| 83 | General Scope | 1690 | UNDP Turkey | Satisfactory |
| 84 | | 1619 | UNDP Tajikistan | Satisfactory |
| 85 | Follow-up | 1733 | UNDP Uzbekistan - Follow-up Audit | N/A |
| 86 | DIM Projects | 1637 | UNDP Kyrgyzstan - Automation of voters identification (Output No: 95323) | N/A |
| 87 | | 1632 | UNDP Armenia - Modernizing Border Cross Points (Output No: 83816) | N/A |
| 88 | | 1638 | UNDP FYRM - Initiation Municipal Councils Support (Output No: 89225) | N/A |
| 89 | | 1633 | UNDP BiH - Green Economic Development Environment (Output No: 79758) | N/A |
| 90 | | 1634 | UNDP BiH - EU Flood Recovery Programme (Output No: 91517) | N/A |
| 91 | | 1635 | UNDP BiH - Municipal Governance (Output No: 90162) | N/A |
| 92 | | 1636 | UNDP BiH - Revitalizing Local Communities (Output No: 90164) | N/A |
| 93 | | 1639 | UNDP Ukraine - Rapid Response (Output No: 94682) | N/A |
| 94 | | 1640 | UNDP Ukraine - Infrastructure Rehabilitation (Output No: 92607) | N/A |
| 95 | | 1722 | UNDP Albania | Satisfactory |

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| | Audit Type | Report No. | Audit Subjects | Rating |
|-----|----------------------|------------|---|------------------------|
| | Asia and the Pacific | | | |
| 96 | General Scope | 1720 | UNDP Timor Leste | Partially Satisfactory |
| 97 | | 1672 | UNDP Myanmar | Partially Satisfactory |
| 98 | | 1620 | UNDP Philippines | Partially Satisfactory |
| 99 | | 1605 | UNDP China | Partially Satisfactory |
| 100 | | 1585 | UNDP PNG | Partially Satisfactory |
| 101 | | 1744 | UNDP Democratic People's Republic of Korea | Satisfactory |
| 102 | | 1715 | UNDP Suriname | Partially Satisfactory |
| 103 | Functional Audit | 1731 | UNDP Afghanistan - Financial Management Audit | Partially Satisfactory |
| 104 | Follow-up | 1746 | UNDP Afghanistan - ELECT II follow-up | N/A |
| 105 | DIM Projects | 1689 | UNDP Afghanistan - LOTFA (Project No. 89137, 85894, and 89620) | N/A |
| 106 | | 1627 | UNDP Indonesia - REDD+ Interim Phase (Project No. 75619, Output No. 87421) | N/A |
| 107 | | 1625 | UNDP India - Improving Efficiency of Vaccination Systems (Project No. 78163) | Partially Satisfactory |
| 108 | | 1626 | UNDP India - Improving Efficiency of Newborn & Infant Care (Project No. 73062) | N/A |
| 109 | | 1628 | UNDP Sri Lanka - Support District Dev Plans (Project No. 68311, Output No. 87393) | N/A |
| 110 | | 1629 | UNCDF Fiji - Pacific Financial Inclusion Prog (Award No. 84011, Proj No. 92219) | N/A |
| 111 | | 1630 | UNCDF Myanmar - MicroLead_LIFT_Myanmar (Award No. 71190, Proj No. 84819) | N/A |
| 112 | | 1745 | UNDP Afghanistan - Local Governance Project (Project No. 90448) | Partially Satisfactory |
| 113 | Global Fund grants | 1621 | UNDP Thailand Global Fund | Satisfactory |

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| | Audit Type | Report No. | Audit Subjects | Rating |
|-----|--|------------|---|------------------------|
| | Latin America & the Caribbean | | | |
| 114 | General Scope | 1691 | UNDP Panama | Satisfactory |
| 115 | | 1655 | UNDP Colombia | Satisfactory |
| 116 | | 1615 | UNDP Brazil | Partially Satisfactory |
| 117 | | 1582 | UNDP Costa Rica | Partially Satisfactory |
| 118 | | 1566 | UNDP Venezuela | Satisfactory |
| 119 | | 1723 | UNDP Guatemala | Partially Satisfactory |
| 120 | Follow-up | 1714 | UNDP Bolivia | N/A |
| 121 | DIM Projects | 1661 | UNDP Haiti - 00076471 - Appui au Processus Electoral | N/A |
| 122 | | 1657 | UNDP Colombia - 00048240 - PROG FORTALECIMIENTO DE LA JUS | N/A |
| 123 | | 1658 | UNDP Colombia - 00076307 - Alianzas Territoriales para la | N/A |
| 124 | | 1656 | UNDP Brazil - 00088231 - BRA/15/003 - Jogos Indígenas | N/A |
| 125 | | 1662 | UNDP Peru - 00073160 - Proyecto Especial Apoyo Organi | N/A |
| 126 | | 1663 | UNDP Peru - 00073717 - Fortalecimiento capacidades Pr | N/A |
| 127 | | 1664 | UNDP Peru - 00075011 - COP 20 | N/A |
| 128 | Global Fund grants | 1659 | UNDP Haiti - 00061399 - Strengthening & Improvement of Tuberculosis | N/A |
| 129 | | 1660 | UNDP Haiti - 00061483 - Scaling up the Response | N/A |

Annex 3: Recommendations unresolved for 18 months or more as of 31 December 2016

| Unresolved Recommendations (by cause, by year) | |
|---|--|
| HEADQUARTERS AUDIT | |
| Requires More Action by Offices Concerned | |
| | 2013 |
| 1 | OHR should review all documents on recruitment policies and procedures in their entirety and:(a) update and consolidate them and institute periodic reviews thereof;(b) remove exceptions from standard procedures which may lead to a breach of the guiding principles of recruitment and selection as defined in the UNDP Recruitment and Selection Framework; and(c) ensure that the formulation is understandable and unambiguous, using terms that are clearly defined and used consistently throughout all policy documents. (R1109/12) (High) |
| 2 | OHR should review the existing time-in-post policy to assess its relevance. (R1109/14) (Medium) |
| 3 | OHR should revise its policies on separations by removing inconsistencies with the Staff Rules and Staff Regulations of the United Nations, specifying requirements where not clearly defined and formulating a policy for 'unassigned staff'. (R1109/21) (High) |
| | 2014 |
| 4 | Streamline the Fast Track Procedures governance arrangements by: (a) defining a clear owner who manages and oversees FTPs further development, implementation and maintenance, and clarifying the role and accountability of each unit in the activation of FTPs; and (b) establishing a clear timetable for developing the remaining relevant open items that were originally identified in FTPs and enforce them. Responsible HQ bureau: Crisis Response Unit, Bureau of Management. (R1411/1) (Medium) |
| 5 | Address the operational issues identified by:(a) limiting the use of FTPs to crises only and reviewing the need for activation trigger 4; and(b) establishing clear time limits for the application of FTPs, thereby re-emphasizing their stop-gap function and limiting the current widespread practice of extending FTPs. Responsible HQ bureau: Crisis Response Unit, Bureau of Management. (1411/2) (Medium) |
| 6 | Operationalize the signature products with the goal of having a readily available set of crisis response products, to be deployed immediately when crises occur. The operationalization should be adjusted to the different types of crisis that UNDP responds to, i.e., Level 3 emergencies, protracted crisis, political crisis and others. Responsible HQ bureau: Crisis Response Unit, Bureau of Management. (R1411/3) (Medium) |

| Headquarters Audit Recommendations Unresolved for 18 Months or More | |
|---|--|
| Unresolved Recommendations (by cause, by year) | |
| 2015 | |
| 7 | Reconvene and reactivate the working group to collaborate to reduce the processing time for disciplinary cases with the goal to achieve the six-month target. In this regard, consider a complete business process review of the management of disciplinary cases, as well as a reassessment of the capacity of the Office as recommended under Recommendation no.1. Estimated completion date: 30 September 2015 Responsible HQ bureau: Bureau of Management, Legal Support Office. (R1420/2) (High) |
| 8 | Design and submit for approval to UNDP senior management a policy note on settlement agreements, including commercial settlements, that would define:(a) when and in which cases settlements could be made;(b) who has the authority to make a final decision; and(c)a harmonized approach and framework for settlements with other United Nations agencies. Responsible HQ bureau: Bureau of Management. (R1420/3) (Medium) |
| 9 | Procure or otherwise acquire a case and document management system, with a proper intake and monitoring mechanism. Responsible HQ bureau: Legal Support Office. (R1420/5) (Medium) |
| 10 | Require the submission of a detailed breakdown of invoices prior to agreeing to the payment of fees to the Office of Legal Affairs. Responsible HQ bureau: Bureau of Management. (R1420/6) (Medium) |
| 11 | Improve policies on entitlement travel by:(a) aligning UNDP policies for home leave and family leave with the United Nations Secretariat rules for types of tickets and calculation of lump-sum, bearing in mind the ongoing review of the common system compensation package by the International Civil Service Commission; and (b) amending entitlement travel policies to include requirements for planning and obtaining the price quote well in advance, e.g., 21 days prior to the travel date. Responsible HQ bureau: Office of Human Resources. (R1446/4) (Medium) |
| 12 | Improve efficiency and effectiveness of entitlement travel operations by: (a) preparing a cost-benefit analysis of the lump-sum option compared to tickets arranged by the organization; and (b) centralizing the calculation of the lump-sum entitlement for home leave and family leave to the Administrative Services Division. Responsible HQ bureau: Office of Human Resources and Administrative Services Division. (R1446/5) (Medium) |
| COUNTRY OFFICE AUDITS | |
| Requires More Action by Offices Concerned | |
| 2014 | |
| 13 | <i>Programme Activities/Programme management</i> Implement the valid guidelines for nationally implemented projects for all new and ongoing projects, as required. In addition, discontinue the use of the UNDP logo in project documentation. (R1402/4) (High) |

| 2015 | |
|------|---|
| 14 | <p><i>Operations/General administration</i></p> <p>Comply with the 'Programme and Operations Policies and Procedures' regarding travel management by: (a) ensuring that the most direct and economical route is used; (b) correctly calculating and validating the amount of Daily Subsistence Allowance to be paid; (c) requiring staff to submit travel claims along with adequate supporting documentation within two weeks after returning from official business travel and recover any overpaid amounts; (d) centralizing travel procurement requests in the Travel Unit and providing staff with the necessary training and understanding of the travel policy; and (e) recover, as appropriate, the amount in excess of the allowable travel costs estimated at \$8,000. (R1431/14) (Medium)</p> |
| | <p><i>GF/Procurement and Supply Management/Quality assurance of health products</i></p> <p>Improve the procurement and financial internal control environment by: (a) properly verifying that vendors designated by the Government are in line with the direct payments policy and the terms stipulated in vendor contracts; and (b) immediately addressing concerns regarding the legitimacy of vendors to the government counterpart. (R1454/2) (Medium)</p> |
| 16 | <p><i>Operation/Finance</i></p> <p>Strengthen the monitoring of receivables by: (a) properly reviewing bank reconciliation results to ensure that any long-outstanding amounts are fully investigated and followed up on with the payee as part of the reconciliation exercise; (b) ensuring that salary advances are granted in compliance with organizational policies and procedures to avoid excessive numbers of advances and repeat requests; (c) recovering accumulated and long-outstanding advances from individuals as soon as possible; (d) ensuring that all receivable accounts are reconciled in a timely manner and followed up on regularly; and (e) establishing a mechanism as part of the staff check-out process to recover all receivables from separated staff before they leave the organization. (R1314/8) (Medium)</p> |
| | <p><i>Programme Activities/Project management</i></p> <p>Improve project monitoring by: (a) developing a checklist containing all reporting requirements, which should be shared with all programme staff; (b) complying with the requirements of "implementing a project" guidelines of the Programme and Operations Policies and Procedures; (c) conforming to project document requirements in terms of reporting and ensuring that outstanding reports are prepared; (d) organizing a training session on using Atlas as a project management tool; (e) following up on outstanding advances made to responsible parties before previous tranches are liquidated; and (f) expediting the financial closure of projects that are operationally closed for more than 12 months. (R1314/5) (Medium)</p> |
| 17 | |

Annex 4: Summary of substantiated investigation cases in 2016, by type of allegation

| | Regional Bureau | Allegation | Estimated Loss to UNDP ^{1 2} | Report sent to | Status |
|-----------------------------|---------------------------------|--|--|----------------|--|
| Abuse of authority | | | | | |
| 1 | Asia and the Pacific | Service contractor allegedly attempted to extort bribes in return for providing grant money. Service contractor was also alleged to have knowingly certified false invoices. | No financial loss to the Organization. | CO | Subject resigned. |
| Assault & Threat | | | | | |
| 2 | Latin America and the Caribbean | UNV allegedly assaulted another UNV by hitting him on the head with a slipper, and falsely accused that UNV of sexual assault. | No financial loss to the Organization. | UNV APDM | UNV was dismissed. |
| Entitlements Fraud | | | | | |
| 3 | Africa | Service contractor allegedly submitted fraudulent claims for reimbursement of medical expenses. | No financial loss to the Organization. | CO | Subject resigned. |
| 4 | | Service contractor allegedly submitted fraudulent claims for reimbursement of medical expenses. | No financial loss to the Organization. | CO | Subject's contract was not renewed. |
| 5 | | UNV allegedly submitted fraudulent claims for DSA and reimbursement of security guards expenses. | Unknown. | UNV APDM | Under review. |
| 6 | Africa (Other UN Agencies) | Service contractor allegedly submitted fraudulent claims for reimbursement of medical expenses. | No financial loss to the Organization. | CO | Subject's contract was terminated. |
| 7 | | Staff member allegedly forged another staff member's signature on a customs form to obtain a tax emption for his car, to which he was not entitled. | No financial loss to the Organization. | LO | Staff member resigned. Under review pursuant to Art. 72(a) of the UNDP Legal Framework. |
| 8 | | Staff member allegedly submitted fraudulent claims for reimbursement of medical expenses. | \$6,983 | LO | Under review. |
| 9 | | Staff member allegedly submitted fraudulent claims for reimbursement of medical expenses. | Alleged fraud detected before payment. | LO | Under review. |
| 10 | Arab States | Service Contractor allegedly submitted fraudulent claims for reimbursement of medical expenses. | No financial loss to the Organization. | CO | Subject's resigned. |
| 11 | Latin America and the Caribbean | Service contractor allegedly received an overpayment for medical claims he submitted and did not report it although he was aware of the mistake. | No financial loss to the Organization. | CO | Subject's contract was not renewed. |

¹ "Unknown" means that OAI could not quantify the loss in the case concerned.

² Only losses to UNDP have been added to this Annex. Losses to other UN agencies in cases of staff members and non-staff personnel from other agencies administered by UNDP as well as losses to other entities such as CIGNA are not considered financial losses to UNDP.

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| | Regional Bureau | Allegation | Estimated Loss to UNDP ^{1 2} | Report sent to | Status |
|--|---|--|--|----------------|--|
| 12 | Latin America and the Caribbean (Other UN Agency) | Staff member allegedly submitted fraudulent claims for reimbursement of medical expenses. | \$33,517.96 | LO | Under Review. |
| 13 | | Staff member allegedly submitted fraudulent claims for reimbursement of medical expenses. | \$4,319.20 | LO | Under review. |
| 14 | HQ | Staff member allegedly falsified a lease agreement to obtain a higher rental subsidy. | \$5,223.26 (recovered) | LO | Staff member resigned. A letter was placed in staff member's file pursuant to Art. 72(a) of the UNDP Legal Framework. Referral made to national authorities. |
| Misrepresentation, forgery and false certification | | | | | |
| 15 | Africa | Implementing partner allegedly forged documents submitted for payment for services that were not provided. | \$4,290 | RB | UNDP Liaised with implementing partner on this issue. |
| 16 | Africa (Other UN Agency) | Staff member allegedly used his position to fraudulently solicit goods from 24 businesses. | No financial loss to the Organization. | LO | Staff member was separated from service for abandonment of post. Under review pursuant to Art. 72(a) of the UNDP Legal Framework. |
| 17 | Arab States | UNV allegedly submitted a forged a diploma to obtain his position. | No financial loss to the Organization. | UNV APDM | UNV was dismissed. |
| 18 | Asia and the Pacific | Subject allegedly held two UNDP contracts simultaneously and received his salary on two different bank accounts under the same name. | No financial loss to the Organization. | CO | Subject resigned. |
| 19 | Europe and the CIS | Vendor allegedly misrepresented its address, and is alleged to be an artificial business structure. | Unknown. | VRC | Under review. |
| 20 | | Service contractor allegedly received a written test and answers for a position for which she applied, which she used to prepare her answers before the test was administered with the help of a UNDP personnel. Service contractor also attempted to influence panel members to obtain a position for another person. | No financial loss to the Organization. | CO | Subject's contract was not renewed. |
| 21 | | Vendor allegedly submitted false references and forged documents during a procurement process that it ultimately won. | No financial loss to the Organization. | VRC | Under review. |
| Other failure to comply with obligations | | | | | |
| 22 | Africa | Vendor was allegedly awarded contracts by his friend and business partner, a UNDP staff member, and did not report this conflict of interest. | No financial loss to the Organization. | VRC | Under review. |

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| | Regional Bureau | Allegation | Estimated Loss to UNDP ^{1 2} | Report sent to | Status |
|--------------------------|---------------------------------|---|--|----------------|--|
| 23 | Arab States | Staff member was allegedly involved in the management of an NGO and authorized payments made to that NGO, but failed to report this conflict of interest. | No financial loss to the Organization. | LO | Staff member received a letter of reprimand, and an exoneration letter. |
| 24 | | Staff member was allegedly involved in granting projects to an NGO, whose executive member was his partner in a cooperative, and failed to report this conflict of interest. The cooperative also allegedly used the UNDP logo without authorization. | No financial loss to the Organization. | LO | Staff member received a letter of reprimand, and an exoneration letter. |
| 25 | Asia and the Pacific | Staff member allegedly leaked sensitive UNDP information to external parties. | No financial loss to the Organization. | LO | Staff member's contract was not renewed upon expiration. A letter was placed in staff member's file pursuant to Art. 72(a) of the UNDP Legal Framework. |
| 26 | HQ | Staff member allegedly requested and obtained a loan from a UNDP donor, in order to obtain financial support for his studies. Staff member also allegedly endorsed a risk assessment without disclosing critical information about the donor. | No financial loss to the Organization. | LO | Staff member was dismissed. |
| 27 | Latin America and the Caribbean | Staff member working in procurement allegedly shared her ICT passwords, enabling another personnel to both create and approve Atlas vouchers. | No financial loss to the Organization. | LO | Under review. |
| Procurement Fraud | | | | | |
| 28 | Africa | Staff member allegedly manipulated procurement processes and colluded with other UNDP personnel and vendors to favour the latter. Staff member also allegedly evaluated bids from companies that employed him, and failed to seek authorization for his outside employment. | Unknown. | LO | Staff member was dismissed. |
| 29 | | Vendor allegedly colluded with UNDP personnel in order to be awarded procurement contracts. | Unknown. | VRC | Under review. |
| 30 | | Vendors allegedly colluded with other vendors and UNDP personnel to win procurement processes. | Unknown | VRC | Under review |
| 31 | | Staff member allegedly manipulated procurement processes and colluded with other UNDP personnel and vendors to favour the latter. Staff member also allegedly evaluated bids from companies with which he had personal ties. | Unknown. | LO | Under review. |
| 32 | | Staff member allegedly manipulated procurement processes and colluded with other UNDP personnel and vendors to favour the latter. | Unknown. | LO | Under review. |
| 33 | | Staff member allegedly manipulated procurement processes and colluded with other UNDP personnel and some vendors to favour the latter. | Unknown | LO | Staff member resigned. A letter was placed in staff member's file pursuant to Art. 72(a) of the UNDP Legal Framework |

Annexes to DP/2017/26

| | Regional Bureau | Allegation | Estimated Loss to UNDP ^{1 2} | Report sent to | Status |
|----|--------------------|--|--|----------------|---|
| 34 | Arab States | NGO personnel allegedly diverted donor funds. | No financial loss to the Organization. | VRC | Under review. |
| 35 | | Vendor allegedly paid kickbacks to UNDP personnel. | No financial loss to the Organization. | VRC | Under review. |
| 36 | | Vendor allegedly paid kickbacks to UNDP personnel. | No financial loss to the Organization. | VRC | Under review. |
| 37 | | Vendor allegedly paid kickbacks to UNDP personnel. | No financial loss to the Organization. | VRC | Under review. |
| 38 | | Vendor allegedly paid kickbacks to UNDP personnel. | No financial loss to the Organization. | VRC | Under review. |
| 39 | | Vendor allegedly paid kickbacks to UNDP personnel. | No financial loss to the Organization. | VRC | Under review. |
| 40 | | Vendor allegedly paid kickbacks to UNDP personnel. | No financial loss to the Organization. | VRC | Under review. |
| 41 | | Vendor allegedly paid kickbacks to UNDP personnel. | No financial loss to the Organization. | VRC | Under review. |
| 42 | | Vendor allegedly paid kickbacks to UNDP personnel. | No financial loss to the Organization. | VRC | Under review. |
| 43 | | Vendor allegedly paid kickbacks to UNDP personnel. | No financial loss to the Organization. | VRC | Under review. |
| 44 | Europe and the CIS | Service contractor was allegedly involved in the provision of forged reference letters by a vendor to UNDP in order to favour the said vendor during a procurement process. | No financial loss to the Organization. | CO | Subject's contract was not renewed. |
| 45 | | Service contractor allegedly manipulated a procurement process by misrepresenting quotes received and forging documents in order to favour a vendor. | No financial loss to the Organization. | CO | Subject's contract was terminated. |
| 46 | | Vendor allegedly misrepresented its address, shared by other vendors involved in the same procurement process, and was alleged to be an artificial business structure. | Unknown. | VRC | Under review. |
| 47 | | Vendor allegedly misrepresented its address, shared by other vendors involved in the same procurement process, and was alleged to be an artificial business structure. | Unknown. | VRC | Under review. |
| 48 | | Vendor allegedly misrepresented its address, shared by other vendors involved in the same procurement process, and was alleged to be an artificial business structure. | Unknown. | VRC | Under review. |
| 49 | | Staff member allegedly failed to include a bid received during a procurement process, either deliberately or by gross negligence. Staff member also allegedly failed to reject late bids and to disclose a personal relationship during a procurement process. | Unknown. | LO | Staff member resigned. Under review pursuant to Art. 72(a) of the UNDP Legal Framework. |

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| | Regional Bureau | Allegation | Estimated Loss to UNDP ^{1 2} | Report sent to | Status |
|---|---------------------------------|---|--|----------------|--|
| Retaliation against whistleblowers | | | | | |
| 50 | Arab States (Other UN Agency) | Staff member allegedly transferred another staff member he supervised and initially prevented him from participating in a training, in retaliation for having reported him to a higher authority. | No financial loss to the Organization. | Ethics Office | Ethics Office made its independent determination that the complainant did suffer retaliation, and reported the matter to LO. |
| Sexual exploitation and abuse | | | | | |
| 51 | Africa (Other UN Agency) | Staff member was allegedly involved in sexual exploitation and sexual harassment of younger female UNDP personnel. | No financial loss to the Organization. | LO | Staff member resigned. A letter was placed in staff member's file pursuant to Art. 72(a) of the UNDP Legal Framework. |
| 52 | Asia and the Pacific | Service contractor allegedly attempted to have sexual relations in exchange for money. | No financial loss to the Organization. | CO | Subject's contract was not renewed. |
| Theft and embezzlement | | | | | |
| 53 | Africa | Staff member allegedly stole fuel from UNDP cars. | \$610.19 | LO | Under review. |
| 54 | | Staff member allegedly stole fuel from UNDP cars. | \$236.37 | LO | Under review. |
| 55 | Africa (Other UN Agencies) | Staff member allegedly forged his supervisor's signature and cashed cheques representing the payment of indemnities to security guards. | No financial loss to the Organization. | LO | Under review. |
| 56 | | Staff member allegedly took funds from the office safe. | No financial loss to the Organization. | LO | Staff member resigned. A letter was placed in staff member's file pursuant to Art. 72(a) of the UNDP Legal Framework. |
| 57 | Asia and the Pacific | A Global Fund recipient allegedly diverted grant monies by fabricating fake invoices and supporting documents to justify expenses. | \$264,961.32 | VRC | Under review. |
| 58 | | Service contractor allegedly cashed fuel coupons instead of refueling UNDP vehicles. | \$3,651.13 | CO | Under review. |
| 59 | | Service contractor allegedly coordinated the fabrication of false invoices in order to obtain payment for activities that were not conducted under the programme. | \$32,829 (\$23,688 recovered) | CO | Subject resigned. |
| 60 | Latin America and the Caribbean | Staff member allegedly embezzled money by making payments to himself using Atlas. | \$1,105,910.55 (\$13,188.50 recovered) | LO | Staff member was dismissed. |

ANNEX 5: Criteria Supporting OAI Opinion

1. In accordance with Executive Board decisions 2015/13 of June 2015 and 2016/13 of June 2016, OAI provides an opinion in this annual report, based on the scope of work undertaken, on the adequacy and effectiveness of the organization's framework of governance, risk management and control (GRC). The summary of the audit work performed is provided in the body of the audit report, under chapter IV. This annex provides a brief description of the criteria used to support the OAI opinion.
2. The OAI opinion is based on the following results:
 - a) Audits of UNDP country offices;
 - b) Audits of UNDP headquarters functions or units;
 - c) Audits of UNDP activities funded by the Global Fund;
 - d) Audits of UNDP directly implemented projects;
 - e) OAI review of audits of UNDP projects executed by non-governmental organizations and/or national governments; and
 - f) Management Letters relating to investigations.
3. The distribution of 2016 audit results regarding the adequacy and effectiveness of the governance, risk management and control at the audited entity level is shown in figure 2 in document 2017/26, which shows the distribution of the number of audit reports that were issued by OAI in 2016 by type of audit rating, 'satisfactory', 'partially satisfactory' and 'unsatisfactory'.
4. In addition, the audit results are aggregated using the amount of expenditure covered by the audits undertaken in 2016. The result of this aggregation is then grouped by the three levels of audit rating used by OAI, 'satisfactory', 'partially satisfactory' and, 'unsatisfactory'. The audited expenditure (excluding DIM audits) has been validated through Atlas as of 7 February 2017. For one functional audit, the expenditure was calculated at 20 per cent as the audit only covered one area of the office's activities.

Table 1: Distribution of ratings per audited expenditure (excluding DIMs)

| Rating | Audited expenditure \$ | Distribution % |
|------------------------|---------------------------|-------------------|
| Satisfactory | 507,727,350 | 25 |
| Partially Satisfactory | 1,508,531,930 | 73 |
| Unsatisfactory | 39,867,698 | 2 |
| Totals | 2,056,126,978 | 100 |

5. Adjustments were made in the aggregation of expenditure for the directly implemented projects (DIM) and the review of audits of projects executed by non-governmental organizations and/or national governments (NGO/NIM). The adjustments were as follows:
 - a) The scope of the DIM audits focuses mainly on a financial certification of expenditure. Therefore, the audits do not directly assess the governance risk management and control (GRC) aspects of a project in UNDP. Nonetheless, they do give an indirect comfort about UNDP GRC. To this effect,

OAI converted the audit opinions rendered into OAI ratings using defined criteria¹ and estimated that the results of the DIM financial audits give a 50 per cent assurance about UNDP GRC. For the purposes of the current calculation, OAI excluded audited expenditure related to UNCDF DIM project audits (refer to Table 2).

Table 2: Distribution of ratings per DIM audited expenditure (at 50 per cent)

| Rating | DIM audited expenditure \$ | Distribution (%) |
|------------------------|----------------------------|------------------|
| Satisfactory | 167,365,331 | 76 |
| Partially Satisfactory | 22,373,124 | 10 |
| Unsatisfactory | 29,197,542 | 13 |
| Totals | 218,937,997 | 100 |

Distribution of audited exp. NGO/NIMS

| OAI Rating | % | |
|------------------------|-------------|-----|
| Satisfactory | 200,130,737 | 46% |
| Partially Satisfactory | 168,484,033 | 39% |

- b) The NGO/NIM financial audits focus, like the DIM financial audits, on the financial certification of expenditure. They primarily reflect on how well the implementing partner is managing the financial resources. Nonetheless, the NGO/NIM audits indirectly offer a partial comfort about how well UNDP monitors these implementing partners, in other words how well the UNDP GRC is managed in regard to NGO and NIM implementing partners. Consequently, OAI estimated that the results of the NGO/NIM financial audits offer a 25 per cent assurance about UNDP GRC (refer to table 3).

Table 3 – Distribution per NGO/NIM audited expenditure (at 25 per cent)

| Rating | NGO/NIM audited expenditure \$ | Distribution (%) |
|------------------------|--------------------------------|------------------|
| Satisfactory | 200,130,737 | 46 |
| Partially Satisfactory | 168,484,033 | 39 |
| Unsatisfactory | 63,963,169 | 15 |

¹ Net Financial Misstatement (NFM) (%) converted to OAI Rating:

- Unqualified or Qualified and NFM is less < 1% = Satisfactory
- Qualified and NFM is from 1% - 2% = Partially Satisfactory
- Qualified and NFM is > 2% or Adverse/Disclaimer Opinion = Unsatisfactory

| | | |
|----------------------|---------------------------|-------------------|
| <i>Totals</i> | <i>432,577,939</i> | <i>100</i> |
|----------------------|---------------------------|-------------------|

6. This leads to two different distributions by audit rating: one presented by number of audit reports issued and the second by amount of expenditure covered by the audits. The two are then compared with the targets for distribution of audit reports according to rating as set in UNDP Integrated Resources and Results Framework (IRRF), the tool that has been implemented by UNDP to monitor the progress in achieving its 2014-2017 Strategic Plan. These targets are considered an expression of UNDP risk tolerance in respect of internal audit results (refer to table 4).

Table 4: Comparison of distribution of audit ratings by audited expenditure and by number of audit reports issued in 2016 with UNDP targets

| Rating | By Audited expenditure (combined CO, GF, HQ, DIM, NGO/NIM) | By Number of Audit Reports Issued (Rated by OAI) | UNDP Targets |
|------------------------|--|--|-------------------|
| | (a) | (b) | (c) |
| Satisfactory | 32% | 33% | More than 30% |
| Partially Satisfactory | 63% | 62% | Less than 65% |
| Unsatisfactory | 5% | 5% | Less than 15 % |
| <i>Totals</i> | <i>100%</i> | <i>100%</i> | <i>N/A</i> |

7. For both types of actual distribution (column (a) and (b)), the partially satisfactory ratings are higher than 60 per cent. In other words, the majority of the audit reports issued in 2016 have an average rating of ‘partially satisfactory’, which indicates that governance, risk management and controls are generally established and functioning but need to be improved. Notwithstanding that the distribution of expenditures/reports are within the UNDP corporate targets, the majority of the expenditures and the majority of the reports are within the ‘partially satisfactory’ category. This makes ‘partially satisfactory’ the most appropriate overall rating.
8. In addition to the above quantitative comparison, the qualitative nature of the audit results was also given due consideration, and these have been included in the annual report.
9. The implementation rate of internal audit recommendations was also taken into consideration and compared to the UNDP targets (refer to table 5).

Table 5: UNDP target implementation rate and rating of internal audit recommendations

| Implementation rate | Rating |
|--------------------------|-----------------------------------|
| Equal or higher than 85% | Green (or satisfactory) |
| Between 81% and 85% | Amber (or partially satisfactory) |
| Lower than 81% | Red (or unsatisfactory) |

10. The actual implementation rate of internal audit recommendations at the end of 2016 is 87 per cent and is therefore satisfactory when compared to the UNDP target. The rate of 87 per cent gives comfort that the organization takes effective and timely action to address deficiencies identified in audits.
11. Based on the scope of work undertaken in 2016, in OAI’s opinion, the adequacy and effectiveness of the governance, risk management and control in the audit reports issued in 2016 were, in aggregate, ‘partially satisfactory’, which means that they were generally established and functioning but needed improvement.