



**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 2020**

Summary

This report provides information on the activities of the Office of Audit and Investigations for the year ended 31 December 2020. 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 (Board 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 United Nations Volunteers, the United Nations Office for South-South Cooperation, and the United Nations Capital Development Fund.

The report addresses requests by the Board regarding adherence to a statement of conformance with 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 2020 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.

The COVID-19 pandemic caused the office to work remotely since mid-March 2020; scope alterations in the audits were identified and reflected in the audit reports issued.



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.

Contents

<i>Chapter</i>	<i>Page</i>
Introduction.....	3
I. Assurance in UNDP.....	3
II. Disclosure of internal audit reports.....	6
III. Staffing and budget.....	6
IV. Significant internal audit results.....	7
A. Headquarters audits.....	7
B. Country office audits.....	8
C. Global Fund audits.....	10
D. Project audits.....	11
V. Follow-up to audit recommendations.....	11
VI. Review of audits of projects executed by non-governmental organizations and/or national governments.....	12
VII. Investigations.....	13
VIII. Coordination within the United Nations system.....	22
IX. Advisory and other audit services.....	22
X. Opinion.....	22

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 2020 pertaining to UNDP
3. Recommendations withdrawn in 2020
4. Summary of investigation reports issued in 2020, by type of allegation
5. Office of Audit and Investigations advisory services in 2020
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 2020

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 2020. 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 of UNDP. As required by the international standards of the Institute of Internal Auditors, the charter has been reviewed and 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 2020, 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 2020, 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 2020 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 2020, the committee reviewed the 2020 annual work plan of the office and its implementation through quarterly progress reports.

9. The COVID-19 pandemic caused the office to implement its workplan remotely from mid-March 2020 onwards; scope alterations were identified and reflected in the audit reports issued in 2020. All investigations were also performed remotely from March 2020. The office also drafted specific advisory notes in response to COVID-19-related risks.

Coordination with external auditors

10. 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 audits¹ of projects implemented by non-governmental organizations or national governments.

Basis for providing independent assurance to the Administrator

11. To provide assurance on governance, and risk management and control, the annual workplan of the office for 2020 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 workplan for 2020 was approved by the Administrator.

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

12. The Office of Audit and Investigations formulated the 2020 audit plan after conducting a comprehensive risk assessment of its auditable areas in UNDP, including United Nations Volunteers (UNV), the United Nations Office for South-South Cooperation (UNOSSC), and the United Nations Capital Development Fund (UNDCF). 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.

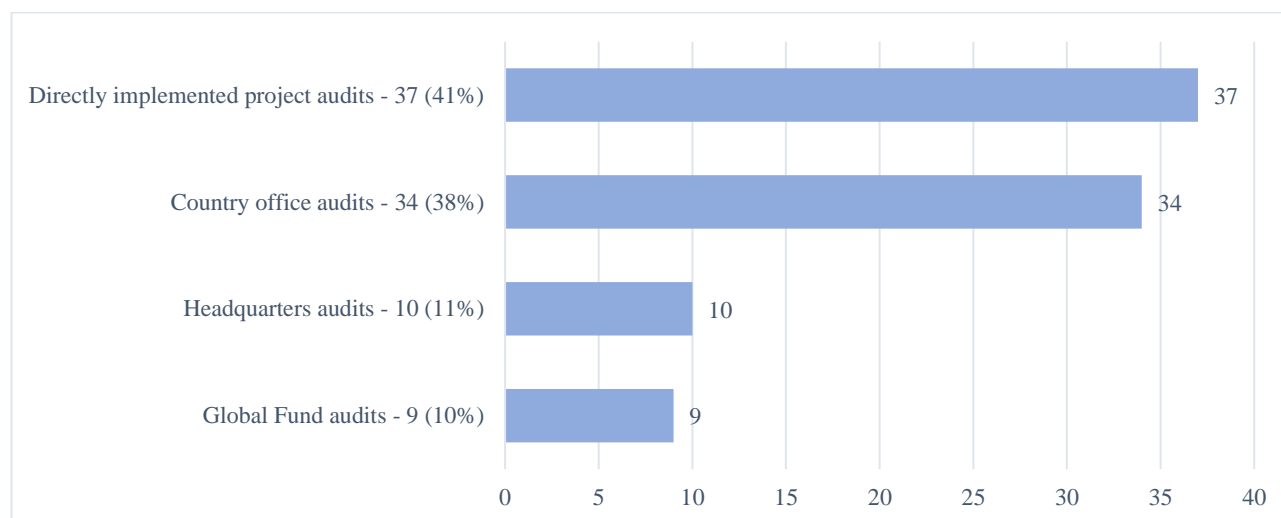
13. The risk assessment methodology covered the risk assessment process, from risk identification to risk measurement and risk ranking. Both quantitative and qualitative risk indicators were used – classified as strategic, contextual, political, operational and financial – in line with the UNDP enterprise 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

14. In 2020, the office issued 90 audit reports: 10 headquarters audits, including one audit of UNCDF and one follow-up report (11 per cent); 34 country office audits, including three follow-up reports (38 per cent); nine Global Fund audits (including one follow-up and two consolidated reports) (10 per cent); and 37 audits of directly implemented projects (41 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 2020. In 2020, the office met the key performance indicator on the number of days to issue reports from end of fieldwork, achieving an average per report of 49.8 days against the target of 90 days, for headquarters, country office, Global Fund and directly implemented audits. See details in figure 2.

15. The 74 country-level audits (country office audits, directly implemented project audits, and Global Fund audits) covered about \$3.4 billion (75 per cent) of approximately \$4.5 billion in UNDP field-level expenditures in 2020. An additional \$0.9 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 \$4.3 billion.

¹ “Third-party audits” refers to audits that are conducted neither by nor on behalf of the Office of Audit and Investigations. The audits of projects implemented by non-governmental organizations and national governments are conducted by supreme audit institutions or audit firms engaged and managed by UNDP country offices.

Figure 1. Number, percentage,² and type of audit reports issued in 2020**Figure 2. 2020 Key performance indicator - Average number of days to issue reports**

Audit type	No. of days ³	Target
Headquarters audits	72.3	90
Country office audits	56.8	90
Global Fund audits	58.1	90
Directly implemented projects audits	36.7	90

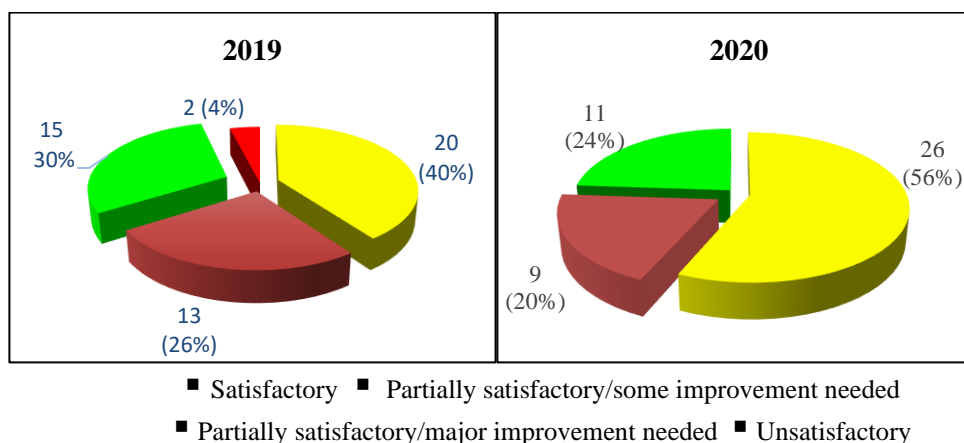
Audit rating

16. 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.

17. Of the 90 reports, 44 did not contain an overall rating. Of the remaining 46 reports, 11 (24 per cent) had a 'satisfactory' rating; 26 (56 per cent) had a 'partially satisfactory/some improvement needed' rating; and nine (20 per cent) had a 'partially satisfactory/major improvement needed' rating; no report had an 'unsatisfactory' rating (see figure 3). The comparison of the relative distribution of audit ratings in 2020 with that of 2019 shows a decrease in 'satisfactory' ratings; an increase in 'partially satisfactory/some improvement' and a decrease in 'partially satisfactory/major improvement' ratings and a decrease in 'unsatisfactory' ratings (by 4 per cent). There were no reports with 'unsatisfactory' ratings in 2020.

² The ratio (converted into a percentage) between the number of reports by audit type and the total reports issued.

³ Number of days from end of fieldwork to the issuance of the report per audit type.

Figure 3. Comparison of audit ratings (2020 versus 2019)

II. Disclosure of internal audit reports

18. In 2020, UNDP publicly disclosed 89 internal audit reports, one report was partially redacted because it contained sensitive information. There were 6,774 visits to the disclosure webpage in 2020 (4,819 unique visitors), which was higher than the 5,303 visits in 2019 (3,685 unique visitors).

III. Staffing and budget

19. As of 31 December 2020, the office had a total of 93 approved posts.

Recruitment process

20. Of those 93 posts, 86 were encumbered and seven (7) were vacant at the end of 2020. Out of the seven vacant posts, two were new posts created in late December 2020. Recruitment of one of the seven posts was completed by 31 December 2020 and the incumbent was scheduled to join the office in early January 2021. Recruitment for four other posts are ongoing. Recruitment of the two newly created posts is expected to be filled in the second quarter 2021. In 2020, the average vacancy rate, including the two new posts, was 7.5 per cent (against a target of 7 per cent), and the average time that staff positions had remained vacant was 5.6 months (against a target of six months).

21. The office conducted 15 recruitment processes during 2020, resulting in 11 newly recruited staff and four office staff promoted to higher positions. Among the 11 new recruited, five were male and six, female. Of the staff promoted at higher categories, one was male and three, female. Among the 15 recruitments completed in 2020, 14 posts were at the professional level and one at the general service level (female selected). See figure 4 for a breakdown.

Figure 4. The office's staff recruited in 2020, by gender

Gender	New recruited	Internal staff	Total	Per cent
Male	5	1	6	40%
Female	6	3	9	60%
Total	11	4	15	100%

Budget

22. In 2020, the office had an overall approved budget of \$21.3 million⁴ funded from institutional budget resources (see figure 5 for a breakdown).

23. The office received an additional \$1.24 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.

24. A total of approximately \$0.71 million in direct audit costs was charged to the respective budgets of directly implemented projects audited in 2020.

25. In 2020, the office's expenditures (excluding Global Fund) reached \$18.8 million which resulted in an unspent balance of \$2.5 million. The unspent balance resulted from savings of \$1.4 million from the staff budget (vacant posts) and COVID-19-related savings of \$1.1 million from staff traveling and other operating activities such as office expenditures and trainings.

Figure 5. Resources in 2020, excluding Global Fund

Category	Millions of United States dollars
Audit	11.3
Investigations	7.6
Management and support	2.3
Audit and Evaluation Advisory Committee	0.1
Total	21.3

IV. Significant internal audit results

A. Headquarters audits

26. The office conducted 10 headquarters audits in 2020. Of those, three were performance audits covering the UNDP regional hubs, the UNDP Global Environment Facility (GEF), and the Regional Bureau for Africa.

27. The audits of the Regional Bureau for Africa, UNDP Security Office, and Multi-Partner Trust Fund Office resulted in an overall rating of 'satisfactory'.

28. The performance audit of UNDP regional hubs, the audits of UNOSSC, UNDP data management, electronic funds transfer, and UNCDF resulted in an overall rating of 'partially satisfactory/some improvement needed'. For the audit of UNDP regional hubs, the rating was due to weaknesses pertaining to financial and human resources, absence of a comprehensive corporate system as well as an insufficient global approach to support country offices. For the UNDP data management audit, this rating was due to the lack of an approved comprehensive data privacy policy and metadata management procedures. For the audit of the electronic funds transfer, the rating was due to a lack of an automated interface between Atlas and the Society for Worldwide Interbank Financial Telecommunication (SWIFT). For the audit of UNOSSC, this rating was due to weaknesses in the working environment which was not conducive to performance and staff development. For the audit of UNCDF, this rating was due mainly to deficiencies in the loan and guarantee policy and weaknesses in the grant-making process.

⁴ The Office of Audit and Investigations portion of annual rent is \$971,000, which is excluded from this figure.

29. The audit of UNDP GEF resulted in an overall rating of ‘partially satisfactory/major improvement needed’. This rating was due to insufficient oversight of GEF projects; limited monitoring of audit recommendations of implementing partners; weak implementation of internal control frameworks; weaknesses within project management; and weaknesses in financial resources management. The audit raised 12 recommendations, five of which were rated ‘high priority’, meaning prompt action was required to ensure UNDP is not exposed to high risks. The audit report was presented to the UNDP Executive Board at its second regular session in September 2020 and discussed with the GEF Council in December 2020.

30. The office also conducted a follow-up audit of the UNDP clustering process and provided advisory services on streamlining controls in UNDP project management.

31. The 10 headquarters audit reports resulted in 50 recommendations, 16 of which (32 per cent) were ranked ‘high priority’.

B. Country office audits

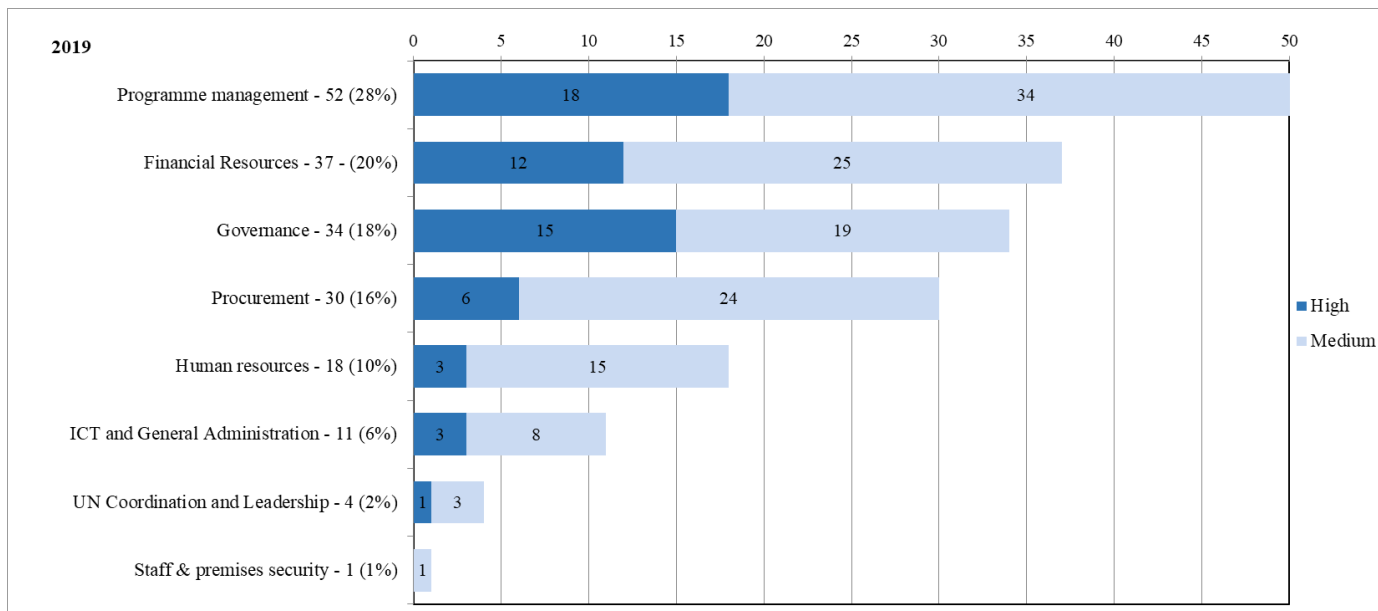
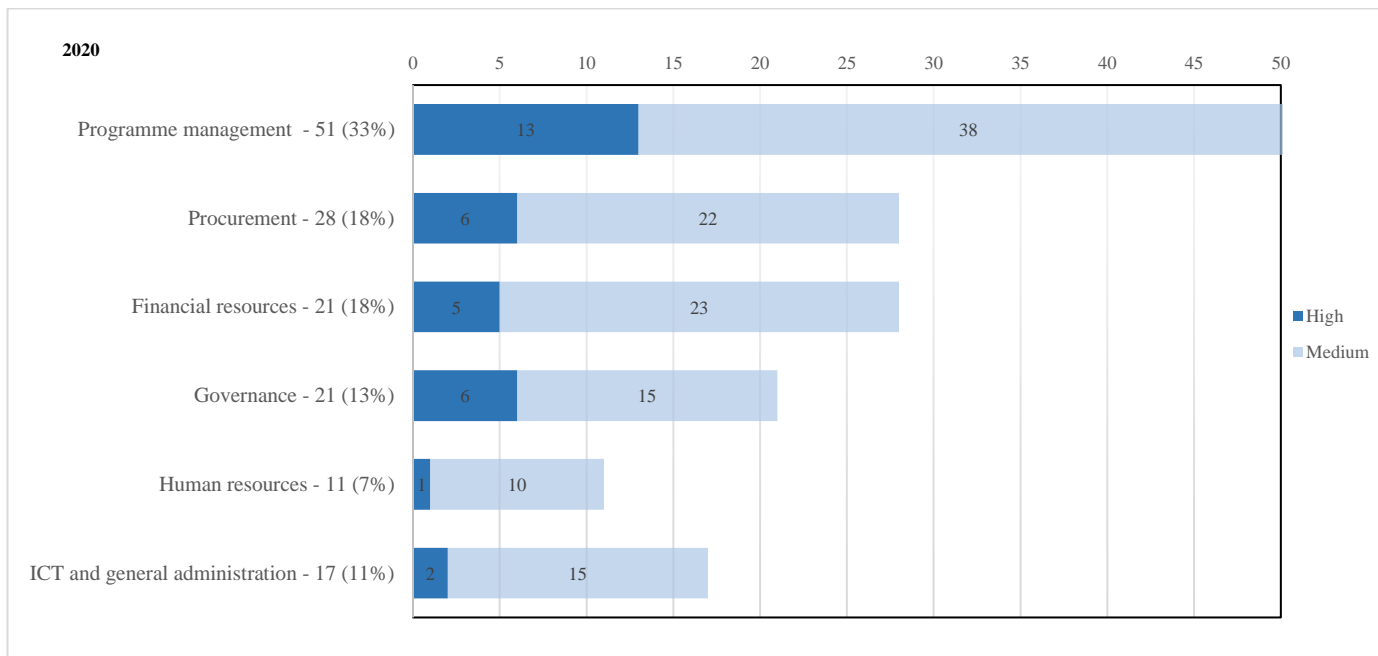
32. The 34 country office audit reports issued in 2020 included 31 audits of general scope and three follow-up audits. Figure 6 groups significant issues (recurrent in at least five offices) by audit area.

Figure 6. Recurrent country office audit issues

Audit area	Recurrent audit issues
Programme/project management	- Weaknesses in programme and project management, such as inadequate programme oversight, weak project design, monitoring and risk management, and low programme delivery (25 offices); - Delays in closing completed projects (5 offices).
Procurement	- Inadequate controls over procurement management, such as weaknesses in procurement processes and contract management, including inadequate use of tools such as electronic procurement platforms, justifications and evaluations, incorrect use of requisitions and purchase orders, weaknesses in submissions to independent review committees, and improper procurement of individual contractors (20 offices); - Inadequate procurement planning (5 offices).
Finance	- Weaknesses in financial management, such as inadequate management of payments and bank reconciliation, weak budgeting and use of budget override policy, financial sustainability of the office at risk, weaknesses within the harmonized approach to cash transfers (HACT) and outstanding value added-tax claims (16 offices); - Government contributions to local office costs (GLOC) arrears (5 offices).
Governance	- Weaknesses in organizational structure, strategic management and control environment, inadequate use of annual planning and risk management tools, and inadequate gender equality strategy (15 offices).
Human resources	- Ineffective recruitment processes, shortcomings in service contract management and outdated service contract remuneration scale (10 offices).
Administrative services	- Weaknesses in travel management, such as non-compliance with UNDP travel policies and inadequate controls and monitoring of travel advances and claims (6 offices).

33. The above audits resulted in 156 recommendations, 33 (21 per cent) of which were rated ‘high priority’. Figure 7 provides a thematic breakdown of the recommendations for 2019 and 2020.

Figure 7. Distribution and prioritization of country office audit recommendations in 2019 and 2020 internal audit reports



C. Global Fund audits

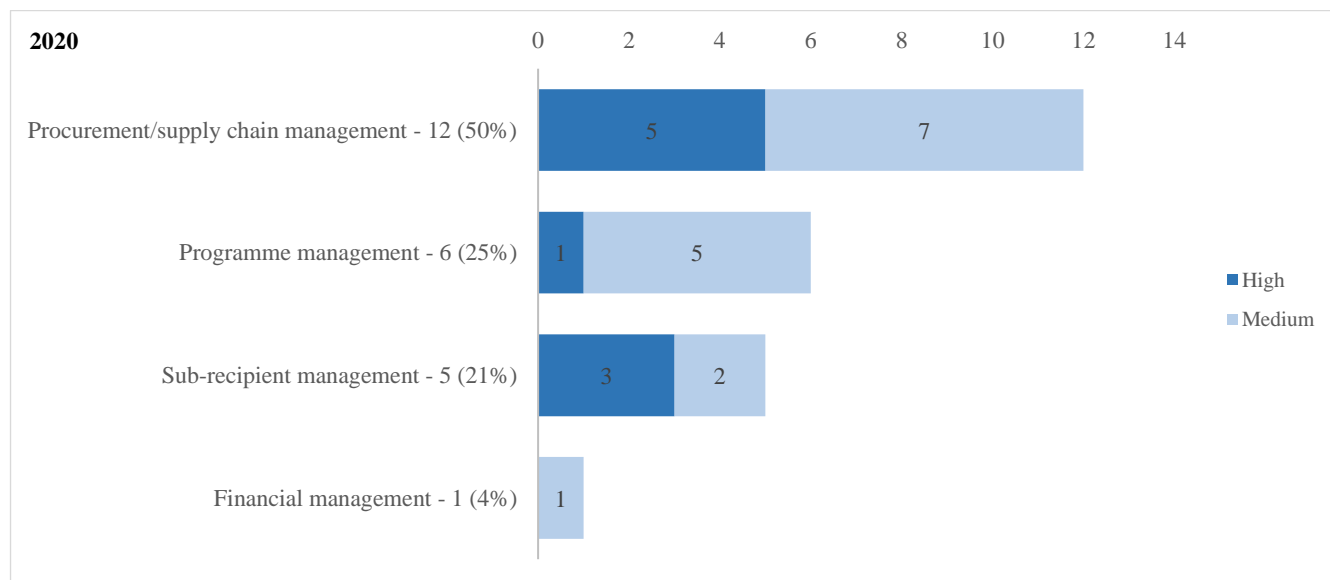
34. The office issued nine Global Fund audit reports (six country office, one follow-up audit and two consolidated reports) in 2020. They covered the management of Global Fund grants in seven country offices (two in Africa, two in Asia and the Pacific, two in the Arab States, and one in Europe and the Commonwealth of Independent States). Figure 8 lists significant issues (recurrent in at least three offices), grouped by audit area.

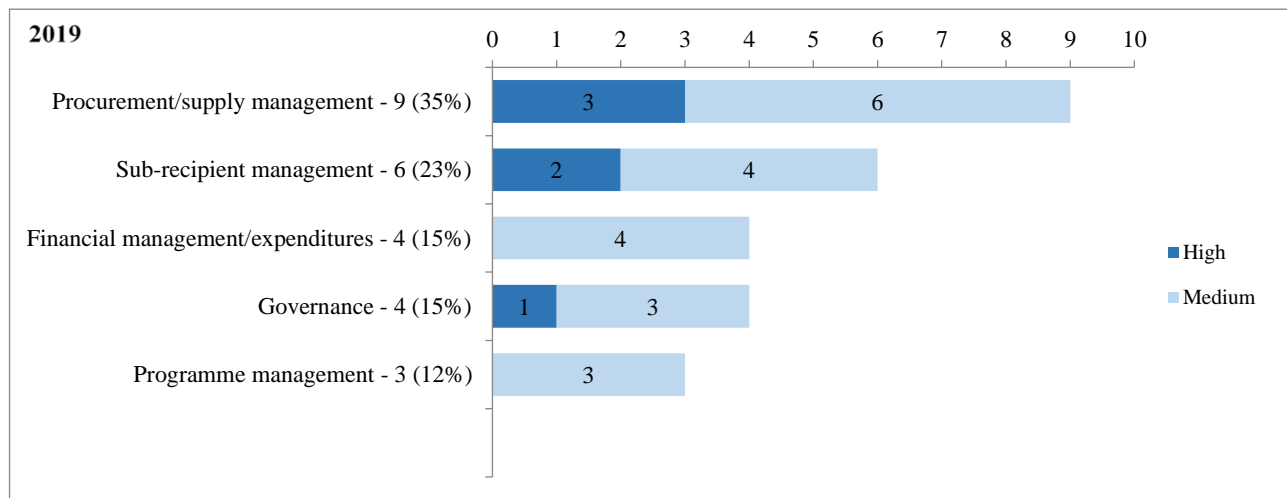
Figure 8. Recurrent Global Fund audit issues

Audit area	Recurrent audit issues
Procurement and supply chain management	- Weaknesses in the management of inventory records, ineffective implementation of quality assurance of health products, inadequate management of pharmaceutical products, and inadequate controls over asset management (6 offices).
Programme/project management	- Insufficient field visits and monitoring, delays in fund utilization and reprogramming of unused funds, and inadequate management of grant and project closure (4 offices).
Sub-recipient management	- Weaknesses in sub-recipient contracting and financial monitoring, and inadequate sub-recipient capacity assessments and development (4 offices).

35. The nine audit reports related to grants managed by UNDP as principal recipient contained 24 recommendations (11 ‘high’ and 13 ‘medium’), 12 (50 per cent) of which were in procurement and supply chain management. The significant issues are grouped, according to audit area, in figure 9.

Figure 9. Distribution and prioritization of Global Fund audit recommendations in 2019 and 2020 internal audit reports





D. Project audits

36. In 2020, 37 projects directly implemented by UNDP were audited separately and not as part of a country office audit, with total audited expenditure amounting to \$636.3 million.

37. Of the 37, 36 projects were audited by audit firms contracted by the office, resulting in 33 unqualified, two qualified, and one adverse opinion. The qualified and adverse opinions resulted in a total net financial misstatement of \$14.4 million, or 2.3 per cent of the total audited expenditure (\$636.3 million), compared to \$10.6 million or 1.7 per cent of the total audited expenditure (\$619.4 million) in 2019. Of the total financial misstatement in 2020, 89 per cent (\$12.9 million) was related to one project managed by the UNDP country office in Iraq.

38. The audits of the 37 directly implemented projects resulted in 17 recommendations of which one was 'high' and 16 were 'medium', with a significant number of recommendations (88 per cent) in the area of financial resources management, such as expenses recorded in an incorrect accounting period, overstatement or understatement of the combined delivery report and advances incorrectly recorded.

V. Follow-up to audit recommendations

39. The overall implementation rate of audit recommendations was 95 per cent as of 31 December 2020, which was above the rate achieved in 2019 (90 per cent). The rate covered all reports issued by the office from 1 January 2018 to 30 November 2020.

40. There were no long-outstanding recommendations (unresolved for 18 months or more) as of 31 December 2020, compared to 10 in 2019. This is the first time in more than 10 years that the office is not reporting long-outstanding recommendations to the Executive Board.

41. In 2020, the Director of the office withdrew five recommendations from audit reports issued in 2018. Three recommendations were withdrawn because they were no longer applicable. The remaining two recommendations were withdrawn due to the acceptance of residual risk by management. A more detailed presentation is included in annex 3.

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

42. The audits for fiscal year 2019 were conducted by supreme audit institutions or audit firms engaged and managed by UNDP country offices. As of 31 December 2020, the office had received 745 audit reports, with 43 reports ‘outstanding’ (from UNDP offices in Djibouti, Gabon, Liberia, Mali, Mauritania, Mauritius, Mozambique, Somalia and Ukraine).

Results of review

43. Of the 745 reports received, the office reviewed 261 in depth, representing \$824.7 million in expenses (87 per cent of the audited expenses).

44. Review letters from the Office of Audit and Investigations were issued to 91 country offices that had submitted project audit reports. Figure 10 shows the number of countries that received ‘satisfactory’, ‘partially satisfactory’, and ‘unsatisfactory’ reviews for fiscal years 2018 and 2019. 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 2019 (Audits conducted in 2020)		Fiscal year 2018 (Audits conducted in 2019)	
	Number of countries	%	Number of countries	%
Satisfactory	71	78	64	71
Partially satisfactory	9	10	16	18
Unsatisfactory	11	12	10	11
Total number of country offices	91	100	90	100

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

45. The audit reports of non-governmental organizations/nationally implemented projects that were reviewed in detail contained 1,108 issues. Forty-nine per cent of the issues pertained to financial management.

46. The office monitored the actions taken by country offices to implement the audit recommendations. As of 31 December 2020, 45 per cent of the 1,108 audit issues had been implemented or were no longer applicable.

Audit opinions and net financial misstatement

47. For the reports with modified opinions, the office calculated the total net financial misstatement for fiscal year 2019 to be a net overstatement of \$0.5 million (compared to \$1.7 million for fiscal year 2018) or 0.1 per cent of the total audited expenditure (\$948 million). The net financial misstatement of \$0.5 million for fiscal year 2019 related to an overstatement of \$2.6 million for

31 country offices and an understatement of \$2.1 million for five country offices. The qualifications were due mainly to unsupported expenses (21 projects) or unexplained differences between the combined delivery report and financial records or project records (six projects).

Country offices where HACT is fully implemented

48. For financial year 2019, 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.

49. As of 31 December 2020, the Office of Audit and Investigations had completed the review of 29 HACT audit reports. Of those reports, 28 were related to financial audits and one to internal control audit. The auditors provided 'unmodified' opinions for 25 of the 28 financial audit reports reviewed.

VII. Investigations

50. During 2020, the office opened 206 new cases and carried over 352 cases from 2019, bringing the 2020 caseload to 558.

51. The office closed 277 of those 558 cases in 2020. At the end of 2020, 281 cases were carried over to 2021 (see figure 11).

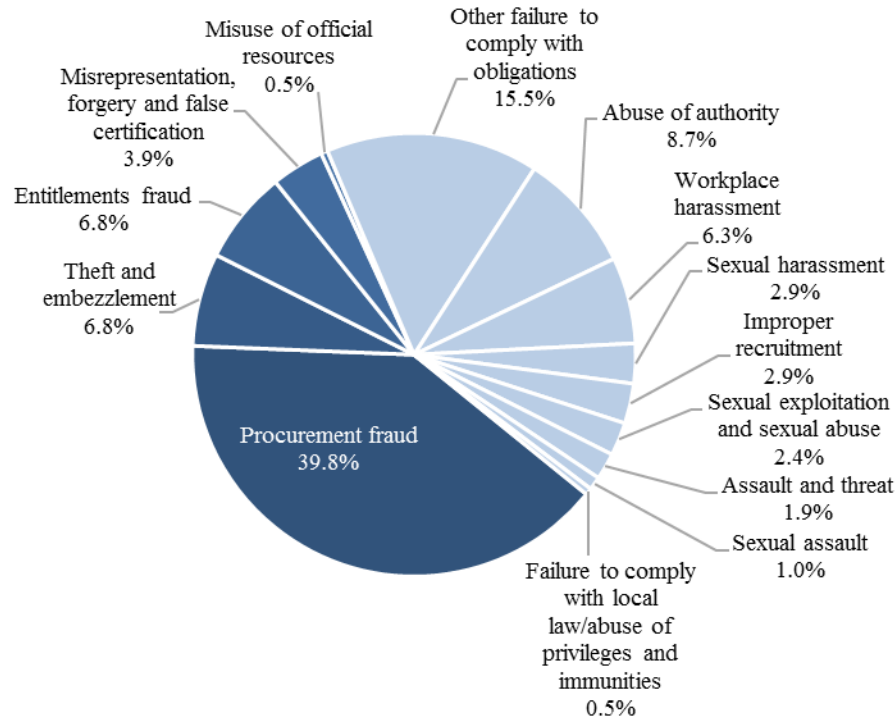
Figure 11. Office of Audit and Investigations caseload, 2019 and 2020

Caseload	2019	2020
Carry-over as of 1 January	256	352
Intake during the year	370	206
Total cases during the year	626	558
Closed (from cases carried over)	172	206
Closed (from intake)	102	71
Total closed	274	277
Carried forward as of 31 December	352	281

Types of complaints

52. Complaints are reported to the office by mail, email, webform, 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 57.8 per cent of the cases received by the office in 2020, similar to the 57.9 per cent recorded in 2019. Complaints relating to sexual misconduct (sexual assault, sexual harassment and sexual exploitation and abuse) constituted 6.3 per cent of the cases received by the office in 2020, a 2.1 percentage point decrease compared to the 8.4 per cent recorded in 2019 (see figure 12).

**Figure 12. Types of complaints received in 2020⁵
(financial irregularity complaints in deep blue)**



53. In 2020, the office received the most complaints from the Arab States region (47 cases), followed by Africa (32 cases), Europe and the Commonwealth of Independent States (32 cases), Asia and the Pacific (25 cases), and Latin America and the Caribbean (21 cases). Forty complaints involved staff members or other personnel on UNDP contracts assigned to other United Nations organizations. The office received nine complaints involving headquarters staff (see figure 13).

⁵ 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 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 2020, by region

	Number of complaints received
Arab States	47
Other United Nations organizations	40
Africa	32
Europe and the Commonwealth of Independent States	32
Asia and the Pacific	25
Latin America and the Caribbean	21
Headquarters	9
Total	206

Processing of cases

54. Of the 277 cases that were closed in 2020, 70 cases (25 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.

55. The remaining 207 cases were closed as a result of an investigation in which 127 cases (61.4 per cent) were found to be unsubstantiated. Of the remaining cases, 79 cases (38.2 per cent) resulted in 71 investigation reports establishing evidence of misconduct or other wrongdoing.⁶ In addition to the 79 cases substantiated through investigation reports, the office issued one options letters⁷ (see figure 14).

56. 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 270 working days (393 calendar days).⁸ Of the 229 cases assessed during 2020, including the 70 cases closed after assessment, 68.6 per cent were finalized within the key performance indicator target of three months. Of the 207 cases closed following an investigation, 54.1 per cent were finalized within the key performance indicator target of under 270 working days. During the ongoing COVID-19 pandemic, all investigations have been conducted remotely.

57. At the end of 2020, 37 cases were still under assessment and 244 under investigation.

⁶ 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. In addition, two cases were substantiated by one report involving the same type of misconduct by the same subject as the allegations were received in different years.

⁷ 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.

⁸ 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”. When accounting for United Nations official holidays, 270 working days converts to approximately 393 calendar days; therefore, the office has used 393 calendar days as its metric for investigations.

Figure 14. Disposition of cases

Actions taken	No. of cases 2019	No. of cases 2020
<i>After assessment</i>		
Closed, investigation not warranted	57	59
Referred to other United Nations organizations	10	7
Referred to other UNDP offices	3	4
Total	70	70
<i>After investigation</i>		
Closed (<i>not substantiated</i>)	116	127
Closed (<i>substantiated</i>)		
- Submitted to Legal Office	19	27
- Submitted to country offices	13	17
- Submitted to the Vendor Review Committee	35	32
- Submitted to other organizations	14	3 ⁹
- Submitted to other UNDP offices	4	-
- Options letter issued	3	1
Subtotal (<i>substantiated</i>)	88¹⁰	80
Total cases closed after investigation	204	207
Total cases closed during the year	274	277
Investigation reports issued	80	71¹¹
Management letters issued	3	5¹²

Substantiated cases

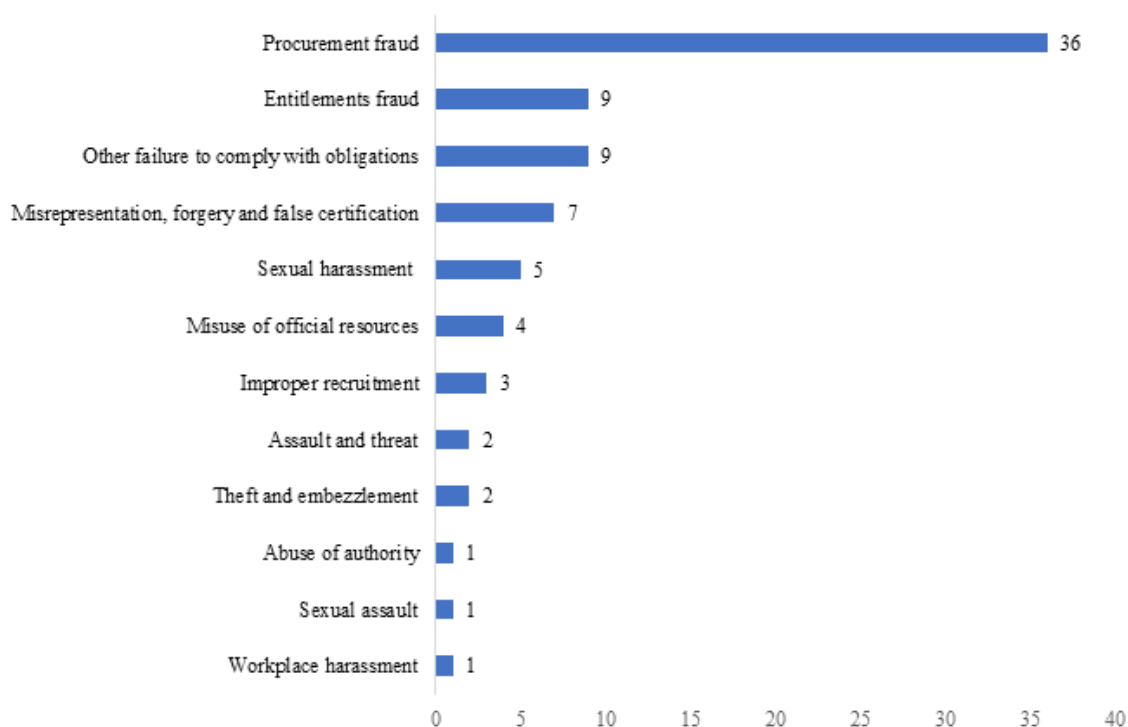
58. Of the potential misconduct identified in the 80 substantiated investigation cases, the majority concerned procurement fraud (36 cases or 45 per cent); entitlements fraud (9 cases or 11.3 per cent); and other failure to comply with obligations (9 cases or 11.3 per cent) (see figure 15). A summary of the investigation reports issued in 2020, by type of allegation, is included in annex 4.

⁹ Three cases involved personnel of other United Nations organizations whose contracts were managed by UNDP.

¹⁰ The office issued one financial loss report in 2019.

¹¹ Seventy-one (71) investigation reports established evidence of misconduct or other wrongdoing.

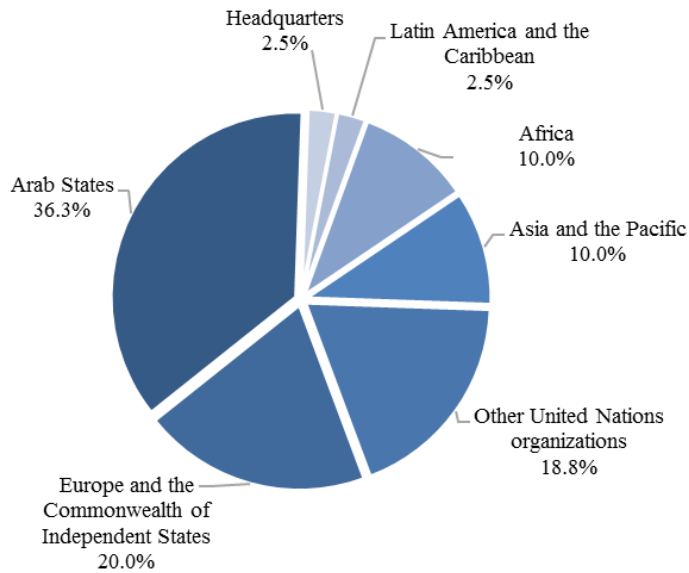
¹² One management letter was issued against eight cases as the allegations were the same.

Figure 15. Cases substantiated in 2020, by category

59. Of the 80 substantiated cases, 36.2 per cent (29 cases) occurred in the Arab States region, 20 per cent (16 cases) in the Europe and the Commonwealth of Independent States region, 18.8 per cent (15 cases) in other United Nations organizations, 10¹³ per cent (8 cases) in the Africa region, 10 per cent (8 cases) in the Asia and the Pacific region, 2.5 per cent (2 cases) at UNDP headquarters and 2.5 per cent (2 cases) in the Latin American and the Caribbean region (see figure 16).

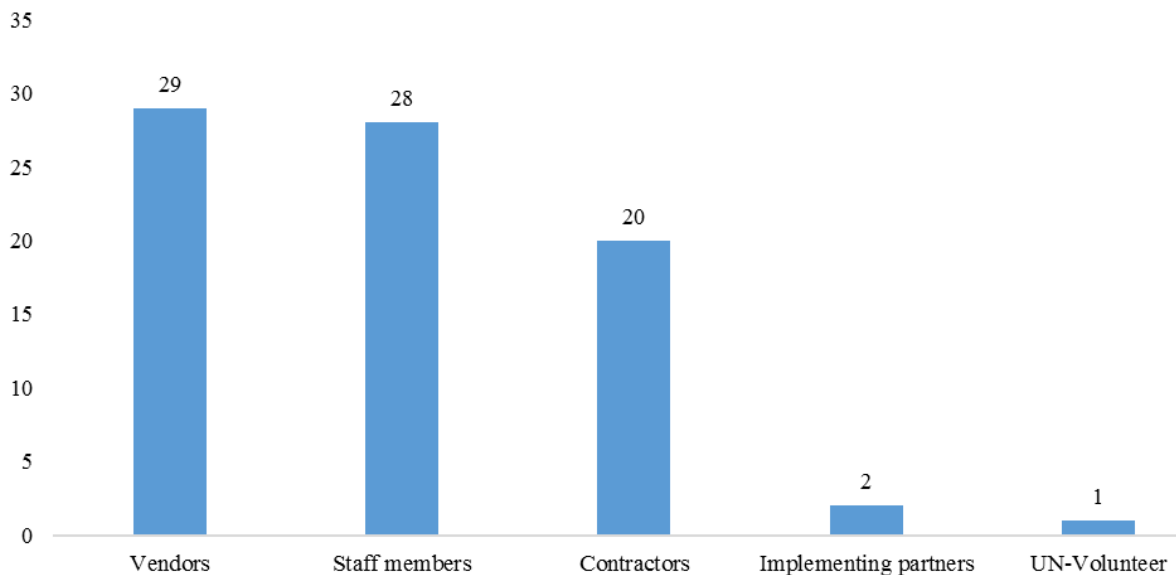
¹³ The office is responsible for the assessment and investigation of allegations against UNDP personnel who hold contracts administered by UNDP on behalf of other United Nations organizations.

Figure 16. Cases substantiated in 2020, by region



60. The 80 substantiated cases involved 29 vendors, 28 staff members (UNDP staff and staff for whom the office received a delegation of authority to investigate),¹⁴ 20 contractors (18 service contract holders and two individual contractors),¹⁵ two implementing partners, and one UN-Volunteer (see figure 17).

Figure 17. Cases substantiated by contractual status



¹⁴ Eight cases involved staff members in other United Nations organizations that held UNDP letters of appointment.

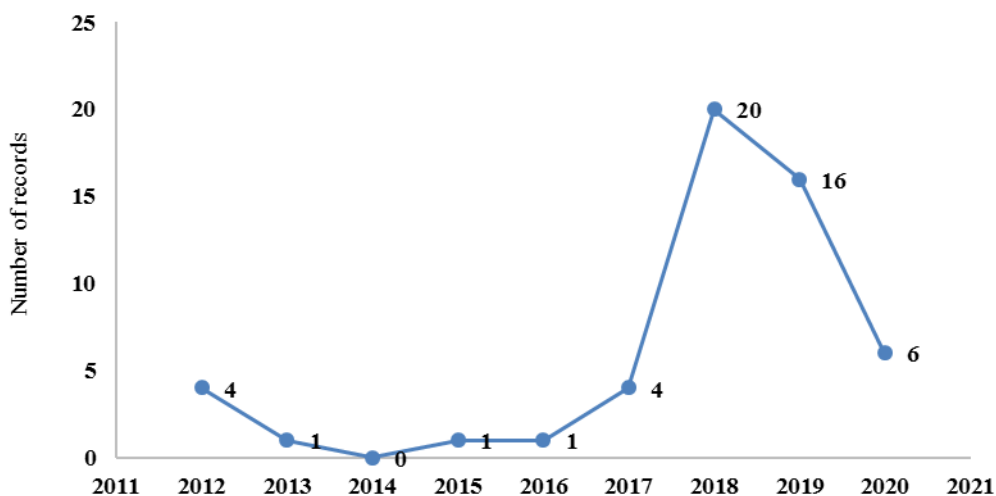
¹⁵ The 20 contractors include six service contractors managed by UNDP but who work for other United Nations organizations

Sexual misconduct

61. In 2020, the office opened 13 cases related to sexual misconduct (six sexual harassment complaints, five sexual exploitation and abuse complaints, and two complaints related to sexual assault). This is a 58.1 per cent decrease in complaints of sexual misconduct than in 2019, when the office opened 16 complaints of sexual harassment and 11 complaints of sexual exploitation and abuse, and four complaints of sexual assault (see figures 18 and 19).¹⁶ In addition, the office carried over 15 sexual misconduct cases from 2019 to 2020 (seven sexual harassment complaints, five sexual exploitation and abuse complaints, and three sexual assault complaints).

62. In 2020, the office substantiated six cases of sexual misconduct (five sexual harassment cases and one sexual assault case).¹⁷ This is a 25 per cent decrease compared to 2019, when the office substantiated eight cases of sexual misconduct (five sexual harassment cases, two sexual exploitation and abuse cases, and one sexual assault case). In 2020, the office closed a total of 17 cases received as sexual misconduct. In addition, the office finalized five cases received as other types of misconduct but assessed and/or investigated as sexual misconduct. Five sexual harassment complaints, five sexual exploitation and abuse complaints, and one sexual assault complaint were carried over to 2021.

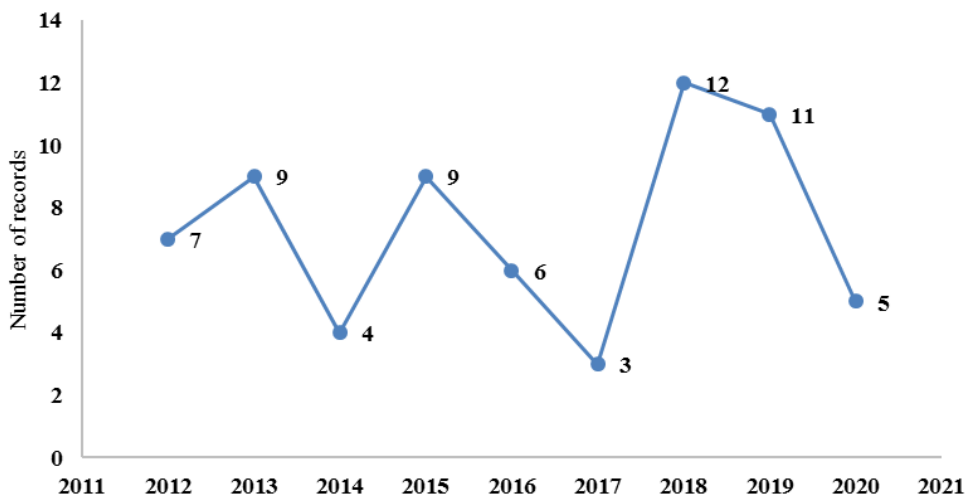
Figure 18. Sexual harassment cases received, 2012-2020



¹⁶ 2019 was the first year that sexual assault was reported as a separate category.

¹⁷ The office reports case types opened based on the misconduct type alleged at the time the case is received. However, during an assessment or investigation, the case type can be re-evaluated and updated at the time of finalization to reflect the misconduct assessed or investigated. For example, one substantiated case on sexual misconduct in 2020 was originally received as “other failure to comply with obligations” but was later recategorized and finalized as a sexual harassment case.

Figure 19. Sexual exploitation and sexual abuse cases received, 2012-2020



Management letters

63. In 2020, the office issued five management letters to concerned business units to address weaknesses in internal controls, as noted in the investigations conducted by the office. The management letters concerned recommendations for improving: (a) practices in the usage of information and communication technology (ICT) devices used to create, process or disseminate UNDP information; (b) standard operating procedures with respect to physical examinations in a United Nations medical facility; (c) procedures in relation to the creation and modification of payment data for implementing partners/vendors; (d) procedures in administering staff entitlements and tax reimbursements; and (e) advice to personnel on UNDP guidelines for reporting allegations of misconduct.

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 2020 amounted to \$16,709.¹⁸ 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 2020 was \$8,566,570, of which \$7,430,495 was deemed recoverable by the Legal Office. Of the \$7,430,495, \$3,738,296 has been recovered, slightly more than 50 per cent of the loss.

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

65. Based on the 27 investigation reports concerning staff members, one staff member was dismissed and two were separated from service. A letter was placed in the files of two staff members who had separated prior to the completion of the investigation, indicating, pursuant to article 72 of the UNDP legal framework, that they would have been charged with misconduct had they remained with the organization. Two staff members have been issued with written censure, while other two staff members were exonerated of the allegations. The remaining 18 reports were still under review by the Legal Office at the end of 2020.

66. As a result of the 17 reports that the office submitted to country offices, ten service contract holders and one individual contract holder had their contracts terminated. Five service contract

¹⁸ An additional \$2,379 financial loss related to a UNDP personnel was handled through an options letter (this amount is subject to potential recovery); two other cases with losses amounting to \$1,744 have yet to be transmitted for asset recovery by the end of 2020.

holders had either resigned or been otherwise separated prior to the commencement or finalization of the investigation, and one resigned following the issuance of the investigation report.

67. Of the 25 reports, covering 32 cases, submitted by the office to the Vendor Review Committee in 2020, eight were finalized and closed by the end of the year, resulting in sanctions against five vendors and four agents. In addition, 16 vendors from the remaining reports received an interim suspension pending finalization by the committee.

68. One investigation report submitted to the United Nations Volunteers Advisory Panel on Disciplinary Measures in 2020 was under review by the end of the year. Two investigation reports submitted to other United Nations organizations concerning service contract holders remained under review at the end of the year.

Social and environmental compliance

69. In 2020, the Social and Environmental Compliance Unit (SECU) registered three new cases for a total of sixteen registered cases, of which eleven are open. The open cases are from Cameroon, the Republic of Congo, India, Jordan (two cases), Kyrgyzstan, Malawi, Mauritius, Myanmar, Panama and Uganda. In 2020, one registered case from Jordan was suspended as complainants requested a stakeholder response mechanism process prior to the investigation. Five cases, from the Congo, Jordan, Malawi, Panama and Uganda have entered a monitoring phase at the UNDP Administrator's discretion, following completion of the investigation. SECU issued three final investigation reports to the UNDP Administrator for Cameroon, the Congo and Mauritius. No field missions were conducted during 2020 due to the COVID-19 pandemic.

70. SECU conducted outreach activities in 2020 to improve understanding about its mission, mandate and activities to partners and potential stakeholders. It conducted a virtual outreach event for the Brazilian civil society organizations with accountability mechanisms from the Green Climate Fund, the Inter-American Development Bank, the International Finance Corporation and the World Bank. SECU continued its outreach activities through social media and other digital forums.

Prevention of sexual harassment and sexual exploitation and abuse

71. During 2020, the office was an active member of the UNDP Task Force on the Prevention of Sexual Harassment and Sexual Exploitation and Abuse and assisted in establishing the clear-check database standard operating procedures and the revision of various UNDP contractual agreements with vendors, non-staff personnel and implementing partners to strengthen mutual obligations on preventing and responding to sexual harassment and sexual exploitation and abuse.

72. In addition to the recruitment of a P4 level focal point in the investigation of cases of sexual harassment and as the primary representative of the office for UNDP response and initiative, during 2020 the office recruited two P3 level investigators who work primarily on sexual misconduct cases.

73. During 2020, the office participated in several inter-agency technical working groups, including the Chief Executives Board Task Force for Addressing Sexual Harassment in the United Nations System, 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, and the Sexual Exploitation and Abuse Working Group. 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 helped raise awareness of sexual harassment and sexual exploitation and abuse through presentations to other UNDP offices as well as within the Office of Audit and Investigations.

74. Since 1 January 2020, all participating offices and United Nations organizations have had to report credible allegations of sexual exploitation and abuse 'on a near-real-time' basis via the i-Report sexual exploitation and abuse tracker. The i-Report tracker is a secure online database containing information on allegations of sexual exploitation and abuse that are reported to the United

Nations Secretary-General. During 2020, 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 2020, the office continued 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 substantiated one case in 2020 through the issuance of an options letter.

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 late January 2020, the office hosted an international seminar on performance auditing with the participation of 25 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 virtually in the annual conference of the United Nations Representatives of Internal Audit Services in 2019.

IX. Advisory and other audit services

Advisory services

78. In 2020, the office of Audit and Investigations provided six consultancy services in diverse areas and in response to the COVID-19 pandemic.

79. Out of the six consultancy services, one advisory engagement was related to UNDP project management; three were risk advisory notes based on substantive review of areas such as procurement of health products, Global Fund risks, and vendor management; and two risk alerts on areas that required immediate management attention, such as procurement of COVID-19-related items. A more detailed presentation is included in annex 3.

80. In line with rule 126.17 of UNDP financial rules and regulations and UNDP programme and policies operations and procedures, the office received and reviewed six requests for write-offs, five of them from country offices, and one from UNCDF with a request to write-off an amount of \$39,408. See details in annex 5.

X. Opinion

81. 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 2020 and 31 December 2020.
 - (i) *By audited expenditure*. The combined rates of audits with ‘satisfactory’ and ‘partially satisfactory/some improvement needed’ ratings decreased from 53.3 per

cent in 2019 to 50.6 per cent in 2020. Additionally, the combined rates of audits with ‘partially satisfactory/major improvement needed’ and ‘unsatisfactory’ ratings increased from 46.6 per cent in 2019 to 49.4 per cent in 2020 (see blue coloured columns in figure 20). A significant portion of the increase in the ‘partially satisfactory/major improvements needed’ is limited to two audits (reference footnote¹⁹) 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 70.0 per cent in 2019 to 80.4 per cent in 2020. Additionally, the combined rates of audits with ‘partially satisfactory/major improvement needed’ and ‘unsatisfactory’ ratings decreased from 30.0 per cent in 2019 to 19.6 per cent in 2020 (see yellow coloured columns in figure 20). In 2020, compared to 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 2019.
- (iii) *The distribution of audit ratings by audited expenditure* has moved away from corporate targets, with more audited expenditure rated as ‘partially satisfactory with major improvements needed’. This seems to partly reflect the influence of two audits (reference footnote 22). The distribution of audit ratings by audit reports is close to being aligned with corporate targets. In addition to the distribution of audit ratings by audited expenditure and by number of audit reports issued in 2020, the opinion has also been informed by the observations below.
- (iv) *Directly implemented project audits.* The calculated total net financial misstatement in 2020 was \$14.4 million or 2.3 per cent of the total audited expenditure (\$636.3 million) compared to \$10.6 million in 2019 or 1.7 per cent of the total audited expenditure (\$619.4 million).

¹⁹ *Substantial audits with ‘partially satisfactory/major improvement needed’ rating:* Two audits contributed to approximately 82 per cent of the audited expenditure classified as ‘partially satisfactory/major improvement needed’. The two audits were the country office audit of the UNDP country office in Afghanistan and the performance audit of UNDP GEF. The combined audited expenditure for these reports was \$1,542,000,000. The rest of the expenditure with this rating is incurred by six country offices and one office managing a grant from the Global Fund. The relative size of the expenditure covered in these two audits and corresponding rating has increased the percentage of audits with ‘partially satisfactory/major improvement needed’ (seen figure 20), when comparing the figures for the prior year.

Figure 20. Comparison of distribution of audit ratings by audited expenditure and by number of audit reports issued in 2019 and 2020 with UNDP targets

Rating	By audited expenditure (combined CO, GF, HQ ²⁰ , DIM, NGO/NIM)		By number of audit reports issued (Rated by the office, combined CO, GF, HQ) *		UNDP targets ²¹
	2019	2020	2019	2020	2018-2021
Satisfactory	27.6%	20.4%	30.0%	23.9%	More than 30%
Partially Satisfactory/some improvement needed	25.7%	30.2%	40.0%	56.5%	More than 30%
Partially Satisfactory/major improvement needed	39.7%	45.6%	26.0%	19.6%	Less than 35%
Unsatisfactory	6.9%	3.8 %	4.0%	0.0%	Less than 15%
Total	100%	100%	100%	100%	N/A

* 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 \$0.5 million or 0.1 per cent of the total audited expenditures (\$948 million) compared to \$1.7 million in 2018 or less than 1 per cent of the total audited expenditure (\$1.2 billion).
 - (ii) *Review letters issued by the office.* The country offices with combined ‘satisfactory’ and ‘partially satisfactory’ slightly increased in 2020 compared to 2019. ‘Satisfactory’ ratings increased from 71 per cent in 2019 to 78 per cent in 2020. However, ‘partially satisfactory’ ratings decreased from 18 per cent in 2019 to 10 per cent in 2020. On the other hand, country offices with ‘unsatisfactory’ rating slightly increased from 11 per cent in 2019 to 12 per cent in 2020.
- (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 2020 was 95 per cent, compared to 90 per cent as of 31 December 2019.
 - (ii) *Long-outstanding recommendations.* There were no long-outstanding recommendations as of 31 December 2020, compared to 10 as of 31 December 2019 and four long-outstanding recommendations as of 31 December 2018.

²⁰ Headquarters audits of business units, projects or functions with expenditure recorded, within the timeframe of the audit, are included.

²¹ 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.

82. 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.

83. Due to the COVID-19 pandemic, the audits were conducted remotely as of Mid-March 2020. Scope limitations due to the nature of the remote audit related to the following activities:

- (a) A review of original supporting documentation could not be carried out and, therefore, the audit teams relied on scanned copies;
- (b) Meetings with the office's staff and personnel were carried out virtually, which limited the understanding of the office's working environment;
- (c) Project site visits, including physical meetings with counterparts/local beneficiaries, were not conducted;
- (d) A physical verification of assets and inventory was not performed;
- (e) Safe and petty cash content were not verified; and
- (f) Information and communication technology was not reviewed on-site.

84. Based on the scope of the work issued between 1 January and 31 December 2020, 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 2020 were, in aggregate, 'partially satisfactory/some improvement needed'. This means that the majority of business units or projects audited in 2020 were adequately established and functioning but need some improvement.
