



**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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Item 13 of the provisional agenda

**Internal audit and oversight**

**UNDP: Annual report of the Office of Audit and Investigations  
on internal audit and investigation activities in 2018**

*Summary*

The present report provides information on the activities of the Office of Audit and Investigations for the year ended 31 December 2018. The report 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 its 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 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; a review of recruitment procedures; and a presentation of the organizational risk assessment (all requested in decision 2015/13).

The report 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 2018, 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; and 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 the present report.

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

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5. Summary of substantiated investigation cases in 2018, 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 2018

## 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 2018. 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 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, reflecting all activities and areas of responsibility of the Office of Audit and Investigations, was updated and approved by the Administrator in October 2017.

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 2018, 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 in 2018, 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 2018 showed that clients were satisfied with the conduct of audits. In 2018, the Office developed automated tools to track payments with overrides and timeliness of payments processed to support data analytics.

7. 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 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 continued to hold meetings with the Bureau for Management Services and regional bureaus 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 2018, the Committee reviewed the 2018 annual work plan of the Office and its implementation through quarterly progress reports. The Committee reviewed audit and investigation activities in the annual report, 2017, presented to the Executive Board in 2018. 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 2018.

*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<sup>1</sup> of projects implemented by non-governmental organizations or national governments.

*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 2018 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 2018 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 2018 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 bureaus that were informed by 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, or financial – in line with the UNDP enterprise risk management categories of risks. The final selection of audits may be adjusted after consultation with management. 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.

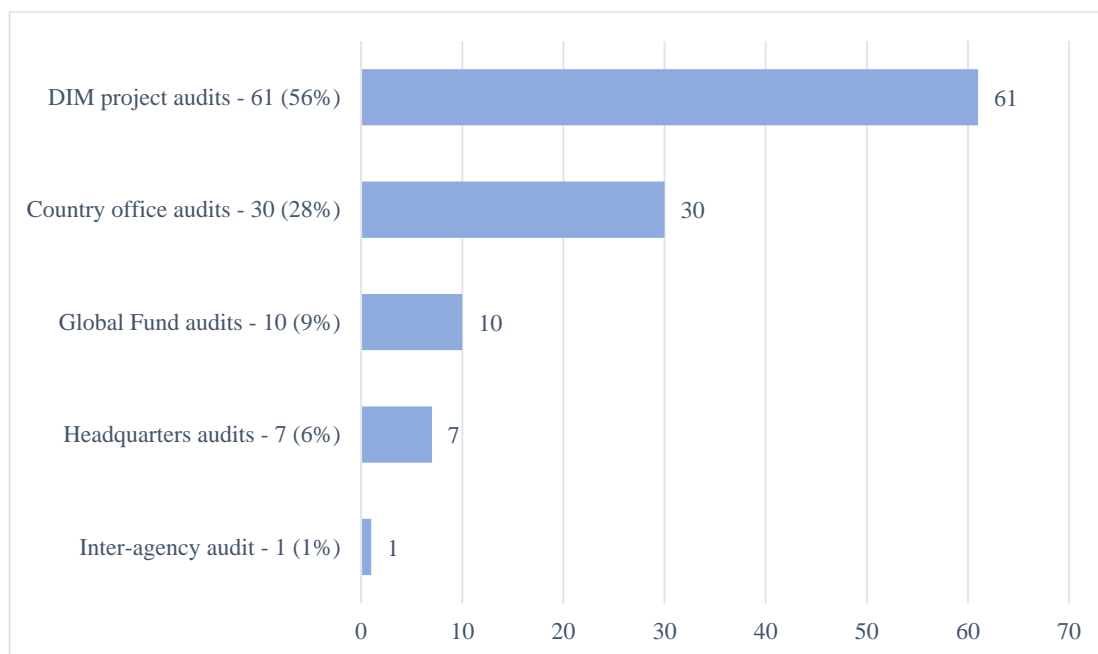
*Audit reports issued*

13. In 2018, the Office issued 109 audit reports: seven headquarters audits (6 per cent); 30 country office audits (28 per cent); 10 Global Fund audits (including two consolidated reports) (9 per cent); 61 audits of directly implemented projects (two of which pertained to the United Nations Capital Development Fund) (56 per cent); and one inter-agency consolidated report (1 per cent) (see figure 1, below). In accordance with decision 2013/24, annex 2 presents the titles and ratings of all internal audit reports issued in 2018.

14. Since most of the audit reports issued in 2018 covered activities of UNDP offices during 2017, the audit results generally reflected the status of programmes and operations in that year. The 101 country-level audits (country office audits, directly implemented project audits, and Global Fund audits) covered about \$2.3 billion (53 per cent) of approximately \$4.3 billion in UNDP field-level expenditures. An additional \$1.3 billion in expenditures was covered by third-party audits of non-governmental organizations and nationally implemented projects.

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<sup>1</sup> “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.

**Figure 1. Number, percentage,<sup>2</sup> and type of audit reports issued in 2018**

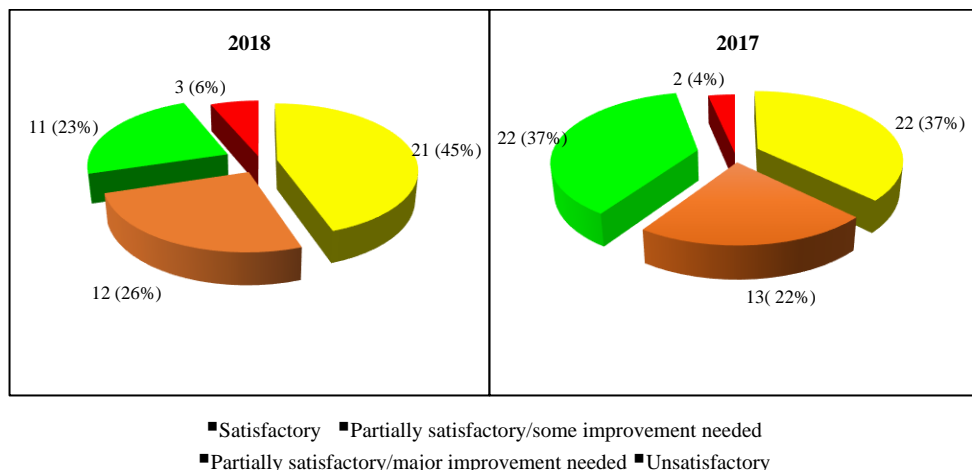
*DIM = Directly implemented*

#### *Audit rating*

15. 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 of several audits.

16. Of the 109 reports, 62 did not contain an overall rating. Of the remaining 47 reports, 11 (23 per cent) had a 'satisfactory' rating; 21 (45 per cent) had a 'partially satisfactory/some improvement needed' rating; 12 (26 per cent) had a 'partially satisfactory/major improvement needed' rating; and three (6 per cent) an 'unsatisfactory' rating (see figure 2). The comparison of the distribution of audit ratings in 2018 with that of 2017 shows a decrease in 'satisfactory' ratings; an increase in 'partially satisfactory/some improvement' and 'partially satisfactory/major improvement' ratings; and a slight increase in 'unsatisfactory' ratings (by 2 per cent). The three reports with 'unsatisfactory' ratings pertained to country office audits.

<sup>2</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 (2018 versus 2017)**

## II. Disclosure of internal audit reports

17. In 2018, UNDP publicly disclosed 109 internal audit reports, five of which were partially redacted because they contained sensitive information (<http://audit-public-disclosure.undp.org>). There were 5,580 visits to the disclosure webpage, which was lower than the 6,951 visits in 2017.

18. In accordance with decision 2011/23, the Office hereby informs the Executive Board that no request was received in 2018 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 2018, the Office had a total of 85 approved posts.

### *Recruitment process*

20. Of those 85 posts, 84 were encumbered and one was vacant at the end of 2018. In 2018, the average vacancy rate was 5 per cent (against a target of 7 per cent), and the average time that staff positions had remained vacant was 4 months (against a target of 6 months).

### *Budget*

21. In 2018, the Office had an overall approved budget of \$17.6 million funded from institutional budget resources, which included a contribution of \$0.3 million from the Regional Bureau for Arab States for investigation activities in Iraq (see figure 3, below).

22. The Office received an additional \$1.2 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, based in Dakar, Istanbul and Pretoria, and one Investigation Adviser position based in New York.

23. A total of \$1 million in direct audit costs was charged to the respective budgets of each directly implemented project audited in 2018.

**Figure 3. Resources in 2018, excluding Global Fund**

Category	\$ millions
Audit	9.4
Investigations	6.8
Management and support	1.3
Audit and evaluation Advisory Committee	0.1
<b>Total</b>	<b>17.6</b>

## IV. Significant internal audit results

### A. Headquarters audits

24. The Office conducted seven headquarters audits in 2018. Of those, four were performance audits covering UNDP management of the clustering process, government cost sharing, the Green Climate Fund, and the Regional Bureau for Latin America and the Caribbean. The remaining three were compliance audits of the United Nations Volunteers programme, UNDP global procurement, and the UNDP Human Development Report Office.

25. The audits of UNDP global procurement, the Green Climate Fund, and the Human Development Report Office resulted in an overall rating of ‘satisfactory’.

26. The audit of the Regional Bureau for Latin America and the Caribbean resulted in an overall rating of ‘partially satisfactory/some improvement needed’. The rating was mainly due to insufficient capacities in the Regional Hub to meet country office needs.

27. The audits of the clustering process and government cost sharing both resulted in an overall rating of ‘partially satisfactory/major improvement needed’. For the audit of the clustering process (pilot stage), the rating was due mainly to the incomplete implementation of the Executive Group decision on corporate clustering; lack of end-to-end control over a process and an incomplete functional analysis; the unclear role of the Global Shared Services Unit; and lapses in business process re-engineering. For the audit of UNDP management of government cost-sharing, the rating was due mainly to weak management of infrastructure projects and the fact that UNDP finance and procurement tools were not integrated. The review of the Emergency Community Development Programme in Senegal highlighted the weak management of the programme.

28. The audit of the United Nations Volunteer programme, which covered the period from 1 January 2016 to 30 September 2017, resulted in an overall rating of ‘partially satisfactory/some improvement needed’. The rating was due mainly to control lapses with a third-party arrangement and an inadequate cost-recovery mechanism.

29. The seven headquarters audit reports resulted in 33 recommendations, 13 of which (39 per cent) were ranked ‘high priority’.

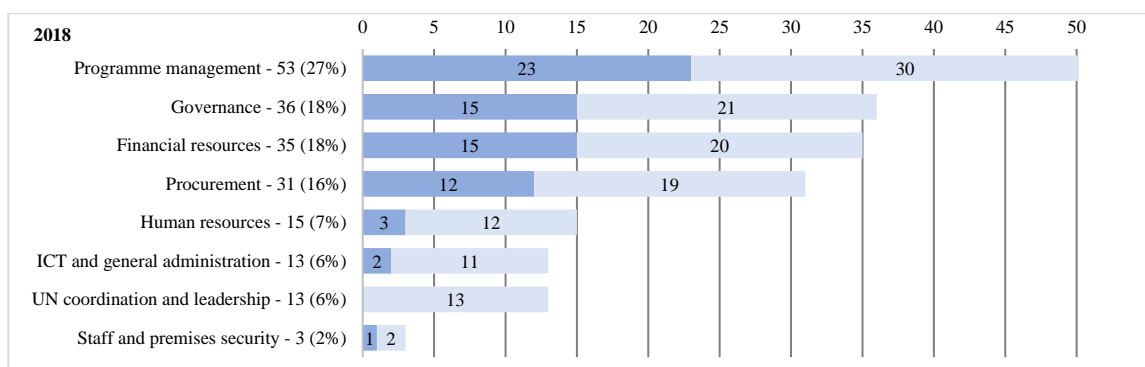
### B. Country office audits

30. The 30 country office audit reports issued in 2018 included 29 audits of general scope and one desk review. Figure 4, below, enumerates significant issues (recurrent in at least five offices) grouped by audit area.

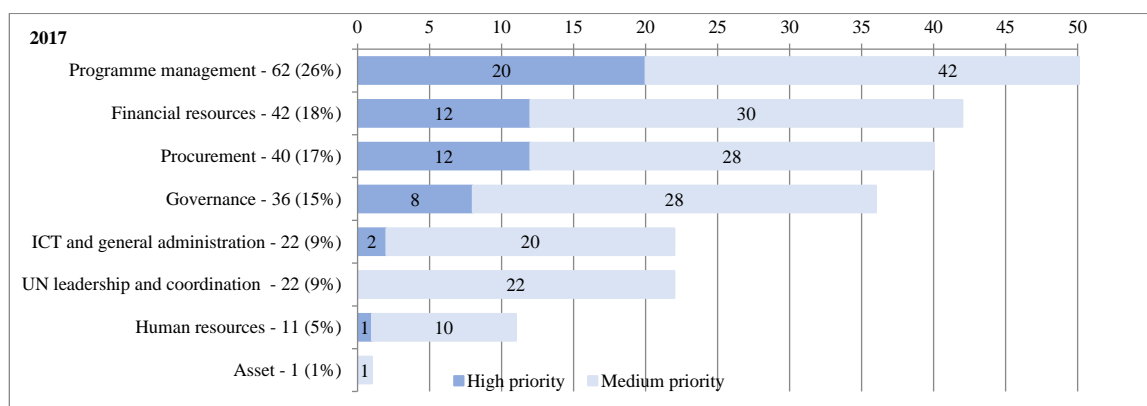
**Figure 4. Recurrent country office audit issues**

Audit area	Recurrent audit issues
Programme/project management	- Inadequate project monitoring and evaluation, including review of project document and project designs, or implementation of quality assurance activities (21 offices) - Delays in closing completed projects in the Atlas system (7 offices)
Procurement	- Inadequate controls in procurement management, such as not undertaking competitive procurement processes or absence of reviews by the Contracts, Assets, and Procurement Committee or the Regional Advisory Committee (13 offices) - Inadequate justification for the selection of consultants hired under individual contracts (7 offices) - Inadequate procurement planning (5 offices)
Human resources management	- Weaknesses in human resources management, such as inadequate oversight in the recruitment of personnel to ensure proper shortlisting and longlisting of applicants, or use of incorrect contract modality (9 offices) - Delays in completion of mandatory training courses (8 offices)
Financial management	- Weaknesses in financial management, such as incorrect recording of payments in Atlas, inadequate budget override policy, or weak implementation of direct project costing (15 offices)
Information and communications technology and general administrative management	- Weaknesses in asset management, such as incomplete documentation of assets, non-compliance with the policy on missing or stolen assets, or delays in the disposal of assets (7 offices)

31. The above audits resulted in 199 recommendations, 71 (36 per cent) of which were rated ‘high priority’. Figure 5, below, provides a thematic breakdown of the recommendations for 2017 and 2018. In both years, programme management received the highest number of recommendations.

**Figure 5. Distribution and prioritization of country office audit recommendations in 2017 and 2018 internal audit reports**





ICT – Information and communications technology; UN – United Nations

### C. Global Fund audits

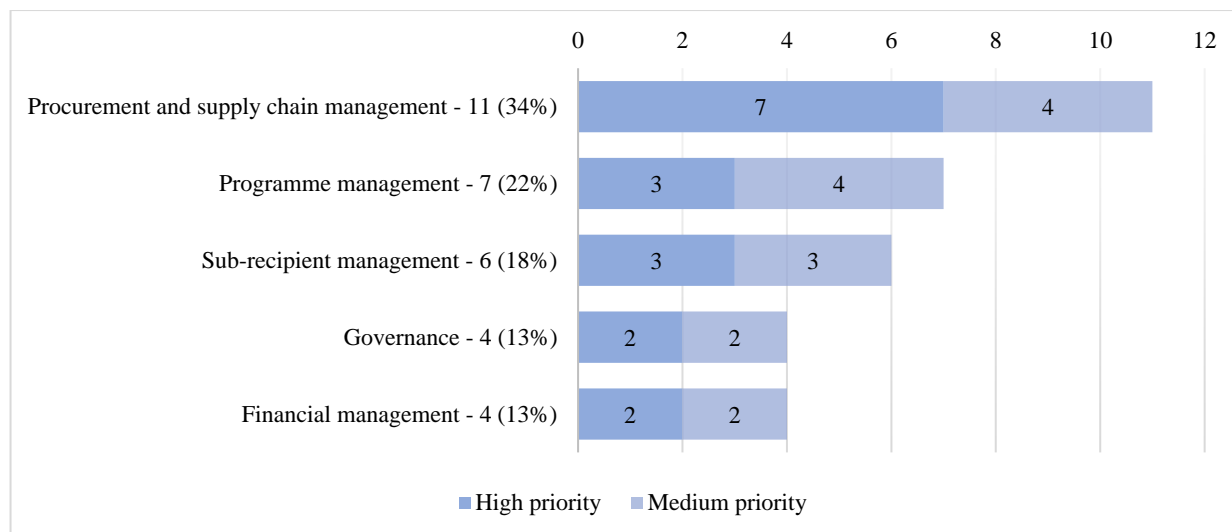
32. The Office issued 10 Global Fund audit reports (including one follow-up and two consolidated reports) in 2018. They covered the management of Global Fund grants in eight country offices (two in Africa, one in the Arab States region, four in Latin America and the Caribbean, and one in the Europe and the Commonwealth of Independent States). Figure 6, below, lists significant issues (recurrent in at least four offices), grouped by audit area.

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

Audit area	Recurrent audit issues
Programme/project management	Weaknesses in programme/project management, such as weak monitoring and evaluation activities, or delays in project implementation (5 offices)
Sub-recipient management	Weaknesses in sub-recipient management, such as failure to conduct capacity assessments prior to selecting sub-recipients, or failure to use or follow the provisions of the standard sub-recipient agreement (4 offices)
Procurement and supply chain management	Weaknesses in procurement and supply chain management, such as weak quality-control testing or inadequate storage of pharmaceutical products (4 offices)

33. The 10 audit reports related to grants managed by UNDP as principal recipient contained 32 recommendations, the majority (56 per cent) of which were in the areas of: (a) procurement and supply chain management; and (b) programme management. The significant issues are grouped, according to audit area, in figure 7, below.

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



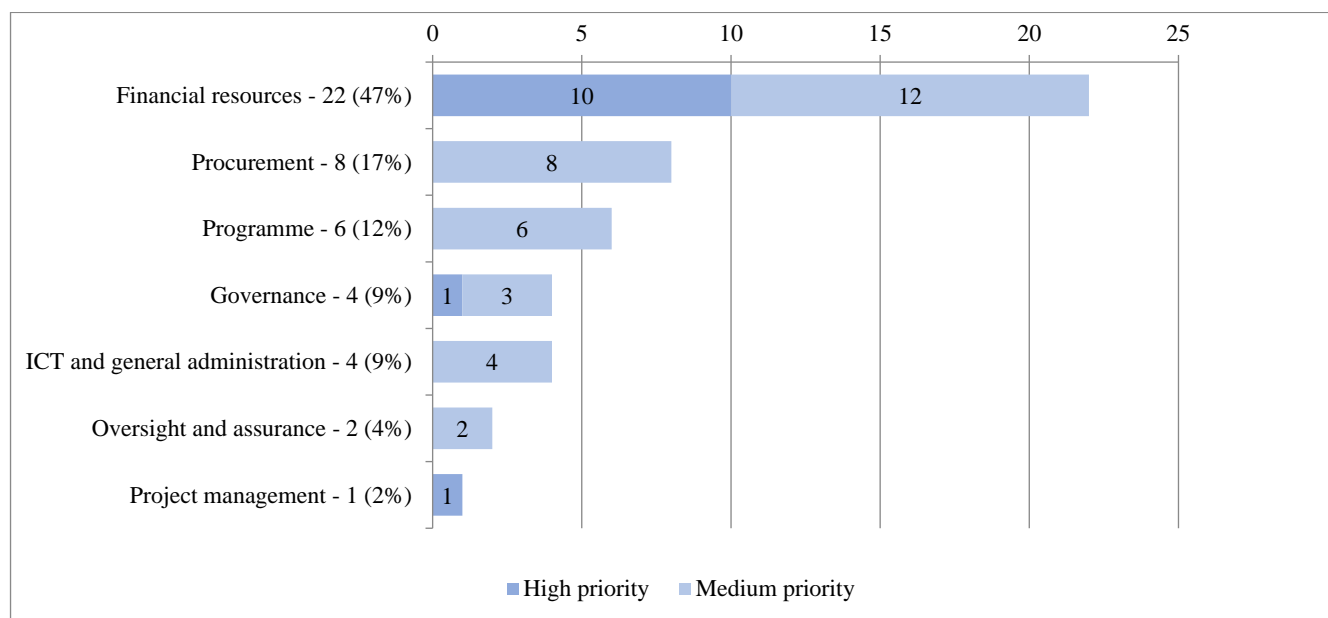
#### D. Project audits

34. In 2018, 61 projects were audited separately and not as part of a country office audit, with total audited expenditure amounting to \$538.4 million. Of those, 59 were directly implemented by UNDP and amounted to \$528.1 million. The remaining two projects, which were directly implemented by the United Nations Capital Development Fund, amounted to \$10.3 million.

35. Of the 61 projects, 58 were audited by audit firms contracted by the Office, resulting in 51 unqualified (including the two projects directly implemented by the United Nations Capital Development Fund), five qualified, and two adverse opinions. The qualified and adverse opinions resulted in a total net financial misstatement of \$45.4 million, or 8.6 per cent of the total audited expenditure (\$528.1 million), compared to \$13.9 million in 2017, or 2.9 per cent of the total audited expenditure (\$476.7 million). Of the total financial misstatement in 2018, 83 per cent (\$37.8 million) was related to one project managed by UNDP Senegal. The audits of the remaining three audited projects were conducted directly by the Office.

36. The audits of the 61 directly implemented projects resulted in 47 recommendations (see figure 8), with a significant number of recommendations (47 per cent) in the area of financial resources management, such as incorrect calculation of general management support costs, lack of supporting documentation, weak controls in making payments, and expenses not properly recorded. The audits of the two projects directly implemented by the United Nations Capital Development Fund did not result in any recommendations.

**Figure 8. Distribution and prioritization of audit recommendations concerning audits of directly implemented projects in 2018 internal audit reports**



ICT – Information and communications technology

## E. Inter-agency audits

37. In 2018, the Office of Audit and Investigations issued a consolidated report on the three audits of the Sustainable Development Goals Fund conducted by the internal audit services of several United Nations organizations.

38. The consolidated report on the audits of Sustainable Development Goals Fund presented the main audit issues and recommendations in the three audits conducted: the audit of the Administrative Agent function; the audit of the Joint Programme in Colombia; and the audit of the governance arrangements of the Sustainable Development Goals Fund.

39. Since 2010, based on audit frameworks agreed with members of the United Nations Representatives of Internal Audit Services, the Office has issued 25 inter-agency audit reports covering selected multi-partner trust funds; ‘delivering as one’; and the harmonized approach to cash transfers.

## V. Follow-up to audit recommendations

40. The overall implementation rate of audit recommendations was 95 per cent as of 31 December 2018, above the rate achieved in 2017 (92 per cent). The rate covered all reports issued by the Office from 1 January 2016 to 30 November 2018.

41. There were four recommendations that had not been fully implemented for 18 months or more as of 31 December 2018 (see annex 3), compared to six in 2017. Of the four recommendations, three (two ‘high priority’ and one ‘medium priority’) pertained to the audit of the e-tendering system in UNDP. The remaining recommendation (‘medium priority’) pertained to the audit of the Bureau for Policy and Programme Support.

42. Fifteen recommendations from audit reports issued between 2015 and 2017 were withdrawn in 2018. They were withdrawn after sharing the considerations with the Director of the Office (see figure 9, below). Ten of the 15 recommendations were withdrawn upon acceptance of the residual

risks by management. The remaining five were withdrawn as they were outside the control of the offices audited. A more detailed presentation is included in annex 4.

**Figure 9. No. of recommendations withdrawn in 2018**

Year report issued	No. of recommendations
2015	1
2016	5
2017	9
<b>Total</b>	<b>15</b>

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

43. The audits for fiscal year 2017 were conducted by supreme audit institutions or audit firms engaged and managed by UNDP country offices. As of 31 December 2018, the Office had received 880 audit reports, with 10 reports still outstanding (from the UNDP offices in Central African Republic, Gabon, Iraq, Senegal, and United Arab Emirates).

### *Results of review*

44. Of the 880 reports received, the Office reviewed 342 in depth, representing \$1.13 billion in expenses (86 per cent of the audited expenses).

45. Review letters from the Office drawing attention to areas requiring improvement were issued to all 98 country offices that had submitted project audit reports. Figure 10, below, shows the number of countries that received ‘satisfactory’, ‘partially satisfactory’, and ‘unsatisfactory’ reviews for fiscal years 2016 and 2017. 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 10. Results of assessment of the quality of audit reports of non-governmental organizations/nationally implemented projects**

Rating	Overall rating			
	Fiscal year 2017 (audits conducted in 2018)		Fiscal year 2016 (audits conducted in 2017)	
	Number of countries	%	Number of countries	%
Satisfactory	73	75	75	75
Partially satisfactory	15	15	22	22
Unsatisfactory	10	10	3	3
<b>Total number of country offices</b>	<b>98</b>	<b>100</b>	<b>100</b>	<b>100</b>

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

46. The audit reports of non-governmental organization/nationally implemented projects that were reviewed in detail contained 1,215 issues, the majority of which (60 per cent) were ranked ‘medium priority’. Forty-six per cent of the issues pertained to financial management.

47. The Office monitored the actions taken by country offices to implement the audit recommendations. As of 31 December 2018, 75 per cent of the 1,215 audit issues had been implemented or were no longer applicable.

*Audit opinions and net financial misstatement*

48. For the reports with modified opinions, the Office calculated the total net financial misstatement for fiscal year 2017 to be a net overstatement of \$25.9 million (compared to \$6.1 million for fiscal year 2016), or 2 per cent of the total audited expenditure (\$1.3 billion). The misstatement resulted from modified opinions on 51 projects in 23 country offices. Of the total net financial misstatement for fiscal year 2017, 70 per cent (\$18.1 million) was related to four projects in UNDP Yemen. The qualifications were due mainly to unsupported or ineligible expenses (26 projects), or unrecorded expenses and incorrect recording of advances or expenses (13 projects).

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

49. For financial year 2017, 20 country offices (Afghanistan, Argentina, Bhutan, Bosnia and Herzegovina, Cambodia, Cabo Verde, China, the Democratic Republic of the Congo, India, Indonesia, Malawi, Malaysia, Morocco, Rwanda, Samoa, Sri Lanka, the United Republic of Tanzania, Thailand, Uruguay, and Viet Nam) had fully transitioned to the harmonized approach to cash transfers and applied the corresponding assurance activities outlined in the Harmonized Approach to Cash Transfer Framework in lieu of the audits of non-governmental organization/nationally implemented projects.

50. As of 31 December 2018, the Office had completed the review of 104 harmonized approach to cash transfer audit reports. Of those reports, 78 were related to financial audits and 26 to internal control audits. The auditors provided ‘unmodified’ opinions for 74 of the 78 financial audit reports reviewed and ‘modified’ opinions for four financial reports, with a net financial misstatement of \$185,557 (0.5 per cent of the audited expenses).

## VII. Investigations

51. During 2018, the Office opened 294 new cases and carried over 226 cases from 2017, bringing the 2018 caseload to 520.

52. The Office closed 263 of those 520 cases in 2018. At the end of 2018, 257 cases were carried over to 2019 (see figure 11, below).

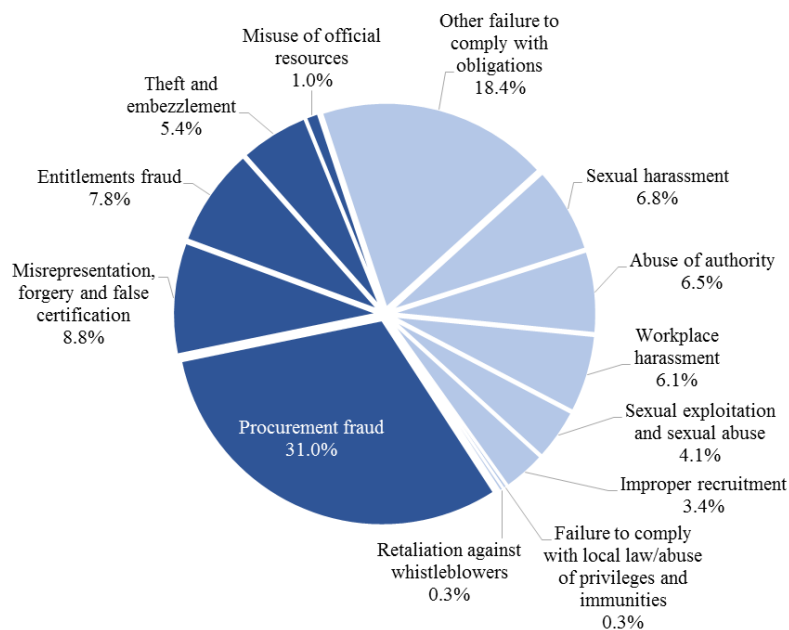
**Figure 11. Office of Audit and Investigations caseload, 2017 and 2018**

Caseload	2017	2018
Carry-over as of 1 January	176	226
Intake during the year	255	294
<b>Total cases during the year</b>	<b>431</b>	<b>520</b>
Closed (from cases carried over)	122	175
Closed (from intake in 2018)	83	88
<b>Total closed</b>	<b>205</b>	<b>263</b>
Carried forward as of 31 December	226	257

*Types of complaints (decision 2019/2)*

53. 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 54 per cent of the cases received by the Office in 2018, a slight decrease compared to the 55.7 per cent recorded in 2017 (see figure 12, below).

**Figure 12. Types of complaints received in 2018<sup>3</sup>  
(financial irregularity complaints in dark blue)**



54. In 2018, the Office received the most complaints from the Arab States region (92 cases) followed by Africa (52 cases), Asia and the Pacific (39 cases), Europe and the Commonwealth of Independent States (27 cases), and Latin America and the Caribbean (14 cases). Fifty-three cases involved staff members or other personnel on UNDP contracts assigned to other United Nations organizations. The Office received 17 complaints involving headquarters staff (see figure 13, below).

<sup>3</sup> Entitlements fraud includes medical insurance fraud, rental subsidy fraud, educational grant fraud, or any other fraud committed in connection with the benefits and entitlements provided to UNDP personnel. Misrepresentation, forgery and false certification cases include 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 13. Complaints received in 2018, by region**

Region	Number of complaints received
Arab States	92
Other United Nations organizations	53
Africa	52
Asia and the Pacific	39
Europe and the Commonwealth of Independent States	27
Headquarters	17
Latin America and the Caribbean	14
<b>Total</b>	<b>294</b>

*Processing of cases*

55. Of the 263 cases that were closed in 2018, 57 (22 per cent of the cases finalized) were closed after an initial assessment 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.

56. The remaining 206 cases were closed as a result of an investigation in which 78 cases (38 per cent) led to an investigation report establishing evidence of misconduct or other wrongdoing. This is a significant increase over the 63 investigation reports issued in 2017. One of the 78 substantiated cases resulted in a financial loss report, while 128 cases were found to be unsubstantiated and were closed after investigation (see figure 14, below).

57. 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 within nine months. Of the 57 cases closed after assessment, 63.2 per cent were finalized within the key performance indicator target of three months. Of the 206 cases closed as a result of an investigation, 48.5 per cent were finalized within the key performance indicator target of nine months.

58. At the end of 2018, 65 cases were still under assessment and 192 under investigation.

**Figure 14. Disposition of cases**

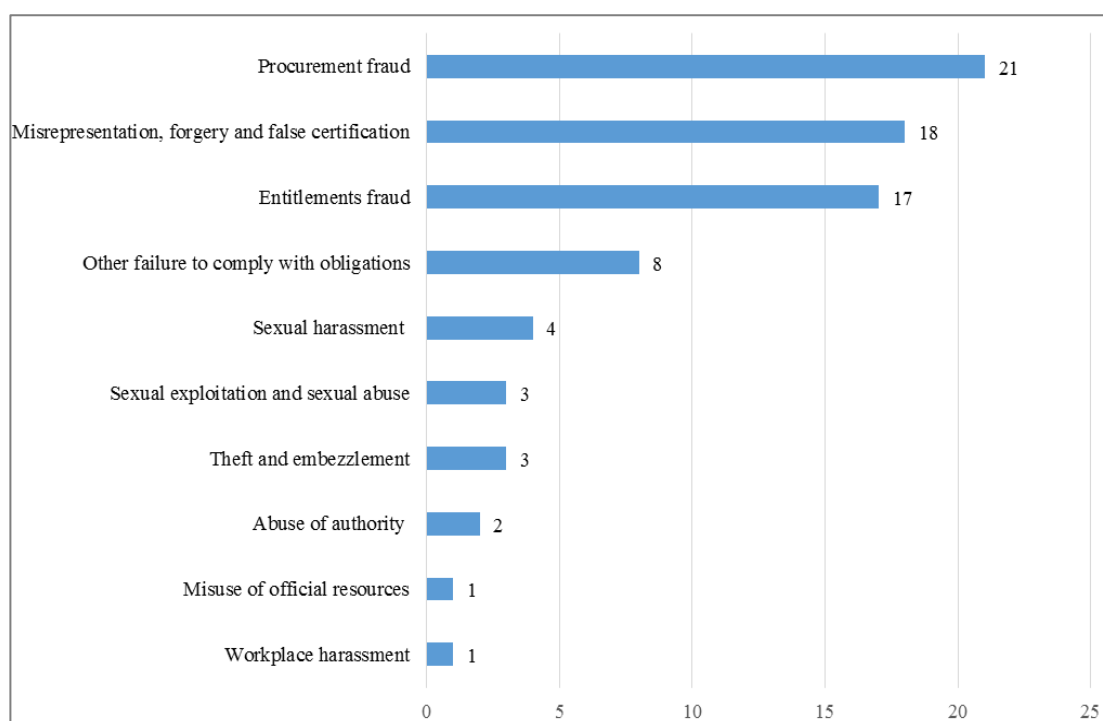
Actions taken	No. of cases 2017	No. of cases 2018
<i>After assessment</i>		
Closed, investigation not warranted	48	57
Referred to other UNDP offices	-	-
<b>Total</b>	<b>48</b>	<b>57</b>
<i>After investigation</i>		
Closed ( <i>not substantiated</i> )	<b>94</b>	<b>128</b>
Closed ( <i>substantiated</i> )		
- Submitted to Legal Office	33	27
- Submitted to country offices	11	18
- Submitted to Vendor Review Committee	17	30
- Submitted to other organizations	0	2
- Submitted to other UNDP offices	2	1
<b>Subtotal (<i>substantiated</i>)</b>	<b>63</b>	<b>78</b>

<b>Total cases closed after investigation</b>	<b>157<sup>4</sup></b>	<b>206</b>
<b>Total cases closed during the year</b>	<b>205</b>	<b>263</b>
<b>Investigation reports issued</b>	<b>65</b>	<b>78</b>
<b>Management letters issued</b>	<b>15</b>	<b>8</b>

#### *Substantiated cases*

59. The misconduct identified in the 78 substantiated investigations was mainly procurement fraud (21 cases, or 27 per cent); misrepresentation, forgery and false certification (18 cases, or 23 per cent); and entitlements fraud (17 cases, or 22 per cent) (see figure 15, below).<sup>5</sup> A summary of the substantiated investigations in 2018, by type of allegation, is included in annex 5.

**Figure 15. Cases substantiated in 2018, by category**

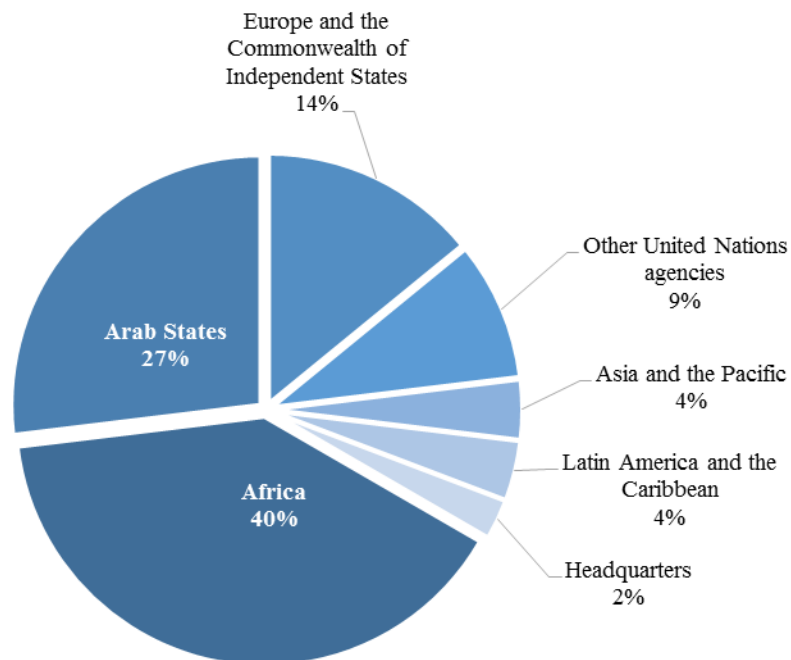


60. Of the 78 substantiated cases, 40 per cent (31 cases) occurred in the Africa region, 27 per cent (21 cases) in the Arab States region and 14 per cent (11 cases) in the Europe and the Commonwealth of Independent States region (see figure 16, below).

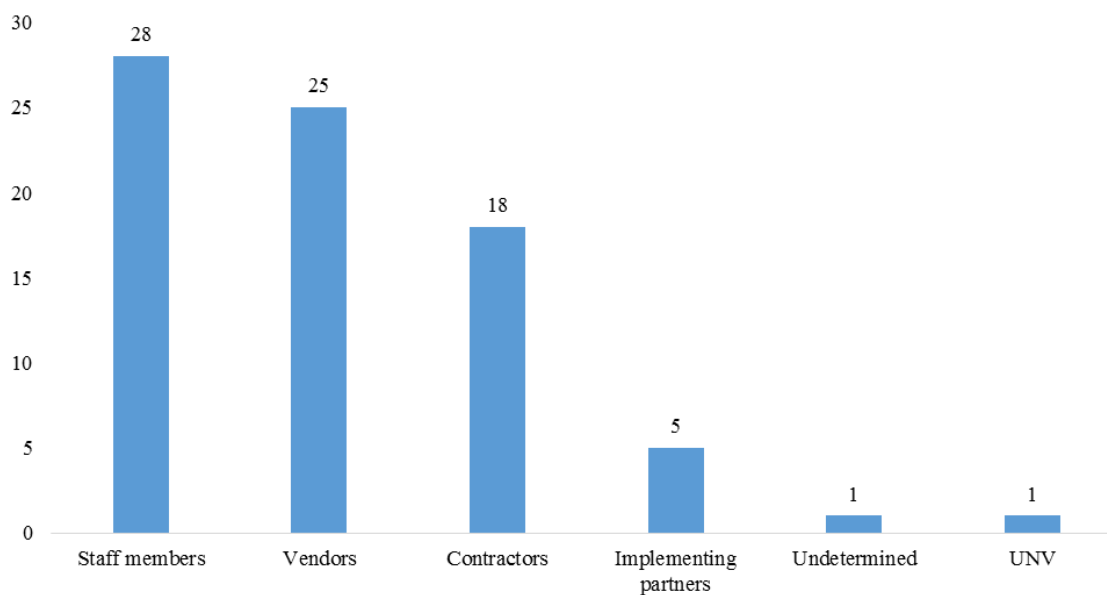
<sup>4</sup> In 2017, 157 cases were closed as a result of an investigation in which 65 cases resulted in an investigation report, 63 of which established evidence of misconduct or other wrongdoing. Two investigation reports were produced, even though the allegations were not substantiated due to the procedural requirements of the office receiving the report. The remaining 92 cases were found to be unsubstantiated and were closed after investigation.

<sup>5</sup> Entitlements fraud includes medical insurance fraud, rental subsidy fraud, educational grant fraud, or any other fraud committed in connection with the benefits and entitlements provided to UNDP personnel. Misrepresentation, forgery and false certification cases include 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. 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 16. Cases substantiated in 2018, by region**

61. The 78 substantiated cases involved 28 staff members, 25 vendors, 18 contractors (17 service contract holders and one individual contractor), five implementing partners, and one United Nations Volunteer (see figure 17, below). In one case the subject was undetermined by 31 December 2018.

**Figure 17. Cases substantiated by contractual status**

*Management letters*

62. In 2018, the Office issued eight management letters to relevant business units to address weaknesses in internal controls, as noted in the investigations conducted by the Office.

*Referrals to national authorities*

63. In 2018, the Office recommended the referral of three cases to national authorities for criminal investigation and compiled all relevant evidence to support their prosecution.

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

64. The total financial loss for UNDP that was substantiated in investigation reports from the Office during 2018 amounted to \$215,078.57. The loss related to eight cases of entitlements fraud; one case of procurement fraud; six cases of misrepresentation, forgery and false certification; and two cases of theft and embezzlement. As of 31 December 2018, UNDP had recovered \$18,371.71 of the identified loss, or slightly more than 8.5 per cent. In addition, \$12,691.96 was recovered in 2018 in four cases that were reported by the Office in 2016 and 2017 (Gambia, Kenya, Mexico, and Sierra Leone).<sup>6</sup> An additional \$4,661,516.11 related to three Global Fund cases (two in the Democratic Republic of the Congo and one in Niger) was also recovered, for which an investigation report was not issued as no UNDP personnel were involved and the matter was settled before the investigation was finalized.<sup>7,8</sup> As it was not part of the mandate of the Office to track down recoveries, the Office relied on other offices in UNDP to share information on recovery.

65. During 2018, the Office issued its first financial loss report, initiating a new category of reports that will be issued when necessary to assist the organization in recovering losses that are the result of misconduct that is not attributable to UNDP personnel. For the financial loss report of a Global Fund project in Uzbekistan that was issued in 2018, the Office determined the loss to be \$414,329.58. The matter was referred to the national authorities where the persons responsible were located.

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

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

67. Based on the 25 investigation reports sent to the Legal Office concerning staff members in 2018, one staff member was dismissed and four 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 cleared of the allegations. Of the remaining 18 reports sent to the Legal Office, three were returned to the Office for clarification and 15 were still under review at the end of 2018.

68. As a result of the 18 reports that the Office submitted to country offices, eight service contract holders had their contracts terminated, while the contracts of three were not renewed. Four service contract holders had resigned prior to the finalization of the investigation. The remaining three reports were still under review by the country offices at the end of 2018.

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<sup>6</sup> The four cases in which the Office had recovered a total amount of \$12,691.96 included: (a) one case from Gambia, where the amount of \$8,200 was recovered; (b) one case from Kenya, where the amount of \$1,096 was recovered; (c) one case in Mexico, where the amount of \$2,424.96 was recovered; and (d) one case from Sierra Leone, where the amount of \$971 was recovered.

<sup>7</sup> Loss amounts are established in the Investigation Reports prepared by the Office. As the mandate of the Office does not include tracking recoveries, the Office relies on other offices to share information on recovery. The recovery amounts shared with the Office are included in this paragraph.

<sup>8</sup> The three Global Fund cases in which the Office had recovered a total amount of \$4,661,516.11 included: (a) one case in the Democratic Republic of the Congo, where the amount of \$3,129,455.91 was recovered through a court settlement; and (b) two cases in the Democratic Republic of the Congo and Niger, where the amounts of \$1,300,000 and \$232,060.20 were recovered from the host governments.

69. Based on the 30 reports submitted by the Office to the Vendor Review Committee in 2018, one vendor was debarred for six years. Twenty-nine reports remained under review by the Committee at the end of 2018. In connection with those 29 reports, as of 14 January 2019, 16 vendors received an interim suspension. One investigation report was submitted to the United Nations Volunteers Advisory Panel on Disciplinary Measures in 2018, further to which one United Nations Volunteer was dismissed. Three investigation reports were submitted to other United Nations organizations.

*Social and environmental compliance*

70. In 2018, the Social and Environmental Compliance Unit registered five new cases for a total of nine, from Argentina, Bosnia and Herzegovina, Cameroon, Jordan, Malawi, Myanmar, Panama, the Republic of the Congo, and Uganda. Another case, from Lebanon, was determined to be ineligible for a compliance review. In 2018, the Unit issued two final investigation reports, for Bosnia and Herzegovina and Panama. A third case (Uganda) was in the monitoring phase. Two field visits for the cases in Jordan and Malawi had been conducted in 2018. The remaining cases were still in the determination of eligibility or investigative phases.

71. The Social and Environmental Compliance Unit conducted outreach activities in 2018 to improve understanding about its mission, mandate and activities. It issued a newsletter and an annual report for 2017.

*Sexual harassment and sexual exploitation and abuse*

72. During 2018, the Office was an active member of the UNDP Task Force on Prevention of Sexual Harassment and assisted it in revising the UNDP policy on harassment, sexual harassment, discrimination, and abuse of authority. Among other revisions, the new policy gives the Office the authority to investigate allegations of sexual harassment and other forms of prohibited conduct including when the report is made anonymously.

73. The Office recruited one additional staff member, on a temporary appointment 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.

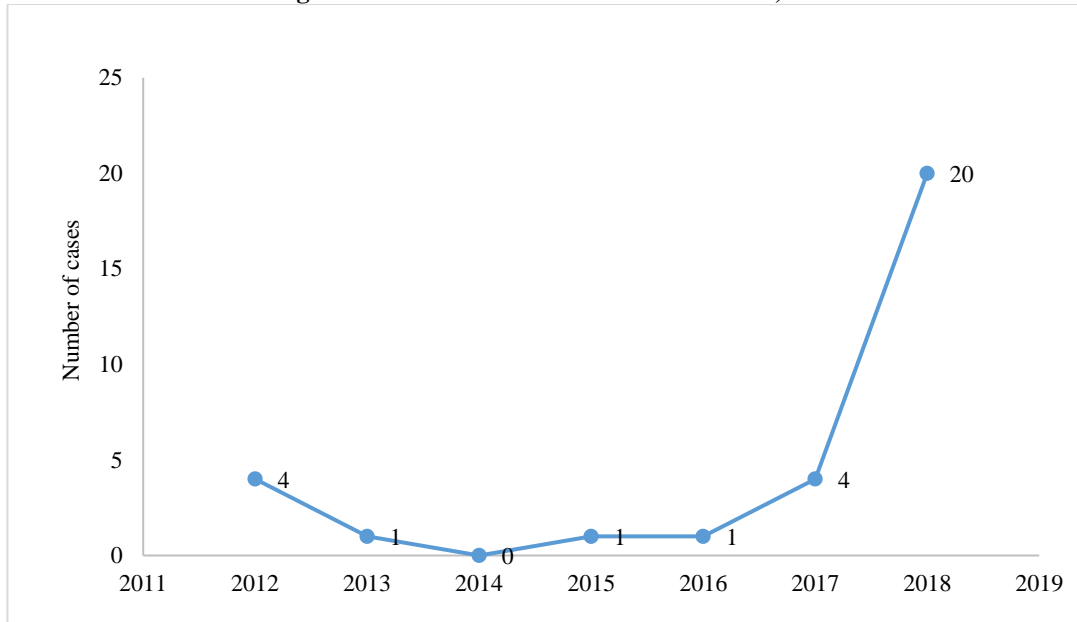
74. During 2018, the Office participated in several inter-agency technical working groups, such as the Chief Executives Board task force for addressing sexual harassment in the United Nations system and the Inter-Agency Standing Committee-Chief Executives Board Meeting of Investigative Bodies on Preventing Sexual Exploitation and Abuse and Sexual Harassment in the Humanitarian Sector. The Office 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.

75. The Office helped raise awareness of sexual harassment and sexual exploitation and abuse through presentations to other UNDP offices.

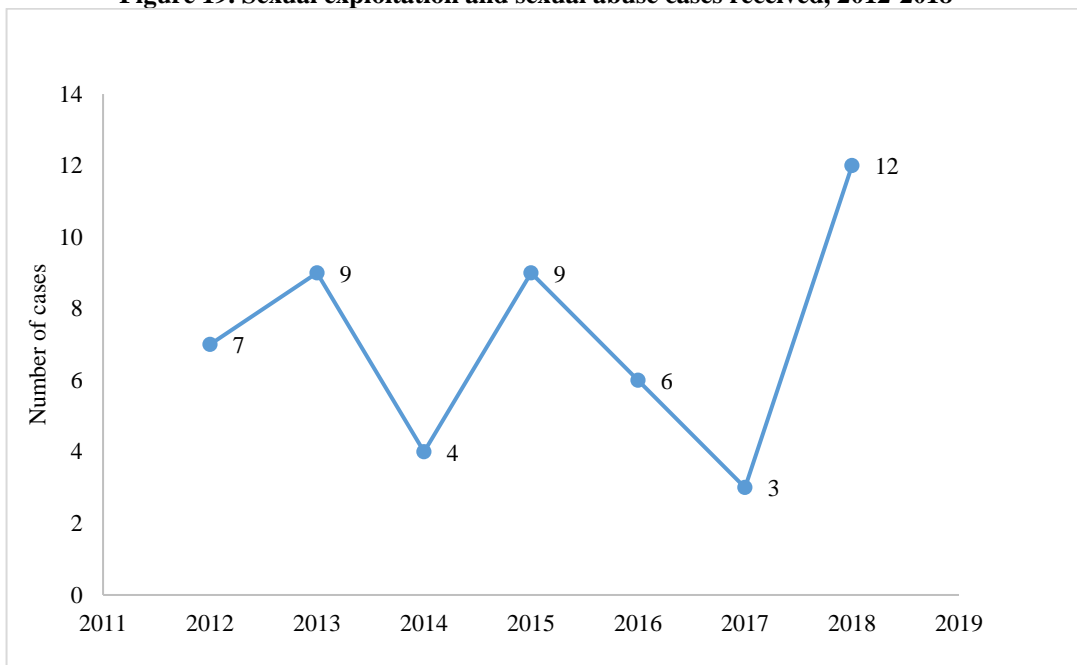
76. Twenty complaints of sexual harassment were reported in 2018, compared to four in 2017. Twelve complaints of sexual exploitation and abuse were reported in 2018, compared to three in 2017. The volume of cases is illustrated in figures 18 and 19, below.

77. The Office accords the highest priority to these cases, and notes that during the period 2012-2018, the average timeline for the completion of cases of sexual harassment was 5.5 months, while for cases of sexual exploitation and abuse it was 4.79 months. The Office aims to have such cases completed within six months, although investigations may occasionally take longer.

**Figure 18. Sexual harassment cases received, 2012-2018**



**Figure 19. Sexual exploitation and sexual abuse cases received, 2012-2018**



*Other investigative activity*

78. In 2018, the Office issued revised investigation guidelines that incorporated the revisions to the UNDP harassment, sexual harassment, discrimination, and abuse of authority policy as well as revisions to the UNDP legal framework for addressing non-compliance with United Nations standards of conduct.

## VIII. Coordination within the United Nations system

79. 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.

80. The Office is a member of the United Nations Representatives of Internal Audit Services and the Secretariat of the Conference of International Investigators. It co-organized the most recent annual meeting of that Conference. The Director of the Office of Audit and Investigations participated in the annual conference of the United Nations Representatives of Internal Audit Services in 2018.

## IX. Advisory and other audit services

### *Advisory services*

81. The Office carried out an advisory review of the decentralized vendor management system. 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

82. The Office provides independent internal oversight through internal audits on the adequacy and effectiveness of the UNDP governance, risk management and control framework.

### *Supporting analysis for the opinion (in response to decisions 2019/2 and 2015/13)*

83. 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 (see figure 20, below).

(i) *By audited expenditure.* The combined rates of audits with ‘satisfactory’ and ‘partially satisfactory/some improvement needed’ ratings decreased from 85.3 per cent in 2017 to 76.8 per cent in 2018. The combined rates of audits with ‘partially satisfactory/major improvement needed’ and ‘unsatisfactory’ ratings increased from 14.7 per cent in 2017 to 23.2 per cent in 2018.

(ii) *By number of audit reports issued.* The combined rates of audits with ‘satisfactory’ and ‘partially satisfactory/some improvement needed’ ratings decreased from 75 per cent in 2017 to 68.1 per cent in 2018. The combined rates of audits with ‘partially satisfactory/major improvement needed’ and ‘unsatisfactory’ ratings increased from 25 per cent in 2017 to 31.9 per cent in 2018.

**Figure 20. Comparison of distribution of audit ratings by audited expenditure and by number of audit reports issued in 2017 and 2018 with UNDP targets**

Rating	By audited expenditure (combined CO, GF, HQ, DIM, NGO/NIM)		By number of audit reports issued (Rated by the Office)		UNDP targets
	2017	2018	2017	2018	2017-2018
Satisfactory	33.1%	40.4%	37.5%	23.4%	More than 30%
Partially Satisfactory/some improvement needed	52.2%	36.4%	37.5%	44.7%	More than 30%
Partially Satisfactory/major improvement needed	13.7%	17.2%	23.2%	25.5%	Less than 35%
Unsatisfactory	1.0%	6.0%	1.8%	6.4%	Less than 15%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>N/A</b>

*CO = Country office; GF = Global Fund; HQ = headquarters; DIM = directly implemented; NGO/NIM = non-governmental organization/nationally implemented*

(iii) *Headquarters audits.* In 2017, the Office did not identify significant systemic deficiencies. In 2018, the Office noted issues that could significantly affect the achievement of the objectives of the audited entity or area. For example, the audit of the clustering process resulted in 10 recommendations. Five of the 10 recommendations were rated as ‘high priority’. The audit of the management by UNDP of government cost sharing resulted in three ‘high priority’ recommendations.

(iv) *Directly implemented project audits.* The calculated total net financial misstatement in 2018 was \$45.4 million, or 8.6 per cent of the total audited expenditure (\$528.1 million), compared to \$13.9 million, or 2.9 per cent of the total audited expenditure (\$476.7 million), in 2017.

(v) *UNDP targets.* The UNDP targets for audit ratings were set in the UNDP Integrated Results and Resources Framework, 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. In 2018, the percentage of ‘satisfactory’ ratings based on the number of audit reports rated by the Office was 23.4 per cent, which was below the UNDP target of more than 30 per cent. Percentages for the remaining three ratings (‘partially satisfactory/some improvement needed’, ‘partially satisfactory/major improvement needed’, and ‘unsatisfactory’) were within the UNDP targets.

(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 2018 was \$25.9 million, or 2 per cent of the total audited expenditures (\$1.3 billion), compared with \$6.1 million, or 0.4 per cent of the total audited expenditure (\$1.4 billion), in 2017.

(ii) *Review letters issued by the Office.* The country offices with combined ‘satisfactory’ and ‘partially satisfactory’ ratings decreased in 2018 compared to 2017. ‘Satisfactory’ ratings were the same, at 75 per cent, in 2017 and 2018. However, ‘partially satisfactory’ ratings decreased, from 22 per cent in 2017 to 15 per cent in 2018. On the other hand,

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country offices with ‘unsatisfactory’ ratings increased, from 3 per cent in 2017 to 10 per cent in 2018.

(c) The implementation rate for internal audit recommendations, including long-outstanding recommendations, increased in 2018.

(i) *Implementation rate of audit recommendations.* The implementation rate as of 31 December 2018 was 95 per cent, compared to 92 per cent as of 31 December 2017.

(ii) *Long-outstanding recommendations.* There were four long-outstanding recommendations as of 31 December 2018, compared to six as of 31 December 2017. The decrease in long-outstanding recommendations can be attributed to the increased focus of management on following up on all recommendations.

84. The qualitative nature of the audit and the investigations results was given due consideration, and these have been included in the formulation of the opinion by the Office.

85. The opinion of the Office is based on the audit reports issued between 1 January and 31 December 2018, the majority of which covered UNDP activities in 2017. A summary of the audit work supporting the opinion is included in chapter IV of the present report, and the supporting criteria and the methodology used to formulate the audit opinion are described in annex 6. The risk assessment methodology of the Office, which increases the audit frequency of high-risk entities, is described in chapter I.

86. Based on the scope of the 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 2018 were, in aggregate, ‘partially satisfactory/some improvement needed’. This means that the majority of business units or projects audited in 2018 were adequately established and functioning, but need some improvement.

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