

## **Update on Progress made in Implementing the GEF Audit Recommendations and Related Management Commitments**

### **STATEMENT TO THE EXECUTIVE BOARD OF UNDP Achim Steiner, UNDP Administrator Thursday 1 July 2021**

Madam President, and Members of the Board

As you know, over the past 6-8 months, UNDP has prioritized and accelerated a series of institutional reviews and improvements, building on our focused investments during this current Strategic Plan period to ensure that UNDP continues to be financially sound, efficient, and transparent.

2. Right now, we are:

- Swiftly implementing recommendations from the Office of Audit and Investigation's (OAI's) audit of UNDP's management of the Global Environment Facility (GEF) portfolio, as well as the independent review of the GEF Standards and Labels (S&L) project in Russia.
- Taking further steps to establish individual accountabilities related to the GEF-funded "Standards & Labels Project in Russia", as a follow up to the 2020 OAI Audit's report, to the Independent Review's conclusions and to the Management Accountability Review Panel's (MARP) most recent findings.
- In the final stages of two independent reviews of UNDP's policies as they relate to GEF's Fiduciary Standards Policy and our re-accreditation to the Green Climate Fund (GCF).

3. Today, following on from my briefing to you on the 16<sup>th</sup> of March, I am pleased to provide a further update on actions taken in response to these processes. I am joined today by the Associate Administrator, Usha Rao-Monari, a number of my Assistant Secretary Generals and Directors as well as Pradeep Kurukulasuriya, the Executive Coordinator of UNDP's GEF Portfolio.

4. Before I start, let me reiterate again, so that there is no doubt about our commitment and determination on this issue, that UNDP – and I personally – have zero tolerance for any fraud, misappropriation or irregularities that undermine or compromise in any way our ability to maintain trust and credibility with you, our partners, and to perform our duties in support of programme countries.

#### **A. Standards & Labels Project in Russia**

5. By way of a background, it is important to remember that the S&L project was implemented over a period of 10 years from its formulation starting in 2007 to its closure in early 2017. It was financed by Russia and the GEF, receiving a grant of \$7.8 million, and was executed nationally under the overall supervision of the United Nations Development Programme (UNDP) as the designated GEF Agency.

6. Almost from its inception, the S&L project was beset with complex issues including a challenging institutional environment, exacerbated by the decision to proceed with the closure of the UNDP country office in Russia in 2010. Over its lifespan, the S&L project was the subject of intense and repeated

scrutiny, where allegations of mismanagement and weaknesses in oversight by staff members were raised. Investigations conducted at the time were inconclusive in substantiating these allegations; and unfortunately, although alerts and concerns pointing at weaknesses in management practices and supervision were raised on several occasions, these were not dealt with in a timely manner by those who had management, supervisory and quality assurance responsibilities at that time.

7. When, almost three years after the project closure, the case of the “S&L project in Russia” was reopened and a number of questions were raised, requesting clarifications regarding its implementation and related allegations of mismanagement / misconduct, fraud and negligence that may have happened during the project’s lifespan, I took it upon myself to ensure that these be dealt with rigorously, transparently and responsibly.

8. In my regular communications to the Executive Board, I committed to address a number of systemic failures related to the management of GEF and also, more specifically, to establish individual management accountabilities and responsibilities related to the S&L projects. This is why, as a follow up to the 2020 OAI ‘s GEF Audit and to the Independent review of the GEF S&L project, I appointed a Management Accountability Review Panel (MARP) to enable us to clearly reconstruct and establish individual responsibilities and accountabilities in the implementation and supervision of the Standards & Labels Project in Russia throughout its lifespan. Specifically, the role of the MARP was to determine and report directly to me on:

- individual accountabilities for management and oversight issues;
- potential misconduct or fraud by individuals and, where warranted, recommendations on commissioning further specific investigations and management actions; and
- recommendations for further corporate action.

9. The establishment of MARP has proven to be an essential step in handling the inevitable challenges and limitations faced when dealing with a decade long project that closed in 2017. However, I am now confident that I have been provided with a comprehensive view of the issues faced in this project and what needs to be done in response to address individual responsibilities and accountabilities of those staff members still falling within my jurisdiction, in full compliance with the due process requirements and standards of the UN.

10. On establishing individual accountabilities, the MARP provided management with factual additional assessments, based on recent information, and pointed to several individual responsibilities. To ensure objectivity, these findings have been further reviewed and scrutinized by independent experts, within the framework of MARP itself.

11. On this basis, a number of individual responsibilities have been established in relation to:

- some instances of active mismanagement and failures or lapses in supervision and oversight across different levels;
- some failures to take timely corrective or adaptive actions to resolve problems identified from project inception until its closure early in 2017;

- some indications of non-compliance with the UN Code of Conduct and UNDP rules and procedures, varying from negligence, deficient managerial oversight, potential collusion to conflict of interest;
- some failures to report shortcomings and to elevate issues to the appropriate level of senior management, when necessary;
- some instances of downplaying the seriousness of the problems identified or not properly briefing senior management on the intensity of the situation, which led to multiple missed opportunities for UNDP over the course of a 10 year period to take timely corrective actions and adequately protect the interests of the organization.

12. Therefore, through the MARP and independent assessments, we have been able to reconstruct, in a few months, an overview of management, supervision and quality assurance responsibilities that were previously not made available in a comprehensive and consolidated fashion. These include about a dozen individuals who performed specific roles and assignments through extended time periods during the lifespan of the S&L project, but have since left the organization; and those UNDP staff members who continue to perform various functions in the organisation. The degrees of responsibility vary and so will the relevant consequences.

13. In light of these comprehensive findings, I will proceed with activating relevant administrative and interim precautionary measures for about half a dozen individuals which may include: formal reprimands, withdrawal of delegation of authority, re-assignment from current duties, administrative leave and other measures as appropriate as well as steps towards any disciplinary processes and other internal procedures to address the assessed individual accountabilities that fall under my jurisdiction. These measures are being taken to immediately safeguard the organization while preserving due process.

14. With this, I have fulfilled the commitment I made to you earlier this year to: a) clearly establish roles and responsibilities for the S&L project in Russia and b) to determine individual accountabilities related to the management, supervision and oversight of the project between 2007 and 2017. Clear lessons have been learnt, and changes in response to the various findings have already been put in place. I hope we can now look forward and continue to work together to further strengthen the management and oversight systems we now have in place.

*MARP – recommendations for corporate action*

15. In addition, following a number of important, early institutional recommendations from the MARP, several reviews have been carried out over the last three months. I would like to highlight the following:

- a. *On the review of the GEF business model and structure* - including analysis of the National Implementing Modality – we now have recommendations to: 1) strengthen quality at the design stage; 2) more clearly firewall project oversight and execution; and 3) revise accountabilities and delegations of authority for more clearly defined roles and responsibilities – all while consistently meeting the fiduciary standards of the GEF/GCF and our Member States. Further work will take place in the second half of this year on these recommendations and related budgetary implications. A priority, for example, will be to strengthen the capacity of Country Offices in their oversight responsibilities of NIM projects.

- b. *On the review of the decentralized evaluation function*, we worked with the Independent Evaluation Office to find ways to improve and strengthen the independence of this function. There are seven joint recommendations. The four recommendations with no financial implications will be implemented immediately. The financial implications of the other three need further analysis before further steps are taken.
- c. *On the review of our 'Whistleblower' policy and process*, and to ensure that UNDP continues to lead in transparency and accountability, we have commissioned an external expert to compare our policy with others in the UN and make recommendations to further strengthen protection for whistleblowers and encourage UNDP personnel to report misconduct. The recommendations have been reviewed by the Ethics, Legal and Audit offices and there is a consensus to immediately implement four of the six recommendations.
- d. *On the review of UNDP's definition of fraud and the imposition of disciplinary measures*, an external expert, in collaboration with the Legal Office, is undertaking a comparative analysis of UNDP's Fraud Policy and its practices regarding disciplinary measures with the policies and practices of other UN entities. Thus far, the analysis has confirmed that UNDP's Fraud Policy, including our definition of fraud, adheres to best practices within the UN system, while the review of UNDP's practices regarding disciplinary measures is ongoing. The final report and recommendations will be completed by mid July.

16. These processes - as well as the management actions in response to the 2020 OAI GEF Audit (detailed below) also respond to the ten recommendations provided in the independent review.

## **B. Management Actions in response to the 2020 OAI GEF Audit**

17. The implementation of the OAI GEF Audit Management Action Plan (MAP) in response to the audit is on track. OAI's follow up audit in May confirmed that 68% of the management actions were closed. As of today management has completed 84% of the management actions with the remainder expected to be completed on time. But what does this mean in terms of actual changes on the ground in our day to day work? Pradeep will provide more details on this aspect shortly, but let me highlight the following points.

18. We are already investing more in our country offices - our first line of defense in risk management - for example, rolling out a new approach to clustering services to support delivery on-the-ground. Staff at country, regional and HQ levels understand the policy and procedural changes we need to make to ensure strong oversight and execution of projects. However, it will take time for these changes to be fully embedded into the day-to-day practices of UNDP - particularly with respect to support to the National Implementation Modality (NIM). Critically, a second, follow-up OAI audit will be conducted in October/November 2021. It will provide a further review of UNDP's actions and their impact to date. That audit will be available to the Board in January 2022.

19. UNDP also engaged two external audit firms to review how - and how far - UNDP's policies are being implemented at the country, regional and HQ levels. UNDP operates in over 170 countries, and while our operating conditions can vary dramatically from country to country, I am determined that UNDP's zero tolerance for fraud and other forms of corruption and irregularities must apply in every situation.

20. Ernst and Young (EY)'s review (still draft) focused on the application of UNDP policies that align with the GEF's Fiduciary Standards Policy. BDO (UK)'s review (now final) focused on UNDP's policies and procedures that align with those required for re-accreditation to the Green Climate Fund (GCF). I would like to highlight some of their findings:

- Both external reviews confirm that UNDP's systems to ensure the application of GEF and GCF standards are broadly well established and well understood across the organization and, critically, no major gaps in our systems were identified.
- In addition, based on a review of 20 GEF projects and 18 GCF projects, across around 30 countries both EY and BDO have mainly found issues similar to those identified in the OAI GEF audit.
- However, both EY and BDO found lapses in the application of policies at the CO level, although these do not go beyond those identified in the OAI audit. For example, there is work to be done to:
  - o ensure immediate follow up on audit findings of our project Implementing Partners,
  - o strengthen oversight of financial management, and procurement,
  - o deal with delays in updating local internal control frameworks.
  - o ensure that accountability for implementation of projects and the different roles and responsibilities for oversight are clearly defined and understood
  - o ensure that the systems in our regional bureaus are better tuned to performing risk-based oversight and monitoring over our programmes and projects, particularly where these are implemented in high risk contexts
  - o ensure that the project governance mechanisms are designed not only to foster national ownership, but also guarantee appropriate segregation of duties between those providing oversight services and those executing projects through day-to-day management
  - o finally, enhance our performance in terms of timely delivery and achievement of results, both through a more robust design of our programmes as well as through rigorous oversight during implementation

21. EY confirmed that the management actions in response to the OAI GEF Audit were largely sufficient to address the identified issues.

22. At the same time, UNDP recognizes that this tightening of policies, procedures and systems, while a big leap in the right direction, is not sufficient unto itself. What is far more critical is to ensure that these changes also contribute to an enhanced level of awareness for each of us and foster a culture of diligence and determination to place the continued achievement of the highest standards at the heart of all we do.

23. We programme not for the sake of programming, but to enhance the results and impacts we want to achieve in support of our national partners in each of the countries we serve. In doing so, our management of the resources entrusted to us remains of prime importance.

24. I am heartened by the strong sense of leadership shown in each of our country offices, regional bureaus and corporate units in the past year. The collaborative way in which I have seen the entire organization come together to not just own the observations made by OAI and the independent assessors, but live up to the challenge to reimagine our programming model is proof that change is not only inevitable, but embraced by all.

25. Looking ahead, one of the key issues will be how we strengthen Country Offices in providing support to and overseeing GEF projects under NIM – something we are looking at through our review mentioned earlier. Specifically:

- Ensuring better segregation of duties and responsibilities, while consistently meeting the fiduciary standards of the GEF/GCF and our Member States, and
- Strengthening the capacity of COs to conduct oversight responsibilities of NIM projects.

26. It is important to flag that additional investments will be required to strengthen these core oversight systems (yet to be costed) and, that these changes will take time to fully mainstream. This will require regular reviews and monitoring of the changes taking place via our Regional and Corporate Bureaus, together with OAI's independent work.

### **C. Looking Ahead**

27. A UNDP that is striving to be the best version of itself, requires that we commit fully to transparency and accountability. Our track record from 2018 demonstrates that we have made significant progress. In 2020, we were again rated by the Aid Transparency Index as the most transparent of United Nations agencies. And we received our 15<sup>th</sup> consecutive unqualified audit opinion for 2019 - closing for the first time in 10 years, all audit recommendations outstanding for more than 18 months.

28. OAI's report on our Enterprise Risk Management (ERM) has confirmed that UNDP's corporate risk management framework and practices are '*satisfactory with some improvements needed*'. This provides a clear signal that we have improved our risk culture in UNDP as a result of investments over the past two years. But we know there is still more that we can do.

29. I am pleased that the new Corporate Performance Unit in my Executive Office, is now fully staffed. The CPU, which reports to me, will help to oversee operational and programmatic risks, helping to determine root causes and responses, signaling emerging patterns and trends, alerting where there are gaps and supporting strategic decision-making in response.

30. This team will work closely with other parts of the organisation that are accountable for corporate performance to ensure a 'whole of organisation' response on these issues, including: the Risk Committee chaired by the Associate Administrator, the office of Budget, Performance and Compliance (BPC) in the Bureau for Management Services, the independent offices (Ethics, OAI – including the Social and Environmental Compliance Unit - and Evaluation), and the development Effectiveness Team in the Bureau for Policy and Programme Support.

31. We continue to strengthen internal oversight control systems across the organisation, learning lessons from audits like the GEF audit, and evaluations, for example:

- New preventive and detective controls – some automated - are continuing to be implemented in our Enterprise Resource Planning (ERP) system, which are helping to reduce the incidence of breaches in segregation of duties. Non-compliance against our Internal Control Framework (ICF) is regularly monitored in our corporate financial dashboard and reports, and is incorporated within our corporate monitoring processes with country offices and bureaus.
- We are developing supplemental training on the ICF, to further raise awareness across the organization.
- We are introducing clustering of services across bureaus, which will enhance oversight as well as management accountability of country office transactions. Clustering involves fundamentally changing the way we do business and is expected to drive both efficiency and effectiveness once fully implemented across UNDP.
- We are rolling out an end-to-end procurement solution as part of our new ERP to address the weaknesses identified during independent reviews and audits in procurement planning, evaluation team establishment and evaluation of offers.
- We have recently approved a stand-alone Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) policy which affirms UNDP's continued commitment to combating money laundering and terrorist financing, by complementing, reiterating, and cataloguing the safeguards and measures that UNDP already has in place in this regard.

32. All of these changes are being embedded within our systems and processes, and are part of deepening a culture of managing risk, which will increase UNDP's effectiveness and efficiency while providing more control, visibility and sustainable change across UNDP.

#### **D. Conclusion**

33. UNDP's GEF portfolio is a huge and significant portfolio of work. It includes over 645 projects in 145 countries with 3.6 billion in financing, leveraging a further \$20.5 billion in co-finance, benefitting 74 million people; delivering 545 million tonnes of CO2 equivalent emissions avoided or reduced and impacting 614 million hectares across land and sea. We take our responsibilities as one of the leading UN agencies for the GEF very seriously.

34. I hope this update today provides you with assurances you need that I have followed up on the commitments that I made on these issues and that UNDP remains determined to continuously improve risk management and oversight, in line with partners' expectations, to ensure that together we can deliver sustainable development impact.

Thank you.