



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

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**Internal audit and investigation**

## **UNDP: Annual report of the Office of Audit and Investigations on internal audit and investigation activities in 2019**

### *Summary*

This report provides information on the activities of the Office of Audit and Investigations for the year ended 31 December 2019. It includes an opinion, based on the scope of work undertaken, concerning 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 (decision 2016/13).

As requested by the Executive Board in decision 2018/13, the report includes supporting analysis of the opinion, its risk assessments, and how complaints are reported to the office. The scope of work includes oversight of the United Nations Volunteers programme, the United Nations Office for South-South Cooperation and the United Nations Capital Development Fund.

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 on whether the resourcing of the audit function is appropriate, sufficient and effectively deployed to achieve the desired internal audit coverage: timely information on challenges in discharging oversight responsibilities; a review of recruitment procedures; and a presentation of the organizational risk assessment (all requested in decision 2015/13).

The report also includes the titles of all internal audit reports issued during 2019, and ratings received (decision 2013/24); and cases of fraud and actions taken in cases of misconduct (decision 2011/22).

The management response to this report is presented separately, as requested in decision 2006/13. The annual report of the Audit and Evaluation Advisory Committee, prepared in accordance with the guidelines contained in the UNDP accountability framework (DP/2008/16/Rev.1), is appended to this report.

### *Elements of a decision*

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

\* Reissued owing to the impact of COVID-19 on meetings.

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### **Annexes** (available on the Executive Board website)

1. Charter of the Office of Audit and Investigations
2. Office of Audit and Investigations audit reports issued in 2019 pertaining to UNDP
3. Recommendations unresolved for 18 months or more as of 31 December 2019
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5. Summary of substantiated investigation cases in 2019, by type of allegation
6. Criteria supporting the Office of Audit and Investigations opinion

### **Appendix** (available on the Executive Board website)

Annual report of the Audit and Evaluation Advisory Committee for 2019

## 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 2019. The report also contains information requested in 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 (the office) aims to provide UNDP with an effective system of independent and objective internal oversight to improve the effectiveness and efficiency of its 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. As required by the international standards of the Institute of Internal Auditors, the charter reflects all activities and areas of responsibility of the Office of Audit and Investigations.

3. The international professional practices framework of the Institute of Internal Auditors stipulates 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.

4. The office confirms its organizational independence. In 2019, it was free from interference in determining its audit and investigation scope, performing its work and communicating its results.

5. All audit staff completed the Statement of Integrity, Objectivity, and Confidentiality for 2019, certifying their adherence to the code of ethics and core principles of the Institute of Internal Auditors and to the UNDP code of ethics.

6. The office has an effective quality assurance and improvement programme that covers both internal audit and investigation functions. Post-audit client surveys conducted in 2019 showed that clients were satisfied with the conduct of audits.

7. The office continued to receive good support from UNDP senior management. The Director participated in meetings of the Organizational Performance Group (with other oversight office heads), which enabled discussions on long-outstanding recommendations and other significant audit-related matters with potential risk to UNDP. The office held periodic meetings with the Associate Administrator to share audit and investigations results. It also held meetings with the Bureau for Management Services and regional bureaux to discuss key and recurring audit and investigation issues.

8. The Audit and Evaluation Advisory Committee, an external independent oversight body of UNDP, provided advice to the Administrator on maximizing the effectiveness of UNDP internal audit and investigation functions. In 2019, the committee reviewed the 2019 annual work plan of the office and its implementation through quarterly progress reports. 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 2019.

#### *Coordination with external auditors*

9. UNDP external auditors (the 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 audits\* of projects implemented by non-governmental organizations or national governments.

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\* “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*

10. To provide assurance on governance, and risk management and control, the annual work plan of the office for 2019 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. Following review by the Audit and Evaluation Advisory Committee, the annual work plan for 2019 was approved by the Administrator.

*Organizational risk assessment for annual work planning (decisions 2019/2 and 2015/13)*

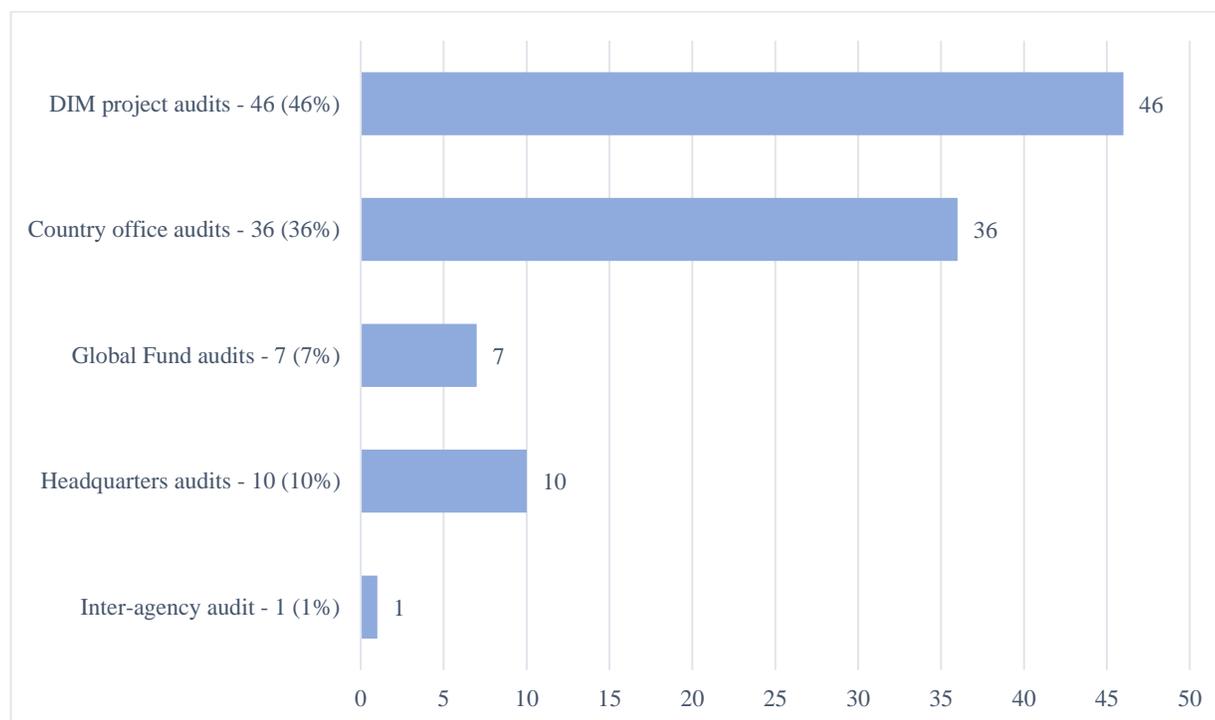
11. The Office of Audit and Investigations formulated the 2019 audit plan after conducting a comprehensive risk assessment of its auditable areas in UNDP, including the United Nations Volunteers programme, the United Nations Office for South-South Cooperation, and the United Nations Capital Development Fund. The office undertook the planning process in a participative manner, holding a series of discussions with senior management and heads of concerned bureaux on the results from risk assessment models. The office also consulted the United Nations Board of Auditors to ensure proper audit coverage of UNDP and to minimize duplication of efforts in providing assurance to the Administrator and the Executive Board.

12. 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 and financial – in line with the UNDP enterprise risk management categories of risks. The final selection of audits may be adjusted after consultation with management. To distribute resources efficiently, entities ranked ‘very high risk’ are generally audited every two years; those ranked ‘high risk’ every three years; ‘medium risk’ every four to five years; and ‘low risk’ every five to six years.

*Audit reports issued*

13. In 2019, the office issued 100 audit reports: 10 headquarters audits (10 per cent); 36 country office audits, including one follow-up report (36 per cent); seven Global Fund audits (including two consolidated reports) (7 per cent); 46 audits of directly implemented projects (one of which pertained to the United Nations Capital Development Fund) (46 per cent); and one inter-agency consolidated report (1 per cent) (see figure 1). In accordance with decision 2013/24, annex 2 presents the titles and ratings of all internal audit reports issued in 2019.

14. Since most of the audit reports issued in 2019 covered activities of UNDP offices during 2018, the audit results generally reflected the status of programmes and operations in that year. The 85 country-level audits (country office audits, directly implemented project audits, and Global Fund audits) covered about \$2.9 billion (55 per cent) of approximately \$4.7 billion in UNDP field-level expenditures. An additional \$1.2 billion in expenditures was covered by third-party audits of non-governmental organizations and nationally implemented projects. The combination of country level audits and third-party audits leads to a combined coverage of \$4.1 billion.

**Figure 1. Number, percentage,<sup>†</sup> and type of audit reports issued in 2019**

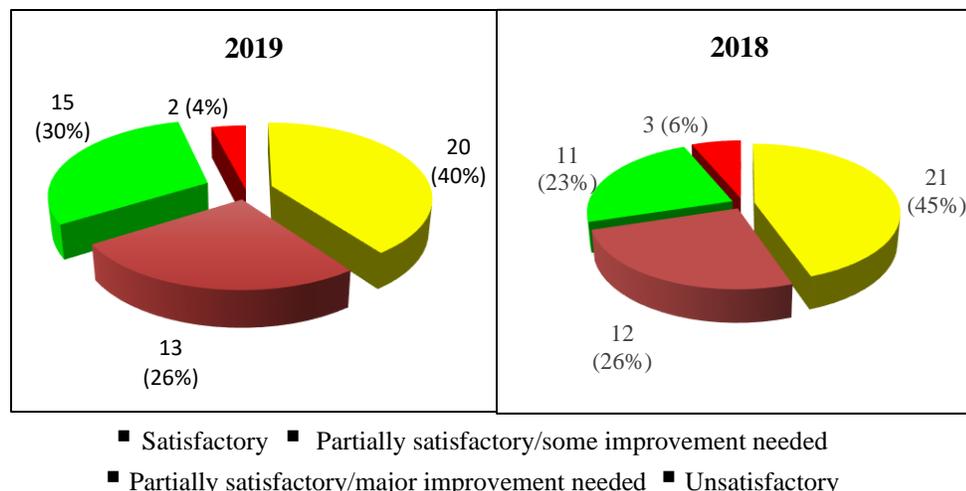
*DIM = Directly implemented*

#### *Audit rating*

15. Based on audit results, the office assigns an audit rating to applicable reports that reflects the adequacy and effectiveness of the governance, risk management and control processes at the audited-entity level. Ratings are not assigned to follow-up audits, solely financial audits of directly implemented projects, interagency audits and consolidated reports of several audits.

16. Of the 100 reports, 50 did not contain an overall rating. Of the remaining 50 reports, 15 (30 per cent) had a 'satisfactory' rating; 20 (40 per cent) had a 'partially satisfactory/some improvement needed' rating; 13 (26 per cent) had a 'partially satisfactory/major improvement needed' rating; and two (4 per cent) had an 'unsatisfactory' rating (see figure 2). The comparison of the distribution of audit ratings in 2019 with that of 2018 shows an increase in 'satisfactory' ratings; a decrease in 'partially satisfactory/some improvement' and a slight increase in 'partially satisfactory/major improvement' ratings (by 0.5 per cent); and a slight decrease in 'unsatisfactory' ratings (by 2 per cent). There were two reports with 'unsatisfactory' ratings (a country office audit and a Global Fund project audit).

<sup>†</sup> The ratio (converted into a percentage) between the number of reports by audit type and the total reports issued.

**Figure 2. Comparison of audit ratings (2019 versus 2018)**

## II. Disclosure of internal audit reports

17. In 2019, UNDP publicly disclosed 99 internal audit reports, one report was withheld (UNDP Information Security, Report No. 2045), two reports were partially redacted because they contained sensitive information. There were 5,303 visits to the disclosure webpage in 2019 (3,685 unique visitors), which was lower than the 5,580 visits in 2018 (3,840 unique visitors).

## III. Staffing and budget

18. As of 31 December 2019, the office had a total of 88 approved posts.

### *Recruitment process*

19. Of those 88 posts, 82 were encumbered and six (6) were vacant at the end of 2019. Recruitment of these six vacant posts was completed as of 31 December 2019; five newly recruited staff will join the office in the first quarter 2020 and one will join in the second quarter 2020. In 2019, the average vacancy rate was 6.8 per cent (against a target of 7 per cent), and the average time that staff positions had remained vacant was 4.3 months (against a target of six months).

### *Budget*

20. In 2019, the office had an overall approved budget of \$20.6 million<sup>‡</sup> funded from institutional budget resources (see figure 3 for a breakdown).

21. The office received an additional \$1.26 million for the audit and investigation of UNDP activities funded by Global Fund grants. The Global Fund allocation covered the funding of staff and operating costs for three audit specialist positions and one investigation advisor, based in Dakar, Istanbul, Pretoria and New York.

22. A total of approximately \$0.83 million in direct audit costs was charged to the respective budgets of directly implemented projects audited in 2019.

<sup>‡</sup> The Office of Audit and Investigations' portion of rent is \$971,000, which is excluded from this figure.

**Figure 3. Resources in 2019, excluding Global Fund**

Category	Millions of United States dollars
Audit	10.7
Investigations	7.8
Management and support	2.0
Audit and Evaluation Advisory Committee	0.1
<b>Total</b>	<b>20.6</b>

## IV. Significant internal audit results

### A. Headquarters audits

23. The office conducted ten headquarters audits in 2019. Of those, four were performance audits covering the Crisis Bureau, the resident representative/resident coordinator delinking process, UNDP travel management, and the early recovery projects (Yemen).

24. The audits of the Crisis Bureau, the management of outsourced information and communications technology (ICT) services, the management of ICT services outsourced to the International Computing Centre (ICC), and the resident representative/resident coordinator delinking process resulted in an overall rating of ‘satisfactory’.

25. The audit of ICT governance, UNDP information security, Sustainable Development Goals data management, and UNDP travel management resulted in an overall rating of ‘partially satisfactory/some improvement needed’. For the audit of Sustainable Development Goals data management, this rating was due to weaknesses in the governance of Sustainable Development Goals data collection, including the terms and guidance in defining the UNDP role in this process. For the audit of UNDP travel management, the rating was based on instances of non-compliance with UNDP policies and procedures.

26. The audits of UNDP treasury management and early recovery projects (Yemen) both resulted in an overall rating of ‘partially satisfactory/major improvement needed’. For the audit of UNDP treasury management, immediate action was taken for the issues identified, except for the medium risk recommendations concerning agency funding and the deactivation of bank accounts, which remained open at the end of the year. For the audit of early recovery projects in Yemen, the rating was based on weaknesses in monitoring and oversight of achievements; access to beneficiary data; partial implementation of the harmonized approach to cash transfers (HACT); ineffective management of cash advances; and the requirement to continuously monitor community health, safety and security.

27. The 10 headquarters audit reports resulted in 23 recommendations, nine of which (39 per cent) were ranked ‘high priority’.

### B. Country office audits

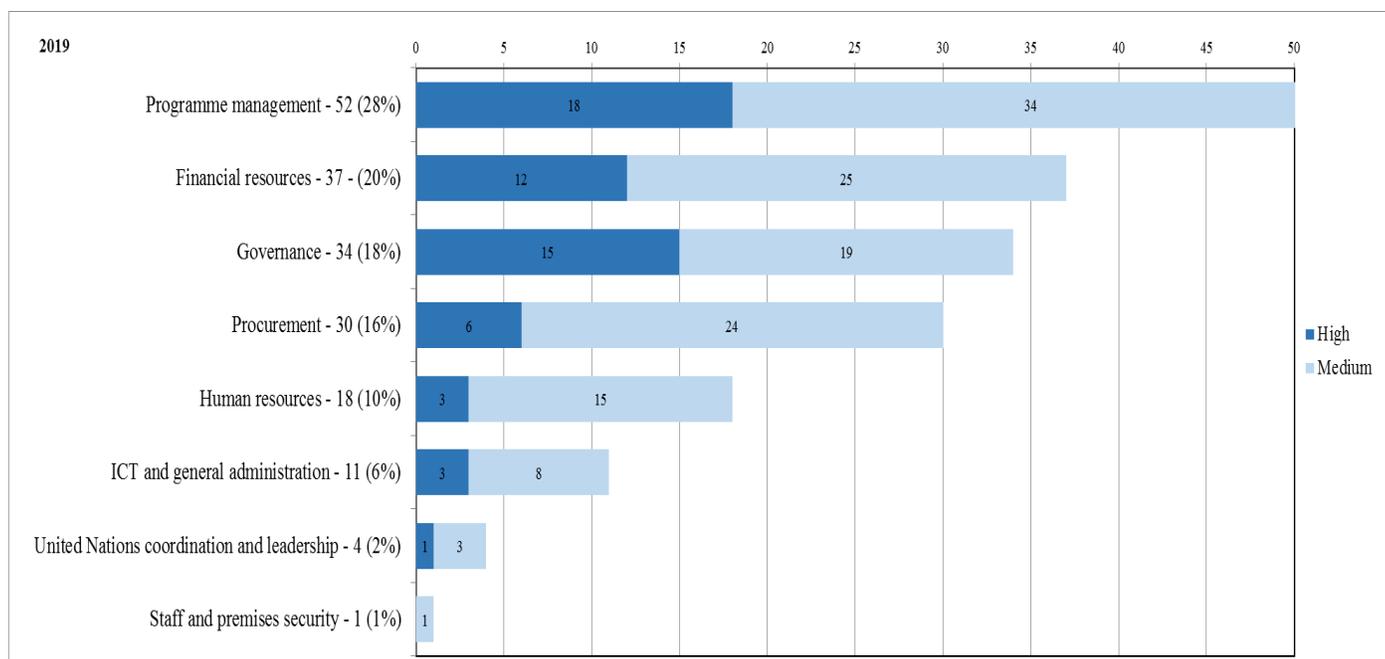
28. The 36 country office audit reports issued in 2019 included 35 audits of general scope and one follow-up audit. Figure 4 groups significant issues (recurrent in at least five offices) by audit area.

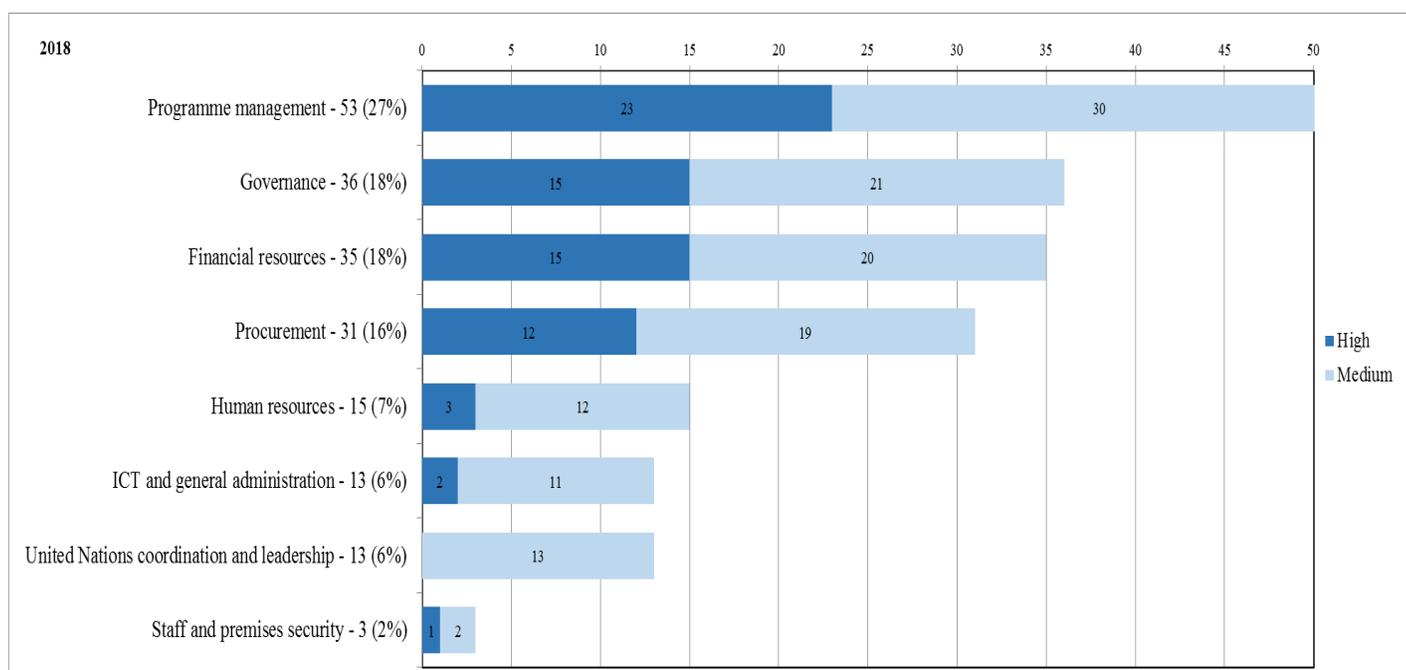
**Figure 4. Recurrent country office audit issues**

Audit area	Recurrent audit issues
Programme/project management	- Weakness in programme and project management, such as weak project monitoring, delays in project implementation and poor project design (28 offices). - Delays in the closure of completed projects in the Atlas system (6 offices).
Procurement	- Inadequate controls in procurement management, such as weaknesses in the review by the Contracts, Assets and Procurement Committee (including completing procurement training and use of Advisory Committee on Procurement (ACP) procurement platform), shortcomings in the sourcing of suppliers, including due diligence and ensuring correct use of requisitions and purchase orders (17 offices). - Inadequate procurement planning (9 offices)
Financial management	- Weaknesses in financial management, such as inadequate control over cash transfers, incomplete implementation of direct project costing and exceptions in the bank reconciliation (20 offices).
Governance	- Financial sustainability concerns, weaknesses within the control environment, including lack of segregation of duties, inefficiencies within the organizational structure, including updating reporting lines, finalizing recruitment and strengthening coordination between units (18 offices).
Human resources	- Weaknesses in human resource management, such non-completion of salary surveys, non-completion of UNDP mandatory training, weaknesses within recruitment processes, including ensuring process is transparent and documented, and lapses in the management or service contracts (11 offices).

29. The above audits resulted in 187 recommendations, 58 (31 per cent) of which were rated ‘high priority’. Figure 5 provides a thematic breakdown of the recommendations for 2018 and 2019.

**Figure 5. Distribution and prioritization of country office audit recommendations in 2018 and 2019 internal audit reports**





### C. Global Fund audits

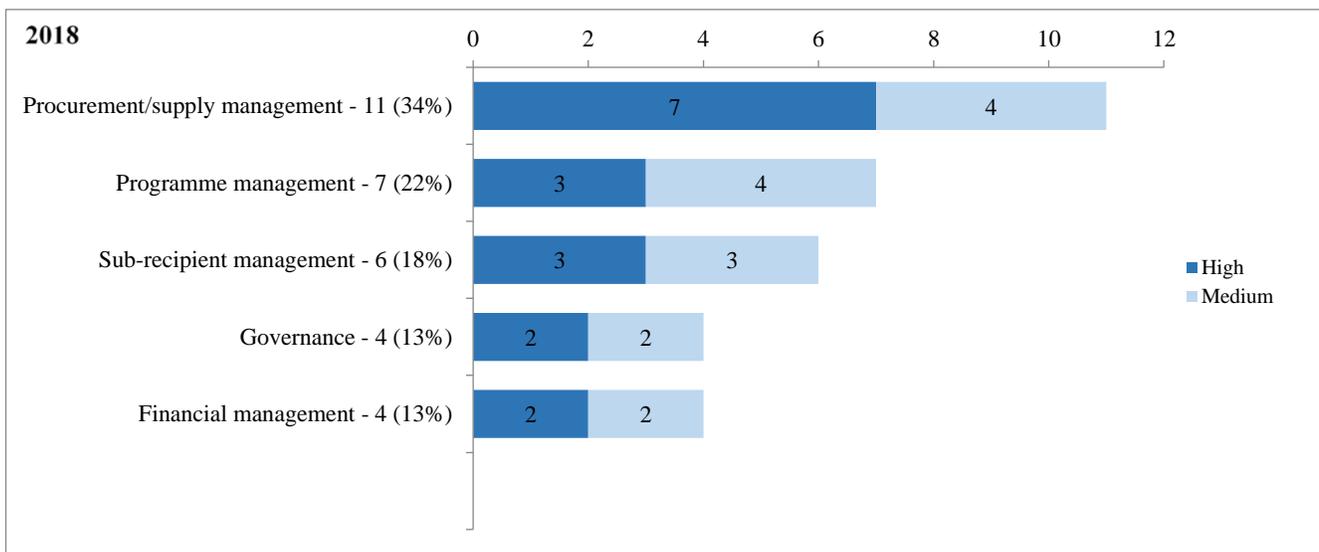
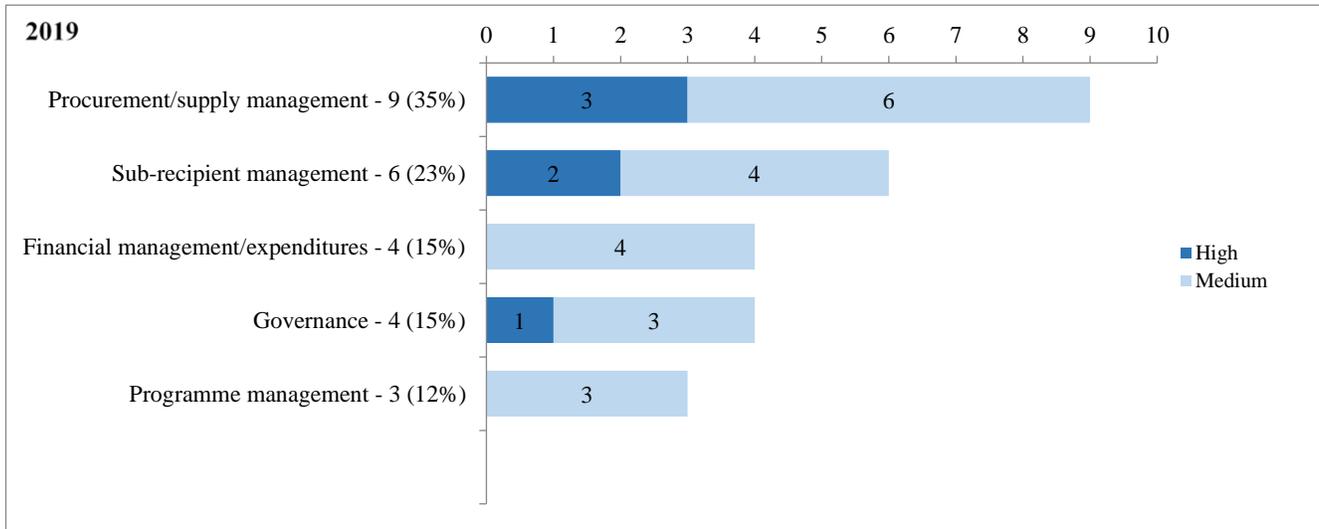
30. The office issued seven Global Fund audit reports (five country office and two consolidated reports) in 2019. They covered the management of Global Fund grants in four country offices (three in Africa and one in Asia). Figure 6 lists significant issues (recurrent in at least three offices), grouped by audit area.

**Figure 6. Recurrent Global Fund audit issues**

Audit area	Recurrent audit issues
Procurement and supply chain management	Weaknesses in procurement and supply chain management, such as lapses in quality assurance of health products, inadequate control over inventory management (3 offices).
Sub-recipient management	Weaknesses in sub-recipient management, such as lapses in their selection and monitoring (3 offices).

31. The seven audit reports related to grants managed by UNDP as principal recipient contained 26 recommendations (six 'high' and 20 'medium'), 15 (58 per cent) of which were in the areas of: (a) procurement and supply chain management; and (b) sub-recipient management. The significant issues are grouped, according to audit area, in figure 7.

**Figure 7. Distribution and prioritization of Global Fund audit recommendations in 2018 and 2019 internal audit reports**



**D. Project audits**

32. In 2019, 46 projects were audited separately and not as part of a country office audit, with total audited expenditure amounting to \$623 million. Of those, 45 were directly implemented by UNDP and amounted to \$619.4 million. The remaining project, which was directly implemented by the United Nations Capital Development Fund, amounted to \$3.6 million.

33. All of the 46 projects were audited by audit firms contracted by the office, resulting in 40 unqualified (including the one project directly implemented by the United Nations Capital Development Fund), four qualified, and two adverse opinions. The qualified and adverse opinions resulted in a total net financial misstatement of \$10.6 million, or 2 per cent of the total audited expenditure (\$619.4 million), down from \$45.4 million, or 8.6 per cent of the total audited expenditure (\$528.1 million) in 2018. Of the total financial misstatement in 2019, 82 per cent

(\$8.7 million) was related to one project managed by the UNDP Programme of Assistance to the Palestinian People.

34. The audits of the 46 directly implemented projects resulted in 42 recommendations of which 11 are ‘high’ and 31 ‘medium’, with a significant number of recommendations (31 per cent) in the area of financial resources management, such as expenses recorded in incorrect accounting period, overstatement or understatement of the Combined Delivery Report (CDR) and value added tax not recovered. The audit of the project directly implemented by the United Nations Capital Development Fund resulted in one recommendation.

### **E. Inter-agency audits**

35. In 2019, the Office of Audit and Investigations issued a report on delivering-as-one in Papua New Guinea, conducted by the internal audit services of several United Nations organizations.

36. Since 2010, based on audit frameworks agreed with members of the United Nations Representatives of Internal Audit Services, the office has issued 26 inter-agency audit reports covering selected multi-partner trust funds; delivering-as-one; and HACT.

## **V. Follow-up to audit recommendations**

37. The overall implementation rate of audit recommendations was 90 per cent as of 31 December 2019, which was below the rate achieved in 2018 (95 per cent). The rate covered all reports issued by the office from 1 January 2017 to 30 November 2019.

38. There were 10 recommendations that had not been fully implemented for 18 months or more as of 31 December 2019 (see annex 3), compared to four in 2018. Of the 10 recommendations, six (two ‘high priority’ and four ‘medium priority’) pertained to the audit of the UNDP clustering process. The remaining recommendation pertained to an audit of government cost-sharing management (two ‘high’ recommendations) and the Regional Bureau for Latin America and the Caribbean (two ‘medium’ recommendations).<sup>§</sup>

39. Eight recommendations from audit reports issued between 2017 and 2019 were withdrawn in 2019. They were withdrawn after sharing the considerations with the Director of the office (see figure 8); five recommendations were withdrawn as they were no longer applicable. The remaining three recommendations were withdrawn for the following reasons: change in circumstances (one case); and acceptance of residual risk by management (two cases). A more detailed presentation is included in annex 4.

**Figure 8. Number of recommendations withdrawn in 2019**

<b>Year report issued</b>	<b>No. of recommendations</b>
2017	1
2018	6
2019	1
<b>Total</b>	<b>8</b>

<sup>§</sup> The situation reported is as of 31 December 2019.

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

40. The audits for fiscal year 2018 were conducted by supreme audit institutions or audit firms engaged and managed by UNDP country offices. As of 31 December 2019, the office had received 717 audit reports, with 13 reports ‘outstanding’ (from the UNDP offices in the Central African Republic, Cyprus, Gabon and Yemen).

### *Results of review*

41. Of the 717 reports received, the office reviewed 306 in depth, representing \$1.00 billion in expenses (88 per cent of the audited expenses).

42. Review letters from the Office of Audit and Investigations were issued to all 90 country offices that had submitted project audit reports. Figure 9 shows the number of countries that received ‘satisfactory’, ‘partially satisfactory’, and ‘unsatisfactory’ reviews for fiscal years 2017 and 2018. The review 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 the audit exercise.

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

Rating	Overall rating			
	Fiscal year 2018 (Audits conducted in 2019)		Fiscal year 2017 (Audits conducted in 2018)	
	Number of countries	%	Number of countries	%
Satisfactory	64	71	73	74
Partially satisfactory	16	18	15	15
Unsatisfactory	10	11	10	10
<b>Total number of country offices</b>	<b>90</b>	<b>100</b>	<b>98</b>	<b>100</b>

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

43. The audit reports of non-governmental organizations/nationally implemented projects that were reviewed in detail contained 977 issues. Fifty-one per cent of the issues pertained to financial management.

44. The office monitored the actions taken by country offices to implement the audit recommendations. As of 31 December 2019, 62 per cent of the 977 audit issues had been implemented or were no longer applicable.

### *Audit opinions and net financial misstatement*

45. For the reports with modified opinions, the office calculated the total net financial misstatement for fiscal year 2018 to be a net overstatement of \$1.7 million (compared to \$25.9 million for fiscal year 2017), or 0.1 per cent of the total audited expenditure (\$1.20 billion). The net financial misstatement of \$1.7 million for fiscal year 2018 related to an overstatement of \$3.7 million for 21 country offices and an understatement of \$2.0 million for three country offices. The qualifications

were due mainly to unsupported expenses (21 projects), or expenditure recorded incorrectly and incorrect recording of advances or expenses (nine projects).

*Country offices where the harmonized approach to cash transfers is fully implemented*

46. For financial year 2018, 23 country offices (Argentina, Bangladesh, Bhutan, Bosnia and Herzegovina, Cambodia, Cape Verde, China, the Democratic Republic of the Congo, Egypt, India, Indonesia, Kenya, Malawi, Malaysia, Morocco, Rwanda, Samoa, Sri Lanka, the United Republic of Tanzania, Thailand, Uruguay, Viet Nam and Zimbabwe) had fully transitioned to HACT and applied the corresponding assurance activities as prescribed in this approach.

47. As of 31 December 2019, the office had completed the review of 110 HACT audit reports. Of those reports, 83 were related to financial audits and 27 to internal control audits. The auditors provided 'unmodified' opinions for 79 of the 83 financial audit reports reviewed.

## VII. Investigations

48. During 2019, the office opened 370 new cases, equalling the previous highest number recorded in 2015, and carried over 256 cases from 2018, bringing the 2019 caseload to 626.

49. The office closed 274 of those 626 cases in 2019. At the end of 2019, 352 cases were carried over to 2020 (see figure 10).

**Figure 10. Office of Audit and Investigations caseload, 2018 and 2019**

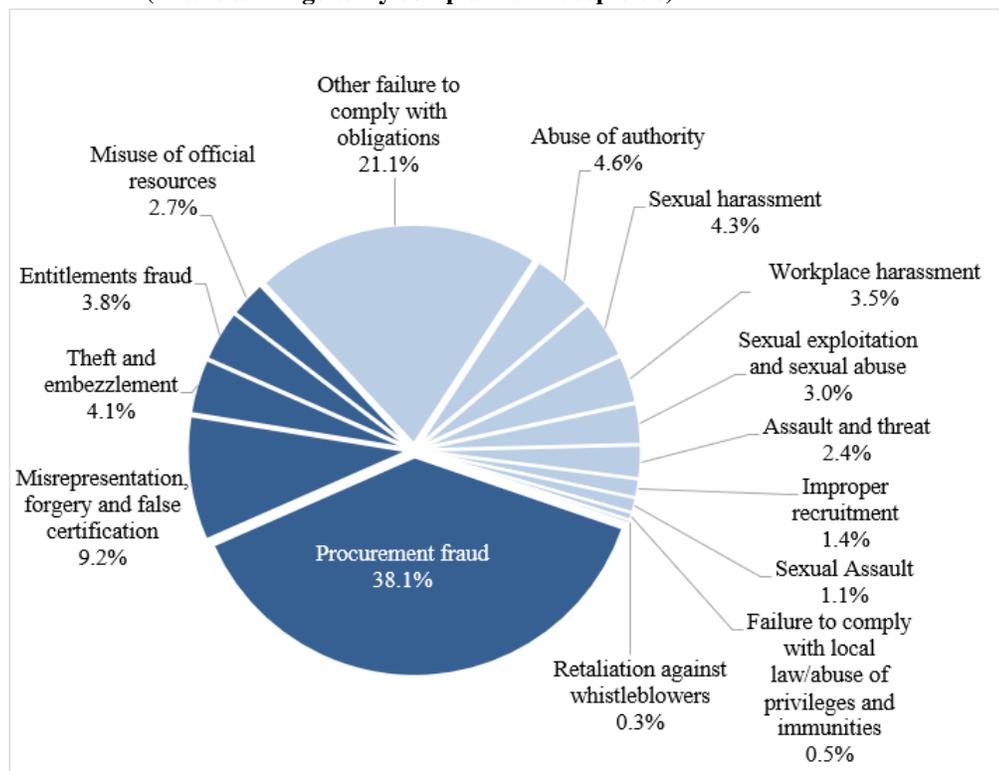
Caseload	2018	2019
Carry-over as of 1 January	226	256**
Intake during the year	294	370
<b>Total cases during the year</b>	<b>520</b>	<b>626</b>
Closed (from cases carried over)	175	172
Closed (from intake)	88	102
<b>Total closed</b>	<b>263</b>	<b>274</b>
Carried forward as of 31 December	257	352

*Types of complaints*

50. Complaints are reported to the office by mail, email, telephone, personal interactions and referrals. Complaints relating to financial irregularities (procurement fraud; theft and embezzlement; misuse of official resources; misrepresentation, forgery and false certification; and entitlements fraud) constituted 57.9 per cent of the cases received by the office in 2019, a 3.9 percentage point increase compared to the 54.0 per cent recorded in 2018. Complaints relating to sexual misconduct (sexual assault, sexual harassment and sexual exploitation and abuse) constituted 8.4 per cent of the cases received by the office in 2019, a 2.5 percentage point decrease compared to the 10.9 per cent recorded in 2018 (see figure 11).

\*\* One case from the carry-over was archived in the investigations database as it consisted of the same allegations against the subject of another case currently under investigation.

**Figure 11. Types of complaints received in 2019<sup>††</sup>  
(financial irregularity complaints in deep blue)**



51. In 2019, the office received the most complaints from the Africa region (101 cases), followed by Arab States (79 cases), Europe and the Commonwealth of Independent States (48 cases), Asia and the Pacific (36 cases), and Latin America and the Caribbean (19 cases). Sixty-six complaints involved staff members or other personnel on UNDP contracts assigned to other United Nations organizations. The office received 21 complaints involving headquarters staff (see figure 12).

<sup>††</sup> Entitlements fraud includes medical insurance fraud, rental subsidy fraud, educational grant fraud, and other fraud committed in connection with the benefits and entitlements provided to UNDP personnel. Misrepresentation, forgery and false certification includes actions such as submitting false documentation of expenses for reimbursement on project implementation, misrepresenting employment experience, submitting fraudulent bid documents, and forging signatures on overtime forms. Misuse of official resources includes using official property, assets, equipment or files – including electronic files or data – for private benefit or in a way that is detrimental to UNDP. Other failure to comply with obligations encompasses cases such as not declaring a conflict of interest with a vendor, not cooperating with an investigation, and engaging in outside employment without authorization.

**Figure 12. Complaints received in 2019, by region**

	Number of complaints received
Africa	101
Arab States	79
Other United Nations organizations	66
Europe and the Commonwealth of Independent States	48
Asia and the Pacific	36
Headquarters	21
Latin America and the Caribbean	19
<b>Total</b>	<b>370</b>

### *Processing of cases*

52. Of the 274 cases that were closed in 2019, 70 cases (26 per cent of the cases finalized) were closed after an initial assessment because there was insufficient evidence of wrongdoing to justify an investigation, the allegations did not fall within the mandate of the office, or an investigation was not warranted.

53. The remaining 204 cases were closed as a result of an investigation in which 116 cases (56.9 per cent) were found to be unsubstantiated. Of the remaining cases, 84 cases (41.2 per cent) resulted in 79 investigation reports establishing evidence of misconduct or other wrongdoing.<sup>‡‡</sup> In addition to the 84 cases substantiated through investigation reports, the office issued one financial loss report<sup>§§</sup> and three options letters<sup>\*\*\*</sup> (see figure 13).

54. The office set a target to close 50 per cent of the cases under assessment within three months and 50 per cent of the cases under investigation in under one year.<sup>†††</sup> Of the 70 cases closed after assessment, 38.6 per cent were finalized within the key performance indicator target of three months.<sup>‡‡‡</sup> Of the 204 cases closed as a result of an investigation, 65.2 per cent were finalized within the key performance indicator target of under one year.

55. At the end of 2019, 60 cases were still under assessment and 292 under investigation.

<sup>‡‡</sup> For cases involving vendor collusion, the reviewing body, the Vendor Review Committee, requested that the office produce one report irrespective of the number of vendors involved in the same collusion. Therefore, seven cases were substantiated by two reports.

<sup>§§</sup> A financial loss report is a report whereby a loss of funds to the organization is established but where the responsible party has not been identified. A case resulting in a financial loss report is considered substantiated.

<sup>\*\*\*</sup> Options letters are instruments by which UNDP personnel, against whom there is evidence of wrongdoing, are given an option to resign with specific conditions, including a commitment to reimburse any financial loss resulting from the wrongdoing, instead of facing the consequences of a full investigation and a possible disciplinary process. A case resulting in the issuance of an options letter is considered substantiated.

<sup>†††</sup> This is in accordance with the UNDP Legal Framework, Chapter III, Section 1.4, which states, “To the extent possible, depending on the complexity of a case and the availability of investigative resources, the period between the date the allegations of wrongdoing are reported to OAI [the office] and the completion of the investigation should not normally exceed 270 working days.” There are roughly 260 working days in one calendar year, therefore the office has used one calendar year (365 calendar days) as its metric for investigations.

<sup>‡‡‡</sup> This number is explained by the increased case intake and the fact that the office took action to finalize aging cases under assessment.

Figure 13. Disposition of cases

Actions taken	No. of cases 2018	No. of cases 2019
<i>After assessment</i>		
Closed, investigation not warranted	57	57
Referred to other United Nations organizations	-	10
Referred to other UNDP offices		3
<b>Total</b>	<b>57</b>	<b>70</b>
<i>After investigation</i>		
Closed ( <i>not substantiated</i> )	<b>128</b>	<b>116</b>
Closed ( <i>substantiated</i> )		
- Submitted to Legal Office	27	19
- Submitted to country offices	18	13
- Submitted to the Vendor Review Committee	30	35
- Submitted to other organizations	2	14 <sup>§§§</sup>
- Submitted to other UNDP offices	1	4
- Options letter issued	-	3 <sup>****</sup>
<b>Subtotal (<i>substantiated</i>)</b>	<b>78<sup>††††</sup></b>	<b>88<sup>††††</sup></b>
<b>Total cases closed after investigation</b>	<b>206</b>	<b>204</b>
<b>Total cases closed during the year</b>	<b>263</b>	<b>274</b>
<b>Investigation reports issued</b>	<b>78</b>	<b>80<sup>§§§§</sup></b>
<b>Management letters issued</b>	<b>8</b>	<b>3</b>

*Substantiated cases*

56. The misconduct identified in the 88 substantiated investigation cases was mainly procurement fraud (37 cases, or 42 per cent); misrepresentation, forgery and false certification (12 cases, or 14 per cent and other failure to comply with obligations (10 cases, or 11 per cent) (see figure 14). A summary of the substantiated investigations in 2019, by type of allegation, is included in annex 5.

<sup>§§§</sup> Due to the nature of the case, it was reviewed by another United Nations organization on behalf of UNDP.

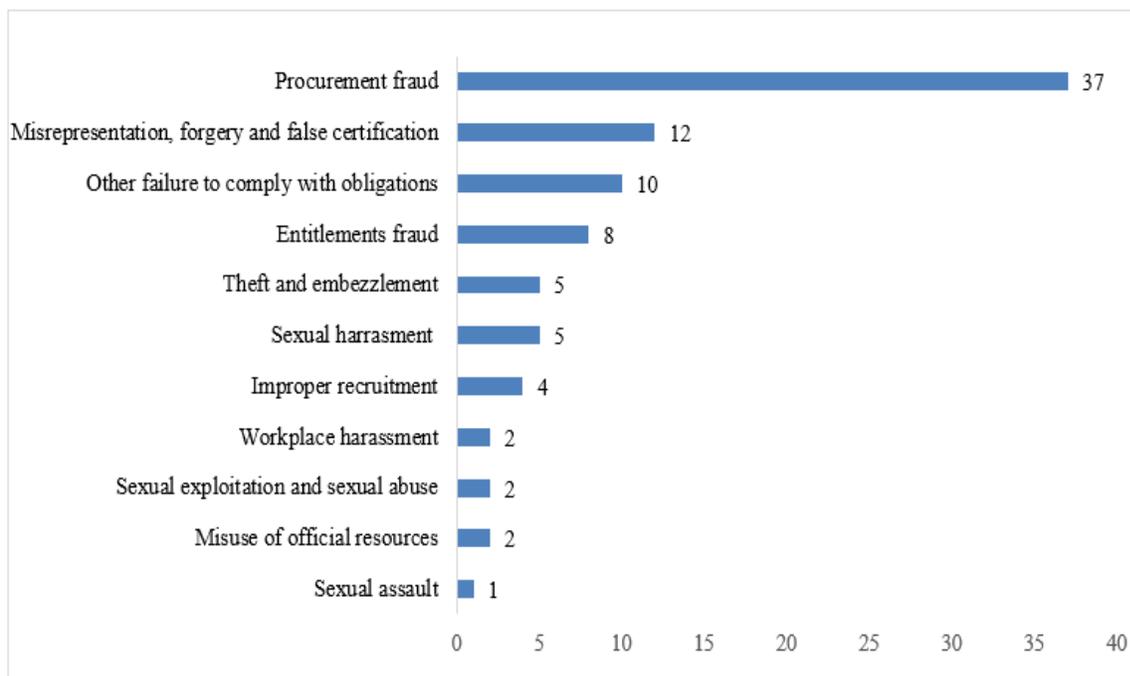
<sup>\*\*\*\*</sup> Options letters are instruments by which UNDP personnel, against whom there is evidence of wrongdoing, are given the option to either resign under certain conditions, including a commitment to reimburse any financial loss resulting from the wrongdoing, or be subjected to a full investigation and possible disciplinary process.

<sup>††††</sup> The office issued one financial loss report in 2018.

<sup>†††</sup> The office issued one financial loss report in 2019.

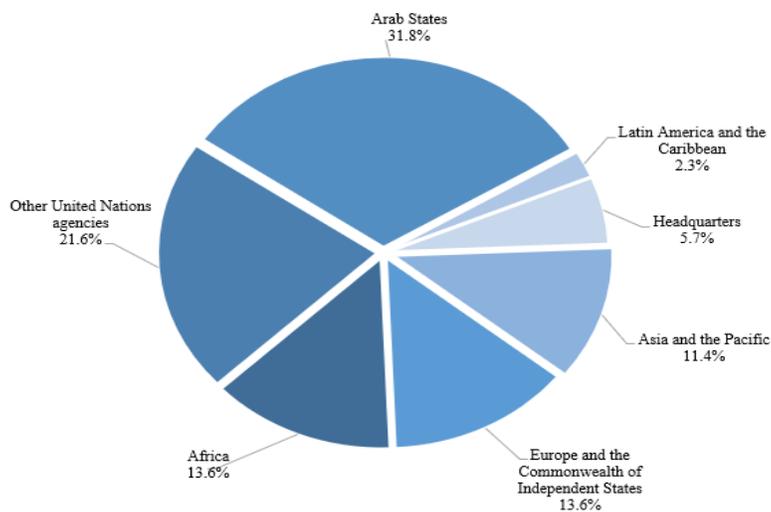
<sup>§§§§</sup> Seventy-nine (79) investigation reports established evidence of misconduct or other wrongdoing. In addition, one case resulted in an investigation report, even though the allegations were not substantiated, due to procedural requirements.

**Figure 14. Cases substantiated in 2019, by category**



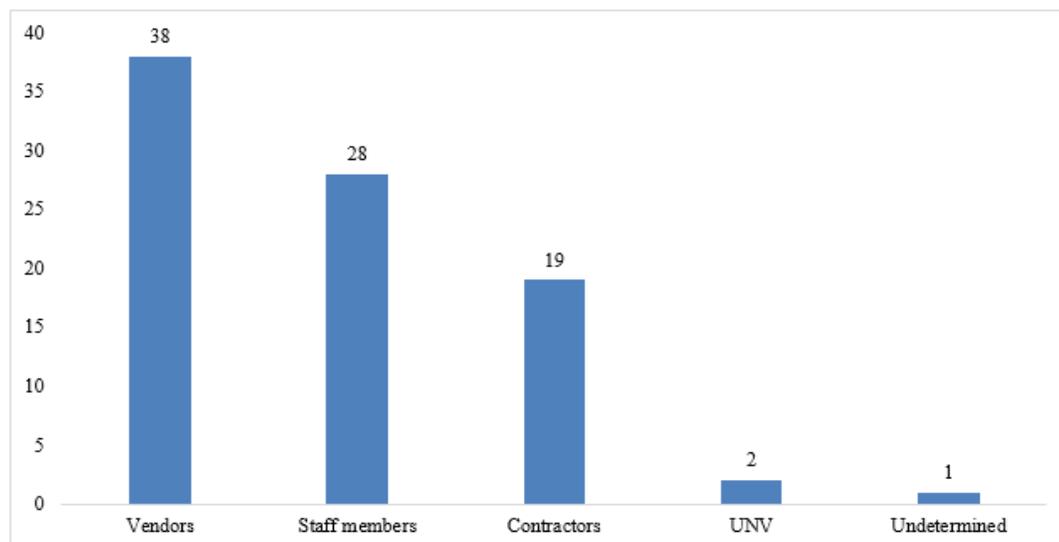
57. Of the 88 substantiated cases, 31.8 per cent (28 cases) occurred in the Arab States region, 21.6 per cent (19 cases) in other United Nations organizations, 13.6 per cent (12 cases) in the Africa region, 13.6 per cent (12 cases) in the Europe and the Commonwealth of Independent States region, 11.4 per cent (10 cases) in the Asia and the Pacific region, 5.7 per cent (5 cases) at Headquarters and 2.3 per cent (2 cases) in the Latin American and the Caribbean region (see figure 15).

**Figure 15. Cases substantiated in 2019, by region**



58. The 88 substantiated cases involved 28 staff members (UNDP staff and staff for whom the office received a delegation of authority to investigate),<sup>\*\*\*\*\*</sup> 38 vendors,<sup>†††††</sup> 19 contractors (13 service contract holders and six individual contractors) and two United Nations Volunteers (see figure 16). In one case, the subject was undetermined by 31 December 2019.

**Figure 16. Cases substantiated by contractual status**



#### *Sexual misconduct*

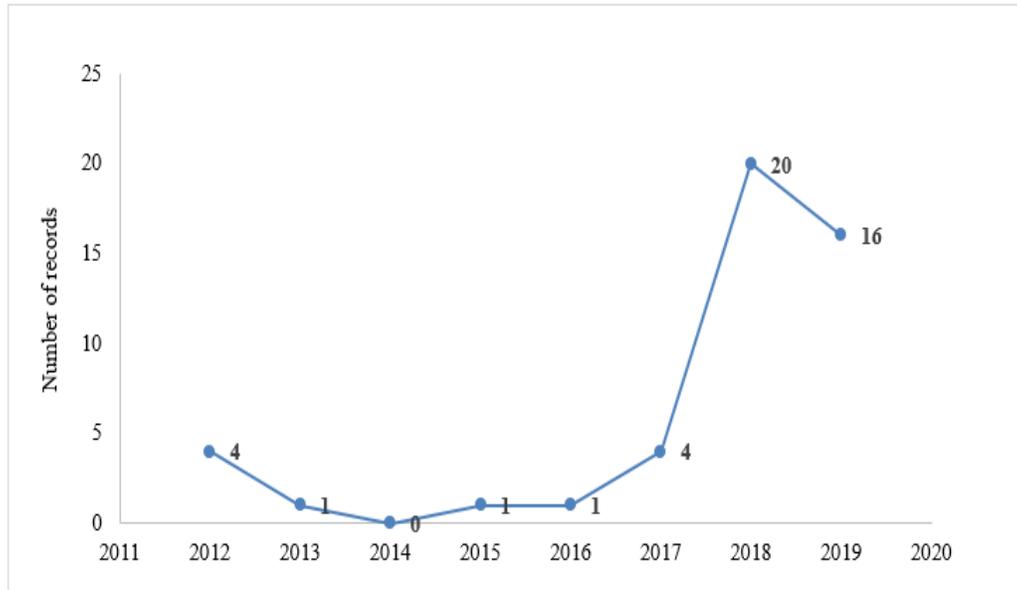
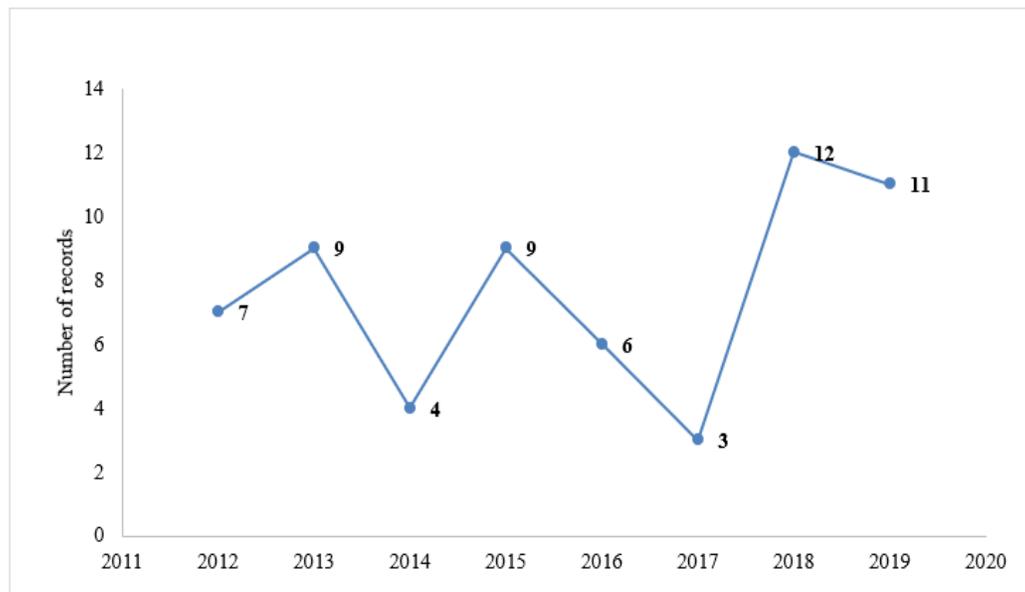
59. In 2019, the office opened 31 cases related to sexual misconduct (16 sexual harassment complaints, 11 sexual exploitation and abuse complaints, and four complaints related to sexual assault). This is one less complaint of sexual misconduct than 2018, when the office opened 20 complaints of sexual harassment and 12 complaints of sexual exploitation and abuse (see figures 17 and 18).<sup>†††††</sup> In addition, the office carried over 14 sexual misconduct cases from 2018 to 2019 (nine sexual harassment complaints and five sexual exploitation and abuse complaints).

60. In 2019, the office substantiated eight cases of sexual misconduct (five sexual harassment cases, two sexual exploitation and abuse cases, and one sexual assault case). This is an increase of one case compared to 2018, when the office substantiated seven cases of sexual misconduct (four sexual harassment cases and three sexual exploitation and abuse cases). The office closed a total of 30 cases related to sexual misconduct in 2019. Seven sexual harassment complaints, five sexual exploitation and abuse complaints, and three sexual assault complaints were carried over to 2020.

<sup>\*\*\*\*\*</sup> Six cases involved staff members in other United Nations organizations that held UNDP letters of appointment.

<sup>†††††</sup> For three cases related to vendors in other United Nations organizations, the office submitted investigation reports to the relevant offices.

<sup>†††††</sup> 2019 was the first year that sexual assault was reported as a separate category.

**Figure 17. Sexual harassment cases received, 2012-2019****Figure 18. Sexual exploitation and sexual abuse cases received, 2012-2019***Management letters*

61. In 2019, the office issued three management letters to concerned business units to address weaknesses in internal controls, as noted in the investigations conducted by the office. Two of the management letters concerned recommendations for improving the country office's procurement processes and one of the management letters concerned recommendations for strengthening security measures in the country office premises.

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

62. The total financial loss for UNDP that was substantiated in investigation reports from the office during 2019 amounted to \$869,307. According to the Office of Financial Resources Management, Bureau for Management Services, the total financial loss from investigation reports that were submitted from 2013 to 2019 was \$8,549,226, of which \$7,408,910 was deemed recoverable by the Legal Office. Of the \$7,408,910, \$3,712,828 has been recovered, slightly more than 50 per cent of the loss.

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

63. Follow-up actions taken by other offices of UNDP (the Legal Office, the Ethics Office, country offices, the Vendor Review Committee, and regional bureaux) in the cases substantiated by the office are detailed below.

64. Based on the 20 investigation reports concerning staff members, one staff member was dismissed and two were separated from service. A letter was placed in the file of one staff member who had separated prior to the completion of the investigation, indicating, pursuant to Article 72 of the Legal Framework, that they would have been charged with misconduct had they remained with the organization. One staff member was exonerated of the allegations. Of the remaining 14 reports, 13 were still under review by the Legal Office at the end of 2019. One report, due to a conflict of interest, was under review by the legal office of another organization.

65. As a result of the 13 reports that the office submitted to country offices, seven service contract holders had their contracts terminated. Three service contract holders and one individual contract holder had either resigned or been otherwise separated prior to the finalization of the investigation. One service contractor received a reprimand and a written warning. One report was still under review by a country office at the end of 2019.

66. Of the 30 reports submitted by the Office to the Vendor Review Committee in 2019, nine were finalized and closed by the end of the year, resulting in 16 vendors and agents sanctioned. In addition, 12 vendors from the remaining reports received an interim suspension pending finalization by the committee.

67. Of the three reports submitted by the office to another UNDP office in 2019, one individual contract was not renewed, one individual contract expired, and one individual contract holder had resigned before the investigation report was issued.

68. Out of three investigation reports submitted to the United Nations Volunteers Advisory Panel on Disciplinary Measures in 2019, two received letters of censure and no action was taken on the remaining report. Out of the ten investigation reports submitted to other United Nations organizations, one resulted in a termination and three were opened for investigation. The remaining six investigation reports were under review at the end of the year.

*Social and environmental compliance*

69. In 2019, the Social and Environmental Compliance Unit (SECU) registered one new case for a total of twelve registered cases, of which nine are open. The open cases are from Bosnia and Herzegovina, Cameroon, the Congo, Jordan, Malawi, Mauritius, Myanmar, Panama and Uganda. In 2019, one case from Argentina was determined to be ineligible for a compliance review. Three cases, from Bosnia, Panama and Uganda, have completed the investigation phase with the UNDP Administrator's decision and are now in the monitoring phase. SECU issued two final investigation reports to the UNDP Administrator for Jordan and Malawi. Three field missions for cases in Cameroon, the Congo and Myanmar were conducted.

70. SECU conducted outreach activities in 2019 to improve understanding about its mission, mandate and activities to partners and potential stakeholders. It conducted a joint outreach event in Bangladesh with accountability mechanisms from the Green Climate Fund, the Asian Development

Bank, the World Bank and the International Finance Corporation. It continued its outreach activities through social media and other digital forums.

*Prevention of sexual harassment and sexual exploitation and abuse*

71. During 2019, the office was an active member of the UNDP Task Force on the Prevention of Sexual Harassment and Sexual Exploitation and Abuse and assisted with establishing the clear check screening standard operating procedures as well as the revision of various UNDP contractual agreements with vendors, non-staff personnel and implementing partners to strengthen obligations on preventing and responding to sexual harassment and sexual exploitation and abuse.

72. The office recruited one staff member at the P4 level to serve as a focal point in the investigation of cases of sexual harassment and to act as the primary representative of the office for UNDP response and initiative in this important area. It also recruited two P3 level investigators who will work primarily on sexual misconduct cases and are scheduled to commence working with the office in the first quarter of 2020.

73. During 2019, the office participated in several inter-agency technical working groups, such as the Chief Executives Board Task Force for Addressing Sexual Harassment in the United Nations system and the Inter-Agency Standing Committee-Chief Executives Board Meeting of Investigative Bodies on Preventing Sexual Exploitation and Abuse and Sexual Harassment in the Humanitarian Sector. The office also participated in the training of Interagency Prevention of Sexual Exploitation and Abuse Country Office Focal Points and provided input for various ongoing sexual exploitation and abuse initiatives proposed by the Office of the Special Coordinator on Improving the United Nations Response to Sexual Exploitation and Abuse. The office also helped raise awareness of sexual harassment and sexual exploitation and abuse through presentations to other UNDP offices as well as the Office of Audit and Investigations.

74. Since 1 January 2019, all participating offices and United Nations organizations have had to report credible allegations of sexual exploitation and abuse “on a near-real-time” basis to the Secretary General via the i-Report sexual exploitation and abuse tracker. The i-Report tracker is a secured online database containing information on allegations of sexual exploitation and abuse which are reported to the Secretary-General. During 2019, the office reported six cases of sexual exploitation and abuse that were deemed to be credible allegations through the i-Report sexual exploitation and abuse tracker.

*Other investigative activity*

75. In 2019, the office implemented a pilot project involving options letters that had been developed in 2018 in consultation with the Director, Bureau for Management Services, and the Director, Legal Office. Options Letters are instruments by which staff members, against whom there is evidence of wrongdoing, are given the option to resign under certain conditions, including a commitment to reimburse any financial loss resulting from the wrongdoing, or be subjected to a full investigation and a possible disciplinary process. The office closed three cases in 2019 through the issuance of options letters.

## **VIII. Coordination within the United Nations system**

76. The office continued to interact with Member States and other internal audit and investigation offices in the United Nations system 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. In early January 2020, the office hosted a seminar on performance auditing for the United Nations and other multilateral organizations.

77. The office is a member of the United Nations Representatives of Internal Audit Services and the Secretariat of the Conference of International Investigators. The Director of the Office of Audit

and Investigations participated in the annual conference of the United Nations Representatives of Internal Audit Services in 2019.

## IX. Advisory and other audit services

### *Advisory services*

78. The office carried out the fieldwork for an advisory review for streamlining controls in project management in 2019. It also responded to ad hoc queries from country offices and headquarters units and provided advice on audit clauses and the audits of nationally implemented and directly implemented projects.

## X. Opinion

79. The opinion presented by the office is based on the following results:

- (a) Audits of country offices, headquarters functions or units, activities funded by the Global Fund, directly implemented projects, and nationally implemented projects issued between 1 January 2019 and 31 December 2019.
  - (i) *By audited expenditure.* The combined rates of audits with ‘satisfactory’ and ‘partially satisfactory/some improvement needed’ ratings decreased from 76.8 per cent in 2018 to 53.3 per cent in 2019. Additionally, the combined rates of audits with ‘partially satisfactory/major improvement needed’ and ‘unsatisfactory’ ratings increased from 23.2 per cent in 2018 to 46.6 per cent in 2019, (see blue coloured columns in figure 19). A significant portion of the increase in the ‘partially satisfactory/major improvements needed’, is limited to three audits (reference footnote <sup>22</sup>) and does not indicate an organization-wide deficiency.
  - (ii) *By number of audit reports issued.* This includes country office audits, Global Fund audits, headquarters audits and directly implemented audits conducted and rated by the office. The combined rates of audits with ‘satisfactory’ and ‘partially satisfactory/some improvement needed’ ratings increased from 68.1 per cent in 2018 to 70.0 per cent in 2019. Additionally, the combined rates of audits with ‘partially satisfactory/major improvement needed’ and ‘unsatisfactory’ ratings decreased from 31.9 per cent in 2018 to 30.0 per cent in 2019, (see yellow coloured columns in figure 19). In 2019, compared to the corporate targets, three of the four rates were aligned to the corporate target (‘partially satisfactory/some and major improvements’ and ‘unsatisfactory’). This was the same as in 2018.
  - (iii) The distribution of audit ratings by audited expenditure has moved away from the corporate targets, with more audited expenditure rated as ‘partially satisfactory with major improvements needed’. This seems to partly reflect the influence of three audits (reference footnote 22). The distribution of audit ratings by audit reports is close to being aligned with the corporate targets. In addition to the distribution of audit ratings by audited expenditure and by number of audit reports issued in 2019, the opinion has also been informed by the following observations.
  - (iv) *Directly implemented project audits.* The calculated total net financial misstatement in 2019 was \$10.6 million or 1.7 per cent of the total audited expenditure (\$619.4 million) compared to \$45.4 million in 2018 or 8.6 per cent of the total audited expenditure (\$528.1 million).

**Figure 19. Comparison of distribution of audit ratings by audited expenditure and by number of audit reports issued in 2018 and 2019 with UNDP targets**

Rating	By audited expenditure (combined CO, GF, HQ <sup>§§§§§</sup> , DIM, NGO/NIM)		By number of audit reports issued (Rated by the office, combined CO, GF, HQ *)		UNDP targets <sup>*****</sup>
	2018	2019	2018	2019	2018-2019
Satisfactory	40.4%	27.6 %	23.4%	30.0%	More than 30%
Partially Satisfactory/some improvement needed	36.4%	25.7%	44.7%	40.0%	More than 30%
Partially Satisfactory/major improvement needed	17.2%	39.7% <sup>†††††</sup>	25.5%	26.0%	Less than 35%
Unsatisfactory	6.0%	6.9%	6.4%	4.0%	Less than 15%
<i>Total</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>	<i>N/A</i>

\*DIM (directly implemented reports are included to the extent the audits are conducted internally and rated by the office. CO: country offices; GF: Global Fund; HQ: headquarters; NGO: non-governmental organizations; NIM: nationally implemented.

- (b) Review of audits of UNDP projects executed by non-governmental organizations and/or national governments:
- (i) *Nationally implemented project audits.* The calculated total net financial misstatement in 2019 was \$1.7 million or less than 1 per cent of the total audited expenditures (\$1.2 billion) compared to \$25.9 million in 2018 or 2 per cent of the total audited expenditure (\$1.3 billion).
- (c) The implementation rate for internal audit recommendations, including long-outstanding recommendations, decreased in 2019:
- (i) *Implementation rate of audit recommendations.* The implementation rate as of 31 December 2019 was 90 per cent, compared to 95 per cent as of 31 December 2018.
- (ii) *Long-outstanding recommendations.* There were 10 long-outstanding recommendations as of 31 December 2019, compared to four as of 31 December 2018. The increase in long-outstanding recommendations related mainly to headquarters audits.

§§§§§ Headquarters audits of business units, projects or functions with expenditure recorded, within the timeframe of the audit, are included.

\*\*\*\*\* The UNDP targets for audit ratings were set in the UNDP integrated results and resources framework, 2018-2021, a tool used to measure progress in implementing its Strategic Plan, 2018-2021. The targets pertain to the number of audit reports that should be allocated to the various audit rating categories.

††††† *Substantial audits with 'partially satisfactory/major improvements needed':* Three audits contributed to approximately 71 per cent of the audited expenditure classified as 'partially satisfactory/major improvement needed'. The three were the country office audit of UNDP in Iraq; the country office audit of UNDP in Yemen; and the performance audit of the early recovery projects Yemen. The combined audited expenditure for these was \$854,101,000. The rest of the expenditure with this rating is incurred by eight country offices and one office managing a grant from the Global Fund. The relative size of the expenditure covered in these three audits and the corresponding rating has increased the percentage of audits with 'partially satisfactory/major improvements needed' (figure 19) when comparing the figures for the prior year.

80. The qualitative nature of the audit and the investigation results was given due consideration and has been taken into account in the formulation of the opinion by the office.

81. Based on the scope of the work issued between 1 January and 31 December 2019, it is the opinion of the Office of Audit and Investigations that the elements of governance, risk management and control covered in the audit reports issued in 2019 were, in aggregate, 'partially satisfactory/some improvement needed'. This means that the majority of business units or projects audited in 2019 were adequately established and functioning but need some improvement.

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