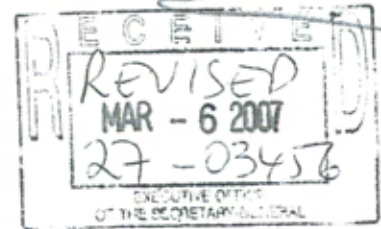


Ref: OUSG 07-121rev

Note to the Secretary-General



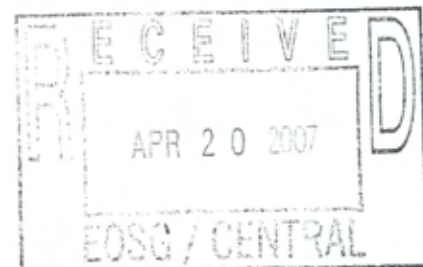
Revised Version of  
Annual Report (Part two) of the Office of Internal Oversight Services on the  
peacekeeping oversight activities, 1 July 2005 – 31 December 2006

1. I refer to my note to you dated 23 February and attach for your information the revised version of the Report of the Office of Internal Oversight Services on peacekeeping oversight activities covering the period 1 July 2005 to 31 December 2006.
2. My office has made changes to the earlier version following a late input received from the Department of Management.

*Inga-Britt Ahlenius*

Inga-Britt Ahlenius  
Under-Secretary-General  
for Internal Oversight Services  
6 March 2007

Copy to:  
Mr. Kim Won-soo





## General Assembly

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### Sixty-first session

Agenda items 127 and 132

#### Report on the activities of the Office of Internal Oversight Services

Administrative and budgetary aspects of the financing of  
the United Nations peacekeeping operations

#### Report of the Office of Internal Oversight Services

#### Part two<sup>1</sup>: Peacekeeping Operations

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<sup>1</sup> Part one of the report (A/61/264 (Part I) and Addendum) was issued on 15 August 2006.

### *Summary*

The present report is submitted in conformity with General Assembly resolution 48/218 B of 29 July 1994 (para. 5 (e)); resolution 54/244 of 23 December 1999 (paras. 4-5); and resolution 59/272 of 23 December 2004 (paras. 1-3). It covers peacekeeping oversight activities of the Office of Internal Oversight Services (OIOS) during the 18-month period from 1 July 2005 to 31 December 2006.

OIOS issued more than 170 oversight reports related to peacekeeping which accounted for over 50 per cent of all recommendations raised in this period. In many of these reports OIOS noted a breakdown in one or several components of internal control, or a total disregard for controls. Programme managers have accepted the majority of the recommendations, and have initiated action to rectify the weaknesses.

Whilst inspection and evaluation resources dedicated to peacekeeping remained flat during the present reporting period there was an increase of resources for both audit and investigations, which enabled OIOS to perform additional oversight work. The establishment of the Procurement Task Force in January 2006 further helped to identify significant findings of waste, abuse, negligence and other forms of mismanagement, as well as fraud, in the establishment and execution of a number of high value contracts between the Organization and various vendors who provided goods and services to the United Nations' peacekeeping missions.

Some key highlights of this report are as follows:

**Integrity violations** – OIOS investigated a broad range of integrity violations in peacekeeping operations. In two separate cases OIOS substantiated allegations that military contingent members had sexually abused under-aged girls. OIOS investigations during the period also substantiated evidence of gross negligence, corruption and serious mismanagement at some peacekeeping missions.

**Procurement** – Audits and investigations identified serious deficiencies in procurement management, systems and processes in peacekeeping operations; including serious weaknesses in internal controls and inadequate managerial accountability. The Procurement Task Force issued eleven reports detailing significant findings of waste, abuse, negligence and other forms of mismanagement, as well as fraud.

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## **Preface**

I am pleased to submit to the General Assembly the first ever Office of Internal Oversight Office Services (OIOS) annual report dedicated to peacekeeping activities. This report covers the period from 1 July 2005 to 31 December 2006 and sets out OIOS' major findings in peacekeeping operations during this period.

A report dedicated to United Nations' peacekeeping operations is required given the size and magnitude of these operations and the extent of OIOS' involvement in the oversight of the Department of Peacekeeping Operations.

Looking back over the past 18 months and the more than 170 reports that OIOS issued on peacekeeping activities, one management shortcoming appears noticeable, namely the absence of a robust internal control framework which sets out management's responsibility for among other things, the control environment, risk assessment, and control activities. As highlighted in the present report, there have been multiple instances where a breakdown of the internal control system has exposed the Organization to unnecessary risk, and in some cases, has facilitated the mismanagement and misuse of resources.

Adverse working conditions, or difficult operational conditions, are often cited as reasons for poor internal controls; reasons which OIOS cannot accept. The high risks inherent in these environments necessitate stronger internal controls and even greater scrutiny to help the Organization to guard against the types of mismanagement and misuse of resources referred to in this report.

During the reporting period, considerably more resources were dedicated to oversight of peacekeeping activities, largely through the support of the General Assembly. This has enabled OIOS to place more staff in the field, which I feel has contributed to its ability to respond more effectively to increased oversight requirements. Also during the period, OIOS has made significant progress towards achieving its goal of a fully risk-based work plan by 2008, which will allow OIOS to better identify the areas of peacekeeping operations that require greater scrutiny.

I wish to underscore the importance of expeditious implementation of recommendations to reduce the United Nations' risk of exposure to losses and waste. While in many cases programme managers have begun to take corrective action, peacekeeping operations remain vulnerable until recommendations are fully implemented.

In conclusion, OIOS feels there is good progress toward achieving the required coverage for oversight of peacekeeping operations. I believe that whilst the management response, as evidenced by the implementation rate for recommendations, is showing a positive trend there is still much room for improvement to further reduce the risk of exposure to losses and waste. I also wish to reiterate that a fully functioning internal control framework is a critical component for assurance and accountability and I look forward to seeing the implementation of such a framework as soon as possible.

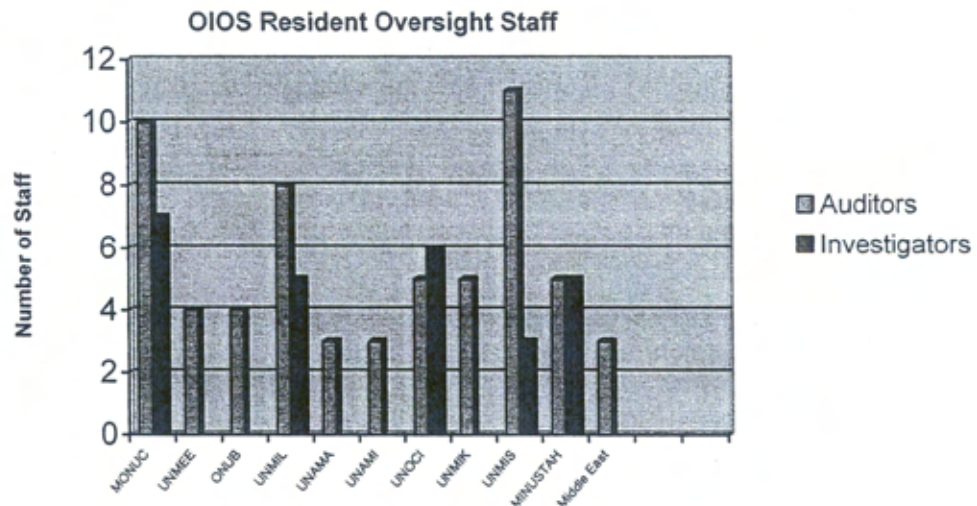
## I. General Introduction

1. During the period 1 July 2005 to 31 December 2006, the Office of Internal Oversight Services (OIOS) issued over 170 oversight reports related to peacekeeping operations. The recommendations issued in these reports represent over 50 per cent of all OIOS recommendations issued during the reporting period. To conform to existing Secretariat<sup>2</sup> rules on space limitations for General Assembly documents, this report highlights only the areas OIOS deems of most concern to the Organization. Annex I provides a review of OIOS' methodology for the allocation of resident auditors to peacekeeping missions, as requested by the General Assembly resolution 60/268.

2. With the rapid surge in peacekeeping operations<sup>3</sup>, OIOS' scope of work has increased considerably. There has been a 45 per cent<sup>4</sup> increase in resident auditor staff in peacekeeping and special missions during the 18-month reporting period. Resident investigators were introduced to the United Nations Mission in Cote d'Ivoire (UNOCI), United Nations Mission in the Sudan (UNMIS), United Nations Mission in Liberia (UNMIL), United Nations Operation in Burundi (ONUB), United Nations Organization Mission in the Democratic Republic of Congo (MONUC), and the United Nations Stabilization Mission in Haiti (MINUSTAH). In inspections and evaluations, a review of approach and methodology is underway to ensure comprehensive coverage of peacekeeping operations. OIOS headquarters staff dedicated to peacekeeping oversight activities also increased by 32 per cent during this same period. Figure 1 shows the number of resident auditors and investigators assigned to peacekeeping and special political

missions as  
of 31  
December  
2006.

Figure 1



<sup>2</sup> Although a waiver requested by OIOS for additional space was granted, OIOS is in general disagreement with the fact that its reports are subject to space limitations, as they infringe upon the Offices' independence in terms of reporting to the General Assembly.

<sup>3</sup> The total peacekeeping budget, including United Nations Logistics Base and the support account has increased from \$2.7 billion in 2001/02 to \$5 billion in 2005/06 (A/60/727).

<sup>4</sup> This increase is between 30 June 2005 and 31 December 2006, including all categories of staff.



### Risk assessment of peacekeeping operations

3. As part of the goal of achieving a fully risk-based work plan by 2008<sup>5</sup>, OIOS, with the assistance of a consulting firm, conducted a risk assessment of the Department of Peacekeeping Operations (DPKO) and selected peacekeeping missions (AP2006/600/14<sup>6</sup>) in early 2006. This was instrumental in assisting OIOS to better identify the high risk areas for review and consequently to ensure that findings represented in this report refer to some of the highest risk areas which should be addressed.

### Comprehensive audits related to peacekeeping

4. In its resolution 59/296 of 22 June 2005, the General Assembly requested OIOS to conduct a comprehensive management audit of DPKO. OIOS reported its findings to the General Assembly (A/60/717), which were consolidated from the following audit reports: procurement (AP2006/600/20), financial and budget management (AP2006/600/19), human resources management (AP2006/600/18), information and communication technologies (AP2006/600/17), integrated mission planning (AP2006/600/15), substantive operations (AP2006/600/16), and best practices (AP2006/600/23). Also, pursuant to the same resolution, OIOS will provide to the General Assembly, for its consideration at the second part of its 61<sup>st</sup> session, a separate report dealing with DPKO's management structures. Overall, this audit concluded that DPKO's management structures must ensure that operational and management processes are fully integrated with a strong internal control framework, and supported by effective governance and accountability mechanisms. The audit also pointed out serious weaknesses in internal control and inadequate managerial accountability for administrative and logistical support functions, as had also been identified in prior OIOS audits. No systematic risk management mechanism had been developed as part of an overall internal control framework, and monitoring of DPKO's sub-programmes by the Office of the Under-Secretary-General, DPKO needed major improvement. OIOS, however, noted that DPKO had already made efforts to improve its management structures. DPKO's reform programme "Peace Operations 2010" launched in 2005 included many initiatives to improve its management structures in key areas for change such as people, doctrine, partnerships, resources and organization.

5. Pursuant to General Assembly resolution 60/255, OIOS conducted an audit of the Department of Political Affairs' (DPA) ability to manage and direct special political missions with a view to ensuring the efficient use of post and non-post resources (A/61/357). Overall, OIOS found a high risk of duplication and overlap regarding the functions of DPA regional divisions and the DPKO's Office of Operations. During the

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<sup>5</sup> OIOS assignments will be selected and prioritized based on the level of risk they pose to the Organization.

<sup>6</sup> Denotes the assignment number of report submitted to programme manager

<sup>6</sup> Since January 2005 DPKO has been providing administrative and logistical support to special political missions.



next three years OIOS will carry out comprehensive audits of all special political missions. The audits will assess the appropriateness of the internal controls in budgeting and finance, human resource management, asset management, programme administration and other areas of special political missions' operations.

#### Internal control and accountability

6. Peacekeeping activities are subject to difficult operational circumstances and unforeseen challenges. Such conditions increase the Organization's risk exposure and make it crucial that an effective internal control framework and accountability mechanisms are in place. OIOS has in several instances pointed out that the control environment, i.e. tone at the top and commitment to strong controls and ethics, is the foundation and the most important component of internal control. Challenging operational realities cannot be used to justify a weak control environment. Inefficient and weak internal controls expose the Organization to misuse of funds and even fraud and corruption. In many peacekeeping audits and investigations conducted over the past 18 months, OIOS noted a breakdown in some components of internal control, including, in the worse cases, a total disregard for controls on the part of some senior managers. An internal control framework emphasizing accountability and ethical behavior in conformity with the Organization's Charter which requires that staff members act in the best interests of the Organization, are the best guarantee for effective and efficient use of resources.

7. The audit and investigation reports issued during this period highlighted serious weaknesses in internal control, waste, abuse, negligence and other forms of mismanagement, as well as fraud. While in some cases administrative and disciplinary action has been swift, in OIOS' opinion, programme managers have not been consistent in applying the standards to which they hold staff accountable. OIOS is very concerned that following the issuance of the Procurement Task Force (Task Force) reports in September and October 2006, management action has not been taken in the case of four individuals against whom there were adverse findings (two of whom were part of the eight staff members placed on special leave with full pay in 2006). OIOS stresses that prompt action is required to ensure that the implicated individuals are held fully accountable, and that the Organization is fully committed to root out mismanagement and corruption. OIOS is also very concerned that the Organization lacks effective policies and procedures to discourage vendors from participating in fraudulent activities and encourage them to cooperate with OIOS' investigations. The existing vendor suspension and removal process is weak, unfocused, and exposes the Organization to conflicts of interest since the United Nations Procurement Service manages the process. The Task Force has reported on instances in which vendors have committed acts of fraud or impropriety in several peacekeeping missions and information about the misconduct has not been shared between missions. More specifically, the Task Force has identified that some vendors have acted improperly in one mission, and thereafter engaged in the same misconduct in other missions. Communication between missions, and missions and the Procurement Service, has been lacking. Further, there have been instances in which the Task Force has found vendors to have engaged in misconduct and/or unlawful activity and thereafter gained further business with the Organization –both directly and



sometimes indirectly. There have been circumstances in which a vendor who has committed fraud against the Organization and has later gained business with the Organization as a subcontractor for a separate vendor who has been awarded the contract by the Procurement Service after a competitive bidding exercise. In such instances, the selected vendor simply assigned the contract to the prohibited vendor, and the prohibited vendor performed under the contract as if it was originally awarded the contract in the first instance. These weaknesses, shown in recent, highly visible cases, contributed significantly to delays in debarring vendors who had engaged in corrupt practices, exposing the Organization to further losses of its assets and negatively impacting its reputation. The debarment of these vendors resulted primarily from compelling evidence provided by OIOS and media publicity surrounding the cases, not from a pro-active and bold anti-corruption policy.

## **II. Oversight results by risk area**

### **1. Integrity Violations**

8. During the reporting period, OIOS investigated a broad range of integrity violations in peacekeeping operations, including mismanagement, embezzlement, and sexual exploitation and abuse. Of particular concern were sexual exploitation and abuse related allegations, expressly prohibited in ST/SGB/2004/13<sup>8</sup>, which represented nearly one-third (463) of all allegations received by OIOS during the period. As of 31 December 2006, 30 of these sexual exploitation and abuse allegations were fully investigated and reports issued to DPKO. 203 remain under investigative status. A further 74 cases were referred to DPKO for their review and action. As per the OIOS mandate, in 54 cases where evidence was not found to support the allegation, the subject of the inquiry was cleared of any wrongdoing. In one case, the complaint was withdrawn upon OIOS checking with the complainant. The remaining 101 sexual exploitation and abuse matters were either: advisories to programme managers; insufficient information for investigation; allegations were similar to other matters and thereby merged with existing cases; or were overtaken by events such as a significant time period between the act alleged and reporting, thereby rendering investigation impossible. An additional three sexual exploitation and abuse investigation reports were issued in this period which involved allegations from the previous reporting period. Some of the cases arising from allegations received during the period include:

#### Sexual abuse and exploitation

9. In UNMIL (0706/05), OIOS substantiated allegations of *prima facie* evidence that a military contingent member had sexually abused an under-aged girl. OIOS recommended that DPKO refer this case to the national authorities of the concerned Troop Contributing Country (TCC) for criminal action against the military contingent. DPKO followed up on this case with the relevant Permanent Mission to the United

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<sup>8</sup> ST/SGB/2003/13 defines sexual exploitation as "any actual or attempted abuse of a position of vulnerability, differential power, or trust, for sexual purposes, including, but not limited to, profiting monetarily, socially or politically from sexual exploitation or another". Sexual abuse is defined as, "the actual or threatened physical intrusion of a sexual nature, whether by force or under unequal or coercive conditions".



Nations on several occasions, however to date, an adequate response, consistent with the evidence of the case, has not been received.

10. In MONUC (0635/05), OIOS substantiated allegations that a military contingent member had sexually abused an under-aged girl, which resulted in the birth of a child. OIOS has also investigated similar allegations, involving another girl, and a member of the same military contingent, however, this allegation could not be substantiated because the alleged victim could not be located. Both cases revealed evidence of improper conduct on the part of the contingent Commander of these military contingent members, in that he had provided financial and subsistence support to the families of the two girls for more than seven months. Through these actions, OIOS inferred that the Commander hoped to minimize any complaints made by the family as to the sexual exploitation of the local girls. OIOS recommended, through DPKO, that the concerned TCC take appropriate action, including action against the Commander. OIOS' recommendation in this case was accepted and implemented by DPKO.

11. In UNMIS (0416/05), OIOS substantiated allegations that a staff member responsible for monitoring the performance of a service contractor had sexually exploited and abused four women formerly employed by the contractor. Similarly, OIOS substantiated allegations that the same staff member had harassed other females employed by the same contractor. All OIOS' recommendations in this case were accepted and implemented by DPKO.

12. In ONUCI (0298/05), OIOS found that several Staff Officers, from different national contingents, had brought females, including prostitutes, to a hotel used as the Mission Force Headquarters, contrary to mission instructions. The investigation also found that military management had failed to create an environment that prevented military personnel from engaging in conduct that was, or could be, reasonably construed as sexual exploitation and abuse. Contributing to the lax control environment were ambiguous command memoranda and serious deficiencies in security controls that allowed non-UN female personnel entry to the Force Headquarters, presenting a significant security risk to United Nations personnel and assets. DPKO implemented all OIOS' recommendations in this case.

13. OIOS believes that curbing the instances of sexual exploitation and abuse by United Nations peacekeeping personnel requires a collaborative effort by all stakeholders. Individual TCCs must ensure all personnel are fully aware of their responsibilities toward Host Country nationals. OIOS also believes that greater efforts must be undertaken by the United Nations family to address the dire economic and social conditions for these vulnerable persons in many of the peacekeeping missions.

14. OIOS' Internal Audit Division also reviewed the state of discipline in a global audit of field missions led by DPKO to obtain an understanding of the environment in which gross violations of United Nations standards of conduct occurred, and to assist DPKO senior management in determining a course of action to strengthen the Organization's standards of conduct and ensure full compliance (A/60/713). OIOS

acknowledges that DPKO and the Office of Human Resources Management of the Department of Management (OHRM) have already implemented a number of OIOS' recommendations resulting from this review. For example, DPKO established Conduct and Discipline Teams (CDT) at Headquarters and in twelve field missions. The CDT mandate covers the oversight of conduct and discipline matters in peacekeeping to ensure compliance with United Nations Standards of Conduct by all peacekeeping personnel. CDT is an important tool to ensure that mission management is informed of relevant developments in the mission on conduct and discipline matters. In addition the CDTs provide policy guidance and technical advice in the creation and implementation of training to strengthen the capacity of missions to address misconduct, in particular sexual exploitation and abuse.

15. DPKO, OHRM and the OIOS Investigations Division, are developing various training programmes, including modules on the code of conduct, prevention of sexual exploitation and abuse and investigative techniques. To date, training modules 2 and 3 of a mandatory training programme on prevention of sexual exploitation and abuse aimed at middle level managers and military commanders have been completed and are being reviewed by CDTs and the DPKO Integrated Training Service prior to their finalization by 30 March 2007.

16. OIOS will continue to undertake investigations into the misconduct, in particular cases of sexual exploitation and abuse, reported in peacekeeping missions and offer recommendations for sanctions and policy changes where practical. However, it is vital that all stakeholders address their own accountability in this area to ensure behavioural change and a reduction in the abuse of vulnerable persons.

#### Mismanagement

17. In the United Nations Office in Timor-Leste (UNOTIL) (ID 645/05), OIOS conducted an investigation into allegations of serious mismanagement of the assets stored in the communications and information technology warehouse in Dili, Timor-Leste. The evidence adduced by the investigation confirmed gross negligence and serious mismanagement on the part of the Communications and Information Technology Service (CITS) asset manager and highlighted the lack of supervision and oversight by the CITS line managers, leading to a loss of United Nations property totaling some \$249,000. OIOS recommendations to DPKO, including to seek reimbursement from the managers concerned and appropriate action against responsible mission staff, are in various stages of implementation.

18. In the United Nations Interim Force in Lebanon (UNIFIL) (ID 261/05) OIOS found that senior officers of the contingent of one TCC, including the Commanding Officer, had put in place a system whereby they fraudulently overstated their fuel requirements by making false statements about their travel activity and forging data about fuel consumption by generators. These senior officers then sold the excess fuel, thus generated, to local buyers. They also sold United Nations rations to local shops and supermarkets, using local and contingent interpreters as "middlemen". In a separate finding, documents obtained by OIOS showed that the same battalion used only twenty



per cent of their serviceable vehicles, though the United Nations reimbursed the Government of the TCC for maintaining the entire fleet of vehicles in a serviceable condition, thus inflating the reimbursement by the United Nations to five times the amount that was actually necessary. The investigation concluded that the estimated loss incurred by the United Nations due to these illegal activities was \$1.5 million. Evidence was also obtained to support findings that one military officer of the same battalion had violated the national law of his country by taking bribes in his official capacity as a member of the selection panel in assigning posts to troops wishing to join the contingent. OIOS recommended that DPKO ensure that the TCC take appropriate action against the officers concerned. Furthermore, OIOS recommended that DPKO ensure that the officers concerned not be assigned to peacekeeping missions in the future and that appropriate action be taken against the contingent interpreters. DPKO has implemented the majority of OIOS' recommendations issued in this case, and in particular repatriated the entire contingent from the mission and has sought follow up action from the concerned TCC against the senior officers.

19. Fuel management is a major risk area for the Organization, and pursuant to General Assembly resolution 60/259, OIOS conducted an audit of fuel management in ten field missions<sup>9</sup>. The results of the audit will be summarized in a separate report to the General Assembly in the second part of the resumed 61<sup>st</sup> session.

#### Investigation Task Force at the United Nations Interim Administration in Kosovo (UNMIK)

20. The Investigation Task Force (ITF), a tri-partite group of OIOS, the European Anti-Fraud Office (OLAF) and the UNMIK Financial Investigation Unit, is mandated to conduct investigations of publicly owned enterprises in Kosovo (Serbia). During the reporting period ITF investigations focused on fraud and corruption in the energy sector in Kosovo. Specifically, 13 fraud and corruption matters were identified at the Kosovo Electricity Company (KEK) for investigation. Three of those cases (see below) were provided to the Special Representative of the Secretary General (SRSG) for his approval of the referral and onward transmittal to the UNMIK Department of Justice for criminal investigation. Another case was referred to the European Union (EU) as it involved an EU staff member. Nine cases are under investigation. UNMIK has confirmed that the SRSG has approved and transmitted the three ITF cases on KEK to the UNMIK Department of Justice for judicial action in December 2006.

The three cases referred to the SRSG include:

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<sup>9</sup> The 10 field missions were MINUSTAH, MONUC, ONUB, UNAMA, UNAMI, UNMEE, UNMIK, UNMIL, UNMIS and UNOCI.

- Approximately \$5.5 million of UNMIK and EU funds for the purchase of electricity from abroad were diverted to other bank accounts controlled by third parties.
- Unexplained transactions of more than \$1.3 million (one million Euros) were identified in the account of a KEK employee with a regular monthly salary of less than one thousand dollars.
- Conditions exceedingly unfavorable to KEK in an agreement relating to the refurbishment of a hydropower station and the buy-back of energy between KEK and a Member State company were identified.

## **2. Procurement**

21. Audits and investigations of procurement have identified serious deficiencies in procurement management, systems and processes. As a consequence of the Independent Inquiry Committee into the Iraqi Oil For Food Programme (Volcker Commission) and after investigation by OIOS, the arrest and conviction of a United Nations procurement officer, as noted in paragraph seven a special Task Force was established to investigate wrongdoing in all procurement matters wherever the Organization was engaged. Unless recommendations are addressed with paramount concern, millions of dollars remain at high risk of misuse and waste.

22. It should be noted that several of the cases referenced in this section are still under consideration by OHRM. Where applicable, OIOS makes a special note of these cases. The staff members concerned should not be judged responsible until the matter has been fully adjudicated within the Organization's system of justice.

### Procurement Task Force

23. Since June 2006, the Task Force has issued a total of eleven reports. These reports detailed significant findings of waste, abuse, negligence and other forms of mismanagement, as well as of fraud, in the establishment and execution of a number of high value contracts between the Organization and various vendors to provide goods and services to the United Nations' peacekeeping missions. These contracts directly involved the following Missions: United Nations Mission in Ethiopia and Eritrea (UNMEE), UNMIS, UNMIL, MONUC, UNTAET, MINUSTAH and others. The Task Force has identified significant waste and/or fraud caused by the action of vendors and their agents and representatives, and negligence, abuse, and other forms of mismanagement, as well as some acts of fraud by certain officials within the Organization.

24. The Task Force initially focused its resources on investigating eight staff members placed on special leave with full pay in January 2006. The Task Force has issued nine reports pertaining to these eight staff members. Four of the staff members served in the peacekeeping missions; the others held responsibilities which included procuring goods and services for peacekeeping missions. The Task Force has recommended that three of these eight staff members be cleared of claims of wrongdoing, that one be referred for criminal prosecution, and that the Organization address the issue of accountability for the other four for breaches of rules, and/or other forms of



mismanagement. The staff member whose case was referred for criminal prosecution has since been dismissed by the Organization. The status of the four remaining staff members is still under consideration at the time of this report.

Significantly, the Task Force has investigated, and reported on the following:

25. The Task Force continues to focus on a matter identified in the OIOS audit concerning the procurement of an air services contract for the United Nations' Transitional Administration in East Timor (UNTAET) in 2000 (PTF 6/06). The Task Force identified that a scheme existed where individuals presenting themselves as representatives of the vendor steered the contract to individuals who proceeded to overcharge the Organization for various services, and bill the Organization for services in fact not rendered. Considerable effort by the Task Force was exercised in this matter which resulted in the identification of a sophisticated scheme to divert monies paid by the Organization in a circuitous route through various financial institutions throughout the world. The Task Force has identified that false and fraudulent documents were submitted to the Organization to justify the overpayment of at least \$1.4 million in connection with the air services contract. It also found that two officials of the United Nations had failed to exercise proper scrutiny of the transaction. Officials of the Member State concerned have indicted four individuals in this scheme. The Task Force has been unable to conclude the matter because of the absence of powers to compel member states to assist the investigation.

26. The Task Force issued a report dated 27 July 2006 (PTF 26/06) pertaining to one of the eight staff members mentioned above and which identified an extensive scheme to defraud the Organization by agents and representatives of a large telecommunications firm. The scheme was established by the company, its agents, and with the assistance of a United Nations Procurement Officer. The Task Force investigation found that the Procurement Officer had engaged in a series of unauthorized acts in an effort to provide the company with an advantage in the procurement exercises and deflect criticism of the company when allegations of corruption and mismanagement surfaced. The Task Force found that the Procurement Officer favored this company in a number of contracts with an aggregate value in excess of \$100 million including a \$27 million contract to provide manpower support in the Organization's various missions. Further, the Task Force identified that representatives of the company repaid the Procurement Officer for his preferential treatment through providing him with two valuable pieces of Manhattan real estate worth in excess of \$1.5 million at below market rates, and bestowing other gifts upon him.

27. In response, the Organization charged the procurement official with misconduct and subsequently dismissed him. Several vendors identified by the Task Force which had engaged in misconduct and fraud were removed from the vendor roster. The Organization also referred the matter to the United States Attorney's Office for the Southern District of New York which has charged the Procurement Officer with criminal offenses. The prosecution was based principally on evidence and information gathered and reported by



the Task Force. The vendor's principal agent pleaded guilty to the conspiracy identified by the Task Force, and was subsequently charged by the United States Attorneys Office for the Southern District of New York. The agent acknowledged in open court that he provided the procurement official with the valuable real estate at below market rates in return for favourable treatment of the company by the Procurement Officer in the contract bidding process.

28. The Task Force also reported in December 2006 (PTF 7/06) on significant corruption in the procurement of food rations for UNMIL and UNMEE, and found that the procurement exercises for these contracts were tainted by a well planned scheme to steer the contract towards a particular vendor. The Task Force reported that a United Nations staff member assisted the representative of the vendor and several of its officials to corrupt the procurement process through the replacement of bid pages of the company's proposal after the deadline and actual submission of the bids. The Task Force concluded that a procurement official provided the company with financial information from competing bids after the bids were submitted and closed, and that he allowed the company to lower its projected costs to win the contract bid. Once this bid was achieved, the procurement official permitted the company to amend the contract to reap additional sums of money unnecessarily, and improperly.

29. The Task Force found that this criminal scheme was facilitated by the failure of a senior official and two other staff members in supervisory positions to exercise due care and specifically, to properly scrutinize contractual documents. The Task Force has recommended that appropriate action should be taken by the Organization.

30. The Organization has since paid the company in excess of \$130 million under these contracts, of which approximately \$860,000 could be determined by the Task Force at this time as financial losses. The Task Force has recommended that the Organization make a referral to prosecuting authorities in the United States, the United Kingdom and Italy and consider seeking civil damages. In an initial response, the Organization has suspended two companies from the vendor register.

31. The Task Force has focused a great deal of attention on several cases involving allegations of procurement irregularities in UNMIS (PTF 18/06, 29/06, 20/06). The Task Force has reviewed several procurement exercises, and found violations of procurement and financial rules by the Mission's staff, including the Mission's senior management, by: (i) the use of a contract to purchase fuel for a troop deployment, resulting in the Organization incurring an obligation of \$1.3 million; (ii) the purchase of a system of solar runway lights for a local airport; (iii) another matter where a scheme existed between an aviation officer, a procurement official, and the Chief Executive Officer of a vendor to steer this contract (and other contracts) to the vendor; and (iv) the purchase of other items for the Mission. The Task Force identified breaches of United Nations Regulations and Rules and/or other forms of mismanagement by four staff members, the latter two of whom engaged in criminal acts and who have since left the Mission. Referral of these two now former Mission staff members to prosecutorial authorities was recommended. The Task Force also identified significant waste of United Nations resources in the

Mission. A later OIOS audit issued in October 2006 revealed several cases of mismanagement and waste, as well as fraud indicators to be further investigated by the Task Force (refer to paragraphs 33-38).

32. In response, the Organization has removed two vendors from the vendor register. The Organization continues to contemplate what action, if any, it will take against two senior staff members in the Mission who exercised supervisory roles in several of the matters in which failings were identified.

#### Procurement audits

33. In addition to the investigation of UNMIS procurement irregularities by the Procurement Task Force, OIOS audits conducted in this period have also identified serious weaknesses in UNMIS procurement management.

34. An audit of procurement management in UNMIS (AP2006/632/08) revealed serious control weaknesses and identified a number of potential fraud indicators as well as cases of mismanagement, wasteful expenditures, overpayments to vendors, and questionable procurement practices. For example, the Mission used the practice of soliciting bids from a short-list of vendors, but the criteria for short-listing were often not transparent. Potential bidders were not given sufficient time to submit their bids, and the timelines for submission of bids and proposals as indicated in the Procurement Manual were not being observed. This restricted the competition and increased the costs to the Mission. For example, a \$17 million contract for the supply of gravel was awarded on a 'sole bid' basis at what appeared to be exorbitant prices.

35. The Mission incurred an estimated \$1.2 million in unnecessary expenditures for hotel accommodations as a result of making block bookings of hotel rooms for military personnel and under-utilizing them. These expenditures could have been avoided or significantly reduced if the Mission had included an appropriate clause in the contract to allow UNMIS to cancel the booking for unwanted rooms by giving adequate prior notice.

36. The audit found that the Mission could enjoy cost savings of an estimated \$9 million over a two-year period by obtaining a license from the host government for self-clearance of imported goods with the local customs authorities. However, to date, UNMIS has been unsuccessful in obtaining this clearance from the Sudanese Government. Also, control weaknesses in the administration of contracts for inland transportation need to be addressed to avoid losses to the Mission through the use of uneconomical contractors.

37. Other cases of waste found by the audit included the unnecessary expenditure of \$50,000 for the purchase of inferior/obsolete digital cameras, payment of \$50,000 towards goods destroyed in transit while they were under the vendor's responsibility, and the unnecessary expenditure of \$57,000 for the lease of a warehouse which was never used.



38. The audit also identified a number of potential fraud indicators and cases of mismanagement and waste, which require further examination through an in-depth inquiry to determine if fraud had occurred, and to assign accountability for irregularities, waste and mismanagement. UNMIS accepted most of OIOS' recommendations and indicated that procurement planning had considerably improved, and controls had been strengthened to ensure compliance with established procurement procedures. UNMIS took immediate action to recover overpayments amounting to \$315,000 from the concerned contractors based on the audit findings. OIOS awaits further information from the Mission, the Department of Management (DM) and DPKO on the steps taken to address accountability for the irregularities, waste and mismanagement identified by the audit.

39. Following a horizontal audit of rations contracts management conducted in five peacekeeping missions,<sup>10</sup> as reported in the Report of the Secretary-General on the activities of the Office of Internal Oversight Services (A/60/346), OIOS conducted a subsequent audit of rations management at UNMIS (AP2005/632/04). OIOS found that the Mission was receiving rations supplies from a vendor since May 2005, based on a letter of award for a proposed \$201 million contract, even though a formal contract had not been signed at the time the audit ended in December 2005. In OIOS' opinion, the absence of a formal contract exposed the Organization to significant risks of possible disputes and disagreements, with resultant financial implications.

40. The audit also identified a number of issues which required follow up by DM at the Headquarters level and by UNMIS at the Mission level. These include:

- An incorrect projection of the cost of water to be supplied under the rations contract was issued. More specifically, the Procurement Service's presentation to the Headquarters Committee on Contracts (HCC) understated the commitment arising from the proposed rations contract by \$17 million.
- UNMIS had agreed to allow a contractor to use UNMIS' aircraft to deliver rations to the mission. In turn, the contractor would charge the mission a lower rate for the cost of the rations. However, OIOS' audit showed that the cost of the flights, which took place between September and October when there were fuel shortages in Sudan, was greater than the revised cost of the rations by \$297,000.
- The delay of four months in testing and certifying the suitability of water produced by a contingent's water purification plant resulted in avoidable expenditures amounting to \$963,000 paid to a contractor. DPKO commented that an UNMIS inquiry into this matter concluded that the TCC should reimburse the cost incurred by the mission.
- The Mission paid \$839,000 to the vendor for warehouse operations even though the warehouses were neither complete nor operational.
- Poor storage of composite rations packs obtained from UNMEE and the United Nations Logistics Base (UNLB) resulted in a loss of \$105,000. Overpayments of \$34,000 were also made to the supplier due to computation errors.

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<sup>10</sup> MONUC, UNAMSIL, UNMEE, UNMIL, UNMISSET

41. UNMIS accepted most of OIOS' recommendations and initiated action to implement them. However, a number of critical recommendations were not accepted by the Mission and by DM. OIOS has reiterated these recommendations and continues to pursue them.

42. OIOS' audit of procurement in MINUSTAH (AP2004/683/02) identified 12 procurement actions involving a total expenditure of \$9.1 million, including six cases for leasing premises to accommodate troops, office space and warehouse facilities at a cost of \$6.35 million, that were not carried out in accordance with established procurement procedures. Requisitioning officers performed purchasing activities without involving the MINUSTAH Procurement Section, in breach of the delegation of authority for procurement which is based on the segregation of requisitioning and purchasing functions. These cases were also characterized by the lack of competitive bidding, which increased the risk of uneconomical purchases and fraudulent activities. MINUSTAH subsequently took a number of steps to strengthen internal controls and ensure that procurement actions are undertaken in conformity with the provisions of the Procurement Manual.

43. In UNOCI (AP2005/640/03), the lack of a formal acquisition plan for the Mission contributed to a number of problems such as *ex post facto* submission of procurement actions for review by the Local Committee on Contracts (LCC), excessive use of "immediate operational requirement" requests, and direct purchases without competitive bidding. Contract awards were split with a view to keeping the dollar amount below the level which would require submission to the LCC, which not only violated the delegation of procurement authority but also compromised the LCC's oversight role. Internal controls in the area of contract management needed to be strengthened to ensure that the contract ceiling is not exceeded without prior authorization. Many of these problems were attributable to the difficulties experienced in filling critical posts. UNOCI subsequently initiated remedial measures to address the weaknesses identified by the audit.

44. An audit of procurement at UNAMI (AP2005/812/01), showed that the Mission failed to exercise due care while developing solicitation documents, evaluating the technical and financial proposals, and in dealing with the best and final offers. OIOS attributed these problems to the lack of qualified procurement staff in the Mission, and the limited support provided by the United Nations Procurement Service, in this case due to resource constraints. The Mission also failed to seek the prior clearance of the Assistant Secretary-General for Central Support Services as the authorized official through the Committee on Contracts before entering into the contract. In addition, major violations of established procurement procedures in the procurement of T-wall barriers for the Mission's premises in Baghdad, involving a \$793,000 contract with a vendor whose credentials were subsequently found to be questionable. OIOS made a number of recommendations to strengthen the procurement process, which were accepted by UNAMI and are being implemented.



45. In ONUB (AP2005/648/09), OIOS found that an external consultant had been assigned the regular functions of a Chief Procurement Officer. This individual had been representing the Mission on procurement related matters, supervising staff members, and signing contracts, in contravention of United Nations Financial Regulations and Rules 105.4 and 105.5 as well as ST/AI/1999/7 governing the use of individual contractors and consultants. The Mission subsequently appointed a United Nations staff member as its Chief Procurement Officer and implemented necessary measures to address the other problems identified by the audit, such as: (i) establishing of a Vendor Review Committee; (ii) preparing annual procurement plans; (iii) using generic specifications instead of brand names in requisitions; and (iv) strengthening internal controls to ensure that the use of expedited procurement procedures is restricted to exigencies.

#### Compliance with bid opening procedures

46. OIOS quick impact audits in ten field missions<sup>11</sup> (AP2006/683/12; AP2006/620/16; AP2006/648/12; AP2006/812/07; AP2006/654/04; AP2006/624/11; AP2006/650/12; AP2006/626/19; AP2006/632/12; AP2006/640/16) showed a low level of compliance with the established bid opening procedures as set out in the Procurement Manual. Such non-compliance increases the risk of irregularities and compromises the integrity of the bidding process. Common weaknesses found among the ten missions included: (i) the lack of an adequately secured area for the receipt of bids; (ii) failure to consistently establish tender opening committees; (iii) the date and time of the receipt of bids were not always retained on file; and (iv) the inconsistent use of the solicitation abstract sheet for recording the bids. The audits also indicated the need for improved filing systems to enable easy retrieval of procurement files. All missions covered by the audits have already started implementing measures to rectify the deficiencies noted in the bid opening process.

### **3. Asset Management**

47. Asset management is an important support function that enables the peacekeeping activities to be carried out effectively and efficiently. Audits in logistics and property management issued several recommendations to make improvements in the use of the Organizations' assets.

#### Strategic Deployment Stocks (SDS)

48. The audit of the SDS (AP2004/600/02) in DPKO highlighted several programme weaknesses including:

- Policies and procedures for managing SDS were not updated and adjusted in a timely manner. For example, the SDS accounting guidelines were issued two years after its launch, resulting in incomplete recording of transactions and hence additional workload in maintaining, updating, and reconciling the SDS records.
- Galileo, a \$3.4 million automated inventory system, did not track the deployment, replenishment and reconfiguration of SDS and was not integrated with accounting and procurement systems. DPKO noted that the Galileo system tracks the movements and physical status of SDS and that an interim tracking tool has been

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<sup>11</sup> The 10 field missions were MINUSTAH, MONUC, ONUB, UNAMI, UNFICYP, UNMEE, UNMIK, UNMIL, UNMIS and UNOCI.



developed to monitor the replenishment of SDS. Based on the experience gained with this tool user requirements have been drawn and presented to the Galileo Development Group to assist in developing a new Galileo module to centrally monitor and account for SDS.

- Neither performance indicators nor evaluation tools were developed to measure the effectiveness of SDS deployment.

DPKO accepted OIOS' recommendations and initiated action to implement them.

#### Property management

49. An audit of property management at the United Peacekeeping Force in Cyprus (UNFICYP) (AP2006/645/01) found that the Mission needed to strengthen the existing systems and procedures to ensure accountability for assets and the reliability of data in Galileo. In the absence of an established mechanism to coordinate the accounting of assets held at various user locations, there were discrepancies between asset records and the results of annual physical verifications. Furthermore, the disposal module of the Galileo system had not yet been implemented, and the Field Assets Control System (which was a precursor to Galileo) was being used for processing asset disposals. UNFICYP indicated that the deficiencies in Galileo were being addressed in consultation with DPKO and the UNLB in Brindisi. According to DPKO the Galileo Write-off Disposal Module was subsequently implemented in UNFICYP in November 2006.

#### **4. Human Resource Management**

50. OIOS considers human resources management to be an important area as it directly affects the lives and interests of staff members and past oversight activities have identified a number of risks in this area. For example, staff rules and regulations can be subject to misinterpretation, staff entitlements have proved vulnerable to fraud, and recruitment practices have, in a number of cases, been deemed by OIOS to be biased and even mismanaged. DPKO stated that it shared OIOS' views regarding the importance and the risks inherent in human resources management. To help mitigate these risks the Department has taken steps such as introducing the Quality Assurance and Information Management Section (QUAIMS) in May 2006.

#### Mission appointments through the DPKO Succession Planning Panel

51. The audit of mission appointments (AP2006/600/09) found that the Succession Planning Panel, which was established by DPKO in 2004 to review the skills, competencies and experience of each candidate for key administrative positions in field missions, can be used as an effective mechanism for the technical clearance of senior mission support staff appointments. However, the Panel does not appear to be as effective as it could be. For example, there has been insufficient documentation, and the Panel recommended only one candidate for mission selection in 84 of the 104 cases processed in 2004 and 2005. According to DPKO, its ability to present more than one candidate for senior support positions was severely hampered by the lack of qualified and experienced expert staff within the Organization to fill such positions. DM and DPKO have not ensured the consistency, timeliness, and adequate documentation of the required designation of staff with significant fiduciary responsibilities for new posts. DPKO

indicated that the lack of documentation, does not signify the presence of bias or mismanagement in the selection of candidates. Nevertheless, DM and DPKO are in the process of implementing OIOS' recommendations related to the Succession Planning Panel.

#### Mission subsistence allowance (MSA) rates

52. Pursuant to General Assembly resolution 59/296, which requested the Secretary-General to ensure that OIOS continues to audit MSA rates to ensure their reasonableness in comparison with the actual subsistence costs in the various mission areas, and with the daily subsistence allowance set by the International Civil Service Commission in the same areas, OIOS conducted an audit of MSA rates (AP2006/600/10). The audit found that there was no clear policy or procedures identifying the DM and DPKO responsibilities or mechanisms for monitoring the MSA process. In OIOS' opinion, DPKO should be responsible for monitoring the use of established MSA rates to ensure compliance with applicable policies and procedures, as the Department provides the administrative support to all peacekeeping and special political missions. DM and DPKO generally accepted all recommendations.

#### Recruitment of field staff

53. OIOS audits of vacancy rates in MONUC, ONUB, and UNMIL found that delays in the recruitment of international staff were mainly attributable to the time taken by DPKO's Personnel Management and Support Service to identify suitable candidates and deploy them to Missions. In MONUC for example (AP2005/620/04), the vacancy rate of international staff was consistently above 30 per cent, and the average time taken for filling a vacancy was approximately 200 days. In ONUB (AP2005/648/10), six critical posts (including the posts of Chief Security Officer, Chief Public Information Officer and Chief Procurement Officer) had remained vacant since the Mission's inception in 2004 not yet been filled as of June 2005. The Mission also had difficulties in filling the posts of national professional officers.

54. In UNMIL (AP2005/626/08), there were considerable delays at the Mission level in acting upon the short-lists of candidates received from DPKO Personnel Management and Support Service, and requests for filling ten critical vacancies were only initiated by the Mission in January 2005 even though the Mission was established in September 2003. In the absence of documentation concerning the comparative analysis of the candidates' qualifications, there was insufficient evidence of transparency and objectivity in the selection decisions made by programme managers. The Mission agreed to implement appropriate remedial measures. DPKO also commented that it has undertaken a number of initiatives to better manage the recruitment and staffing processes.

#### Casual daily workers

55. Casual daily workers in MONUC (AP2005/620/18) assisted the Mission in meeting their operational requirements for unskilled and semiskilled labour on a regular basis. However, the employment of casual daily workers for prolonged periods violated the applicable local labour laws as well as United Nations guidelines. The Mission is in



the process of reviewing a number of options for outsourcing labour services and minimizing the use of casual daily workers.

## **5. Programme and Project Management**

56. In recent years the range of peacekeeping activities has expanded from military operations to other substantive areas, including civil and political affairs, rule of law, human rights, and humanitarian activities. Inspections and audits in programme and project management highlighted areas to help programme managers to plan and deliver programmes in the most effective way.

### Disarmament and demobilization programmes

57. During the period, OIOS conducted audits of disarmament and demobilization programmes in UNMIL and MONUC. In UNMIL (AP2005/626/07), the audit revealed weaknesses in internal controls such as inadequate control over programme assets and payments of transitional safety allowances, and in monitoring and evaluation systems. UNMIL has agreed to implement the recommended measures to strengthen identified weaknesses. In MONUC (AP2005/620/08), OIOS identified additional weaknesses: including (i) the ad hoc manner in which the Mission developed its plans (which had never been approved by the Head of Mission); (ii) the lack of a systematic and structured approach to coordinating disarmament and demobilization activities with other sections/components within the Mission; (iii) the lack of plans and resources for the public information component of the programme; and (iv) the need for an evaluation of the programme which had been in operation for more than three years. MONUC did not accept most of the OIOS recommendations, generally asserting that existing practices were adequate and that OIOS' proposed oversight structure for disarmament and demobilization was not effective. OIOS has reiterated the recommendations and continues to pursue them.

### Trust funds

58. Trust funds in UNAMA (AP2005/630/08) had received contributions totaling \$35 million from various donors for implementing projects relating to emergency relief, recovery and reconstruction in Afghanistan. By the end of June 2005, the Mission had spent \$22 million on 150 projects, of which 78 were completed, 69 were ongoing, while three projects had been terminated. The audit made recommendations for improving the administration of these trust funds by: (i) refining the roles and responsibilities of the trust fund committee, the programme support unit and the trust fund unit; (ii) ensuring that implementing agencies are accountable for the funds disbursed by the Mission; and (iii) streamlining the process for release of funds to implementing agencies. The audit also identified improper payment of allowances totaling \$150,000 to staff of the Office for the Coordination of Humanitarian Affairs (OCHA). OIOS has not received proof of recovery of payments from the concerned persons. The Mission is in the process of implementing OIOS' recommendations.

### Quick impact projects

59. OIOS conducted audits of quick impact projects implemented by UNMEE, UNMIL, UNOCI and MONUC. At UNMEE (AP2005/624/03), OIOS found that most of

the recommendations made in its previous audit report of July 2002 had not been implemented. The lack of standard operating procedures, combined with inadequate management attention and involvement, had resulted in questionable disbursements, delays in project implementation, and lack of accountability. OIOS continues to follow up with UNMEE on the implementation of its outstanding recommendations.

60. In UNMIL (AP2005/626/10), there were control weaknesses that led to non-compliance with the guidelines for quick impact projects, particularly with regard to the review of project proposals prior to their approval and release of funds. The Mission needed to intensify its efforts to clear the backlog of advances paid to implementing agencies and ensure the recovery of funds, wherever necessary. In addition, the creation of a database showing the performance of the various implementing agencies would enable the Mission to ensure that non-performing or poorly performing agencies do not receive additional funding. UNMIL has initiated necessary steps to implement OIOS' recommendations. DPKO further commented that it is developing a comprehensive policy on quick impact projects, which will cover resource allocation, project selection and duration and the roles of missions and other participants in managing and implementing these projects. The policy will also consider the recommendations of the oversight bodies relating to quick impact projects.

#### Rule of law

61. An audit of the rule of law programme at MONUC (AP2005/620/12) found that the Mission's Rule of Law Unit needed to define its role, develop a work plan that includes goals and timeframes for implementation, and adopt a concept of operations that is consistent with its mandated responsibilities. Furthermore, there was a need to develop terms of reference for ensuring coordination with other entities involved in the programme, including procedures for defining goals, assigning responsibility, and tracking and reporting on the progress made. MONUC has undertaken the implementation of OIOS' recommendations in this regard. According to DPKO a concept of operation was developed, which was superseded by a three-year strategic plan. A work plan has been developed consistent with the plan that identifies timeframes and officers responsible for task completion.

#### Integrated peacekeeping training

62. In an inspection to assess the effectiveness of integrated training for military, police, and civilian personnel of peacekeeping operations (MECD-2006-001) OIOS noted a sound and current training strategy with policies and supporting guidance. To enhance peacekeeper training, OIOS recommended greater cooperation among civilian, military, and police components and career development planning. The inspection further stressed the importance of improved coordination with the international training community at large, building closer partnerships among DPKO, member states, and peacekeeping training institutions and formal recognition and/or accreditation of training courses and institutions. DPKO has accepted these recommendations.

#### Military involvement in civil-assistance in peacekeeping operations



63. A review of military involvement in civil assistance in peacekeeping operations (A/60/588) found that the quality and effectiveness of military support to civil assistance varied greatly, and in some instances, had counter productive consequences. The report underscored the need for coherent planning, strategy development, and thorough consultation and coordination with the humanitarian organizations and agencies in theatre of operations to avoid duplication and /or conflicting activities. The report also noted the need for adequate resources, including qualified personnel, to make military involvement more effective and efficient. DPKO accepted and is in the process of implementing OIOS' recommendations.

#### Information management in peacekeeping operations

64. In a review of the effectiveness of information management in peacekeeping operations (A/60/596), OIOS underscored the need for comprehensive and effective information management for informed decision-making and to ensure security and success in peacekeeping operations. The review noted that the assets for effective information management require focused configuration and more coordination is required between the peacekeeping force and civilian elements in public information and information security. A formal institutional mechanism should be set up for passing information from member states to peacekeeping operations, including inter-mission information sharing, and a new technology should be introduced for information collection and analysis. DPKO is in the process of implementing OIOS' recommendations.

#### Review of the results-based budgeting framework (ongoing)

65. In addition, at the request of the Controller, OIOS is currently undertaking a review aimed at assessing the effectiveness and efficiency of the results based budgeting (RBB) framework for the achievement of results in peacekeeping operations. The review stems from the DPKO's application of the United Nations approach of managing processes and resources for results as the basis of assessing performance, establishing a framework with clear objectives linked with a set of activities (outputs) and performance indicators with which it assesses programme performance at the end of each year. The review aims to assess the extent to which the RBB framework is effective and efficient in measuring the achievement of results and will cover all phases of the RBB framework as applied to peacekeeping operations.

### **III. Management consulting activities**

#### Benchmarking organizational integration and process improvements

66. At DPKO's request OIOS internal Management Consulting Service (iMCS) section of the Monitoring, Evaluation and Consulting Division (MECD) prepared a comprehensive benchmarking study on organizational integration. Showing that integration is not achieved through structural measures alone, the study highlighted the need to focus on people, processes and systems, to realize performance improvement. Effecting organizational change requires dedicated change management support and improving business processes is the key organizational enabler to enhance performance. Lean Six Sigma (LSS) is the current industry standard for process improvement: reducing waste and enhancing output quality. iMCS organized a LSS executive overview



workshop for DPKO and related entities, and conducted a demonstration project to test LSS in the peacekeeping environment. The project resulted in significant reduction of process lead time, and further support for process improvement is in preparation.

## **Annex I**

### **Review of methodology for the allocation of resident auditors to peacekeeping missions**

1. In recent years there has been a major increase in the number of missions where resident auditors are deployed, growing from three missions in 1998 to 11 currently. Mission budgets have also increased to the point where they are the major expenditure of the Organization. The increasing number of missions has resulted in a corresponding increase in the number of resident auditors deployed to these missions in order to provide adequate oversight coverage. The General Assembly, by its resolution 60/268, requested that OIOS undertake the task of refining its methodology for allocating resident auditors to peacekeeping missions, taking into account the risk and complexity of the operations of individual peacekeeping missions, and to report thereon to the Assembly.

2. The present formula for allocating resident auditors to peacekeeping and special political missions was proposed in the Secretary-General's report on the experiences gained from the use of resident auditors at peacekeeping missions (A/55/735), and endorsed by the Advisory Committee on Administrative and Budgetary Questions in its report on the financing of the United Nations Observer Mission in Sierra Leone (UNOMSIL) and the United Nations Mission in Sierra Leone (UNAMSIL) (A/54/647). Under this formula, OIOS can request the establishment or addition of a resident auditor post at the P-4 or P-3 level in peacekeeping missions for each \$100 million of annual budgeted expenditure, as well as the assignment of an auditing assistant at the GS-6 or GS-7 level at those missions with annual budgets exceeding \$200 million. It has also been the practice within the formula endorsed by the Committee that for large missions, the chief resident auditor is appointed at the P-5 level. Currently, there are a total of eight OIOS resident audit offices headed by a chief resident auditor at the P-5 level.<sup>12</sup>

#### **A. Experience in applying the formula for the allocation of resident auditors**

3. OIOS has reviewed its experience in applying the formula in the context of the risk and complexity of the individual peacekeeping missions. The formula has provided simplicity in the guidance for allocating resident audit resources to missions and in practice it has enabled the resident auditors to cover most high risk areas at peacekeeping and special political missions. OIOS has used the formula together with detailed risk assessments conducted annually at each peacekeeping mission, as described in the section below, to determine its continuing requirements for resident auditors. The current deployment of resident auditors based on applying the formula is shown in Figure 1. In addition, resident audit offices will be added at the United Nations Integrated Mission in Timor-Leste (UNMIT) and UNIFIL in 2007.

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<sup>12</sup> In MINUSTAH, MONUC, ONUB, UNMIK, UNMIL, UNMIS, UNOCI and the Middle East Audit Office.



**Figure 1: Resident auditor deployment in field missions**  
(as of 30 June 2006)

Mission	Professional	General Service	Local	Total
MONUC	6	2	1	9
UNMEE	1		1	2
ONUB	3	1		4
UNMIL	6	1	1	8
UNAMA	1		2	3
UNAMI	1	1	1	3
UNOCI	3	1	1	5
UNMIK	3		1	4
Middle East	2	1		3
UNMIS	8	1	1	10
MINUSTAH	3	1	1	5
Total	37	9	10	56

4. A recent study by the Joint Inspection Unit (JIU) of oversight lacunae in the United Nations system (JIU/REP/2006/2) reported, *inter-alia*, that for 19 United Nations entities included in the study, the annual resources overseen per auditor ranged from \$28 million to \$272 million per auditor, against a suggested range of from \$60 to 110 million per auditor. OIOS notes that the present formula for allocating resident auditors is within the upper range of budgeted expenditures per auditor as proposed by the JIU. OIOS also believes that further refinement of the formula would not be practical, as the modalities already exist for adjusting the formula for risk and complexity considerations at individual peacekeeping missions.

#### Risk assessment approach for audit planning

5. In principle, OIOS deploys the resident auditors in line with the formula, but may from time to time request an adjustment of the formula where there are significant high-risk activities and mission complexities. For example, when a mission's mandate encompasses large and complex substantive activities or a large trust fund is managed by a mission, it may be appropriate to deploy one or more additional resident auditors. Conversely, when there are factors in a mission that represent a lower risk environment, OIOS has requested fewer resident auditors than would be called for by the formula.

6. In accordance with the International Standards for the Professional Practice of Internal Auditing that OIOS follows, audit plans should be based on assessment of risks. OIOS has adopted a common risk assessment methodology in the audit planning process. The methodology draws on leading practices from international accounting firms and other methodologies to ensure that risks identified can be assessed consistently between and within organizations. Key elements of the methodology include identifying strategic and operational risks (the threat that an event or action will adversely affect the United Nation's ability to achieve its organizational objectives and execute its strategies successfully), OIOS' understanding of the organization's objectives, strategies, processes,

risks and controls, an evaluation of the controls in place, and the professional judgement of the auditors concerned.

7. The risk assessment determines, for each auditable activity, the likelihood or probability that an event or risk could occur without considering the effect of risk mitigation actions and the strength of internal control, the impact or the exposure to the entity from a reputation, financial or mandate perspective should the event or risk occur; and the residual strategic and operational risk, i.e., the risk remaining after considering the mitigating influence of the control environment and risk management techniques. A high residual business risk indicates that the identified risk usually has a high likelihood of having a significantly adverse impact on the United Nation's ability to attain its goals. A low residual strategic and operational risk that is the result of a large shift in probability, impact, or both indicates that management has a high degree of reliance on controls, or risk management techniques

8. Based on the risks identified and rated in the risk assessment exercise, including risk of fraud and misappropriation, threats to physical security of United Nations staff and facilities, etc. the audit plan is prepared, allocating resident audit resources to high risks first, then medium risks for the second year of the plan and thereafter on until all significant risks are covered.

9. The risk assessment process has been designed to be dynamic, and resident auditors update their plans on an ongoing basis to reflect the changing risk environment of the missions. Mission management has also been very receptive to the new risk assessment methodology. For example, in UNOCI and UNMIL, the risk assessment was widely distributed to all section chiefs, and has become a cornerstone of their internal control assessment and risk management.

## **B. Achievements resulting from the deployment of resident auditors**

### Adding value to the Organization

10. Recently, peacekeeping mission budgets have increased significantly with a total budget for the 2005/06 financial year of approximately \$5 billion. Resident auditors are responsible for providing internal audit for most of these expenditures, and there have been significant changes in the resident audit function. While resident auditors previously had a relatively low profile, OIOS has sought to increase both their visibility and value, which has been achieved in a number of ways. Firstly, their profile has increased significantly through their participation in the senior management groups of most large missions.

11. In most missions, the Chief Resident Auditor is now considered a valuable resource to the head of mission and is increasingly called on by management for *ad-hoc* reviews and advice. This represents a major change in the "culture" of missions. For example, in ONUB, the chief resident auditor played a vital role in assisting senior Mission management with the implementation of a strategic



management process. Similarly, in UNMIL, the chief resident auditor assisted mission management with the implementation of a risk management programme. It should be emphasized, however, that such activities are not carried out at the expense of sacrificing the independence of the resident auditors who are part of OIOS.

12. Another benefit of the resident auditor network is that it provides a structure of auditors at missions available to conduct horizontal audits of systemic areas of mission operations such as discipline, security, rations and fuel management, as well as serving as a pool of talent that can be called upon at times when there is a surge requirement such as the comprehensive management audit of DPKO requested by the General Assembly (A/60/717).

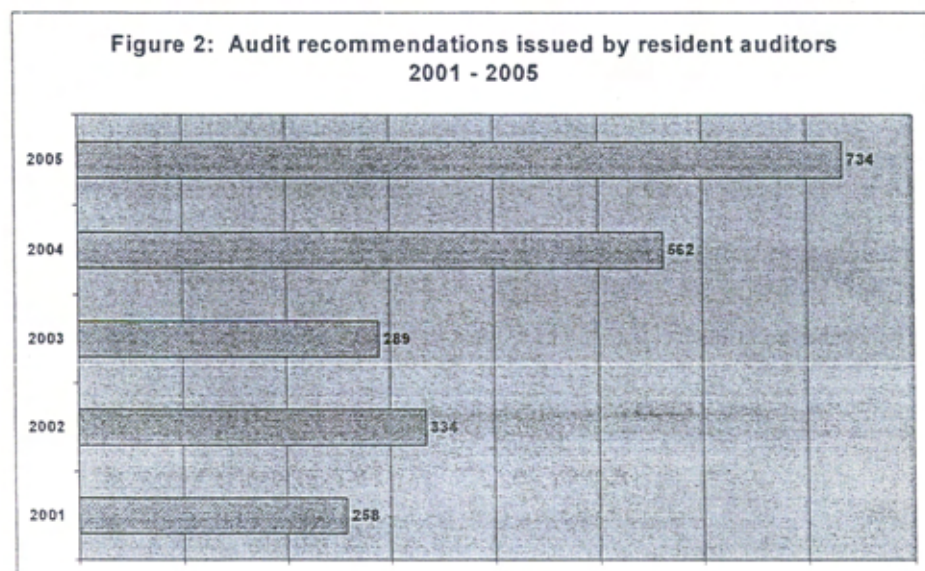
#### More effective use of Headquarters' peacekeeping audit staff

13. Prior to the development of the formula for deploying resident auditors to missions, Headquarters teams were sent to audit missions with no resident auditors and to supplement coverage at missions where very few resident auditors were assigned. Now, Headquarters' auditors are in a better position to take responsibility for audits of DPKO headquarters activities.

14. As a result, it is now possible to increase audit coverage of DPKO and other Headquarters entities involved in peacekeeping operations such as OHRM and the Procurement Service. In OIOS' view, this is vitally important since many of the high-risk areas in field operations stem from the policies and practices at Headquarters. For example, OIOS coverage has recently included a follow-up review of the use of letters of assist, which are used to procure specialized goods and services from governments, and an audit of DPKO policies and procedures for recruiting international civilian staff for field missions (A/59/152). In particular, OIOS views procurement activities at Headquarters, such as systems contracts, as being high-risk areas worthy of additional audit coverage.

#### Audit recommendations and their financial implications

15. Figure 2 shows the general increase in the number of audit recommendations issued by resident auditors over the last five years. In OIOS' view the quality and the impact of the audit recommendations has also increased.



16. The financial implications of implemented recommendations issued by resident auditors have also increased during the period, growing from \$361,000 in 2001 to \$22.8 million in 2005. Financial implications include actual recoveries, expenditure reductions, additional income, budget reductions, and loss or waste of resources.

17. The impact of the recommendations has also been instrumental in improving the effectiveness of peacekeeping operations. For example, the global audit of field security management (A/59/702) made a number of recommendations aimed at improving security of the Organization's personnel in the areas of security structures, both at Headquarters and in the field, security plans and policies and their implementation, coordination with the host Government and the external military force and among United Nations agencies, and physical security. OIOS plans to conduct a horizontal follow up audit of security in 2007 to determine the status and impact of these important recommendations.

### **C. Conclusions**

18. OIOS believes that the present formula for allocating resident auditors has been an effective mechanism for determining the auditing requirements of peacekeeping and special political missions, and together with OIOS' annual in-depth risk assessments, serves as a benchmark for the cost, risk and complexity of individual peacekeeping and special political missions. OIOS proposes therefore to continue to use the formula as guidance in allocating resources. The primary determinants of resource levels for the Office will be as proposed in the report on proposals for strengthening OIOS<sup>13</sup>. However, OIOS will take into account the risk profile of the individual missions when determining the number and level of resident auditors required at each mission. This may result in an increase or decrease in the resident auditor resources requested in future OIOS budget submissions for the support account.

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<sup>13</sup> A/60/901