



## INTERNAL AUDIT DIVISION

# AUDIT REPORT

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Management of the Financial Disclosure Programme, including information security aspects, by the United Nations Ethics Office

The Financial Disclosure Programme is adequately supported by the senior management, but key aspects need to be further developed for the programme to be fully effective

3 June 2011  
Assignment No. AH2010/515/01

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United Nations  Nations Unies

INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

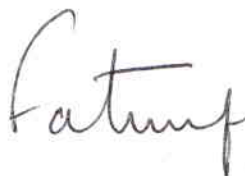
OFFICE OF INTERNAL OVERSIGHT SERVICES · BUREAU DES SERVICES DE CONTRÔLE INTERNE  
INTERNAL AUDIT DIVISION · DIVISION DE L'AUDIT INTERNE

TO: Ms. Joan Elise Dubinsky, Director  
A: United Nations Ethics Office

DATE: 3 June 2011

REFERENCE: IAD: 11-00432

FROM: Fatoumata Ndiaye, Director  
DE: Internal Audit Division, OIOS



SUBJECT: **Assignment No. AH2010/515/01 - Audit of the management of the Financial Disclosure Programme, including information security aspects, by the United Nations Ethics Office**  
OBJET: **Programme, including information security aspects, by the United Nations Ethics Office**

1. I am pleased to present the report on the above-mentioned audit.
2. Based on your comments, we are pleased to inform you that we will close recommendation 5 in the OIOS recommendations database as indicated in Annex 1. In order for us to close the remaining recommendations, we request that you provide us with the additional information as discussed in the text of the report and also summarized in Annex 1.
3. Please note that OIOS will report on the progress made to implement its recommendations, particularly those designated as high risk, in its annual report to the General Assembly and semi-annual report to the Secretary-General.

cc: Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors  
Mr. Rohan Wijeratne, Board of Auditors  
Ms. Susanne Frueh, Executive Secretary, Joint Inspection Unit  
Mr. Mario Baez, Chief, Policy and Oversight Coordination Service, Department of Management  
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Mr. Gurpur Kumar, Deputy Director and Officer-in-Charge, New York Audit Service, OIOS  
Ms. Amy Wong, Programme Officer, Internal Audit Division, OIOS

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## INTERNAL AUDIT DIVISION

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### FUNCTION

*“The Office shall, in accordance with the relevant provisions of the Financial Regulations and Rules of the United Nations examine, review and appraise the use of financial resources of the United Nations in order to guarantee the implementation of programmes and legislative mandates, ascertain compliance of programme managers with the financial and administrative regulations and rules, as well as with the approved recommendations of external oversight bodies, undertake management audits, reviews and surveys to improve the structure of the Organization and its responsiveness to the requirements of programmes and legislative mandates, and monitor the effectiveness of the systems of internal control of the Organization” (General Assembly Resolution 48/218 B).*

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## EXECUTIVE SUMMARY

Audit of the management of the Financial Disclosure Programme, including information security aspects, by the United Nations Ethics Office

The Office of Internal Oversight Services (OIOS) conducted an audit of the management of the financial disclosure programme, including information security aspects, by the United Nations Ethics Office (UNEO). The objectives of the audit were to (i) obtain reasonable assurance on the adequacy and effectiveness of internal controls to ensure compliance by staff members obligated to file annual financial disclosure or declaration of interest statements; and (ii) assess the efficiency and effectiveness of administering the financial disclosure programme. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

The UNEO is mandated to administer the financial disclosure programme (FDP) as a means of managing financial and personal conflicts of interest risks in the best interest of the Organization as well as maintaining and enhancing public trust in the integrity of the Organization. The programme serves as a formalized and systematic means by which the UN can identify, manage, remedy and mitigate financial and personal conflicts of interest disclosed through the FDP.

The audit concluded that aspects of the FDP need to be further developed for the programme to be fully effective. While there is appropriate leadership support for the programme and the compliance rate by participating staff members was high (99.61 per cent in 2009, 99.16 per cent in 2008 and 92 per cent in 2007), the effectiveness of the programme in achieving its stated objectives could be enhanced by:

- Improving the framework to measure the effectiveness of the FDP;
- Streamlining the criteria for determining the designated positions of staff members that pose a risk of conflict of interest, based on the experiences and lessons learned in implementing the FDP since its inception in 2006;
- Compiling comprehensive restricted entity lists that reflect entities in which participants of the programme are likely to be in conflict of interest situations; and
- Strengthening the procedures for disclosure statements to be submitted by newly qualifying staff members.

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## I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the management of the financial disclosure programme (FDP), including information security aspects, by the United Nations Ethics Office (UNEO). The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

2. The establishment of the independent UNEO was approved by the General Assembly at the 2005 World Summit (General Assembly resolution 60/1 of 16 September 2005, paragraph 161(d)). The objective of the UNEO is to assist the Secretary-General in ensuring that all staff members observe and perform their functions consistent with the highest standards of integrity required by the Charter of the United Nations through fostering a culture of ethics, transparency and accountability.

3. One of the main responsibilities of the Office, as spelt out in the Secretary-General's bulletin ST/SGB/2005/22 entitled "Ethics Office – establishment and terms of reference", is to administer the Organization's FDP, as further specified in the Secretary-General's bulletin ST/SGB/2006/6 entitled "Financial disclosure and declaration of interest statements", as a means of managing organizational risks and maintaining and enhancing public trust in the integrity of the Organization.

4. The primary purpose of the FDP is to ensure that any potential conflicts of interest arising from staff members' private holdings, affiliations, or activities can be identified, and advice provided as to how best to manage such conflicts of interest. This may include advising staff members to divest themselves of holdings, or to recuse themselves from a particular activity or aspect of their official functions. As required by Section 8 of ST/SGB/2006/6, the financial disclosure statements are confidential and accessible to and used only by the Secretary-General, the Ethics Office or by offices or persons specifically authorized in writing by the Secretary-General. Currently, only the UNEO and the authorized reviewers, PricewaterhouseCoopers (PwC), have access to the statements.

5. In accordance with the Secretary-General's bulletin ST/SGB/2006/6, the following staff members have an obligation to file annual financial disclosure statements:

- All staff members at the D-1 or L-6 level and above;
  - All staff members who are procurement officers, or whose principal occupational duties are the procurement of goods and services for the United Nations;
  - All staff members whose principal occupational duties relate to the investment of the assets of the United Nations, the United Nations Joint Staff Pension Fund or of any accounts for which the United Nations has fiduciary or custodial responsibility;
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- Other staff members whose direct access to confidential procurement or investment information warrants the filing of a financial disclosure statement; and
  - All staff members serving in the UNEO.

6. Additionally, the following staff members have an obligation to file declaration of interest statements, instead of a financial disclosure statement:

- Staff members on "when actually employed" appointments;
- Staff members on \$1 per year appointments; and
- Staff members serving on appointments of short duration.

7. Furthermore, the Secretary-General has encouraged his senior officials (at the grade of Under-Secretary-General and Assistant Secretary-General) to voluntarily file public financial disclosure statements. These public statements are not a requirement of the FDP and they only contain a descriptive summary of the disclosure statements.

8. The initial contract with PwC ended on 5 December 2009. In resolution 62/236, the General Assembly endorsed the recommendation of the Advisory Committee on Administrative and Budgetary Questions for the Secretary-General to conduct an in-depth analysis by the end of the biennium 2008-2009 of the relative advantages and disadvantages, including costs, of conducting the review of financial disclosure statements in-house as compared to the current outsourcing arrangements. The in-depth analysis was completed in September 2010 and the findings and recommendations are under consideration by the High Level Advisory Group to Review Financial Disclosure Programme Arrangements that was established on 28 July 2010. The membership of the Advisory Group includes senior level personnel from the following offices and departments: the Executive Office of the Secretary-General, the Department of Management, the Office of Legal Affairs, the Department of Field Support, the Office of Information and Communications Technology (OICT) and the UNEO. Pending a decision from the General Assembly on the future direction of the programme, the contract with PwC has been extended, with relevant amendments, on an annual basis through 31 January 2012.

9. The FDP has seen an annual increase in the number of staff members participating in the programme since its inception in 2005. In 2006 1,704 staff members participated in the programme. In 2010, the number of participants increased to 4,065 staff members who were required to file either a financial disclosure or declaration of interest statement; an increase of approximately 140 per cent from 2006.

10. The UNEO is headed by a Director at the D-2 level and has 11 authorized posts, including six Professional and four General Service. In addition to the regular budget of \$3,084,000 for the biennium 2008-2009, the UNEO received an allotment of \$1,047,800 from the peacekeeping support account.

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11. The direct costs associated with outsourcing the programme to PwC have risen by 50 per cent from \$910,583 in 2005 to \$1,378,581 in 2009. The total cost of the programme over the last five years has topped \$6,892,906.

12. Comments made by UNOE are shown in *italics*.

## II. AUDIT OBJECTIVES

13. The main objectives of the audit were to:

(a) Obtain reasonable assurance on the adequacy and effectiveness of internal controls to ensure compliance by staff members obligated to file annual financial disclosure or declaration of interest statements; and

(b) Assess the efficiency and effectiveness of administering the FDP.

## III. AUDIT SCOPE AND METHODOLOGY

14. OIOS examined the UNEO's administration of the FDP to determine whether (i) all staff members required to file disclosure reports had been appropriately identified, (ii) disclosure reports from these staff members were complete and submitted within the prescribed deadlines, and (iii) the financial interests staff members reported were thoroughly reviewed and staff members did not hold financial interests that were in conflict with their duties. OIOS also interviewed UNEO officials and reviewed relevant documentation.

## IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Leadership support for the programme

### The FDP is appropriately supported by senior management

15. Key elements for the effective management of a programme include clear direction, adequate resources and close monitoring. In OIOS' view, there is adequate leadership support for the programme, as evidenced by the following:

- A memorandum is issued by the Secretary-General at the beginning of each filing cycle stressing the importance of financial disclosure, commitment to and support of the of ethics programme; and
- Ethics awareness is promoted by officials from the UNEO briefing senior officials on aspects of the FDP during training sessions.



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## B. Performance metrics

### The current performance metrics for the FDP may not be adequate to measure the effectiveness of the programme

16. The UNEO currently evaluates the effectiveness of the FDP in terms of process indicators, such as the number of staff members filing financial disclosure forms, and to some extent, the amount of time ethics officials spend on such activities. However, these indicators are inadequate, as measuring the effectiveness of the programme should go beyond levels of participation and also seek to (i) determine the extent to which participants understand and accept the programme, and (ii) evaluate the extent to which organizational risks for conflict of interests have been reduced. The UNEO needs to develop micro-level goals and objectives, as well as accompanying performance measures, for each of these components. The micro-level goals could be assessed against a baseline set of data established from a variety of existing sources or through specific surveys. Suggestions for more specific performance metrics are included in Annex 2 for consideration.

#### **Recommendation 1**

##### **(1) The UNEO should enhance the framework to measure the effectiveness of the financial disclosure programme.**

17. *The UNEO stated that the Office has used metrics relating to staff member understanding of the programme and reduction in reported conflicts of interest since the inception of the programme. These metrics measure compliance, adherence to and acceptance of the FDP. The UNEO is in the process of implementing improved data gathering and reporting for the FDP, in collaboration with the external reviewers, in order to ensure that measurement of programme effectiveness is enhanced. In this context, the 2010 programme report submitted by PwC in January 2011 already contains more detailed information on personal conflicts of interest metrics addressed by the FDP. The performance metrics listed in Annex 2 are being implemented. Recommendation 1 remains open pending receipt of the UNEO's performance report based on the enhanced performance measurement framework.*

## C. Filing disclosure statements

### Criteria for identifying filers of confidential financial disclosure reports need to be more specific

18. The FDP requires United Nations staff members to submit financial information annually, (every March) in respect of the previous calendar year. The Secretary-General's bulletin on financial disclosure and declaration of interest statement (ST/SGB/2006/6), which came into force on 1 May 2006, lowered the reporting thresholds and broadened the reporting requirements in respect of staff members' spouses and dependent children. It also broadened the scope of the policy to include: all staff members at D-1/L-6 level and above; all staff

(regardless of the grade) whose principal duties include procurement or investment functions; and all those staff with access to confidential procurement or investment information.

19. It is the responsibility of department heads in the Secretariat and participating entities to conduct a risk assessment of their organizations to identify staff members that should be required to complete and submit confidential financial disclosure statements. The UNEO develops advice and guidance to participating entities on identifying and selecting staff members to be covered by the FDP. The “Guidelines for preparation of Departmental List of relevant staff members” developed by the UNEO in April 2009, include eligibility requirements, mostly administration-related. In OIOS’ opinion, the criteria for determining which staff members have responsibilities that warrant the filing of financial disclosure statements could be refined within the guidelines. For example, the interpretation of who is required to file annual financial disclosure statements is different between the various departments, organizations/units within the United Nations system. Currently, 30 per cent of the filers are represented by the General and Field Service Staff categories versus 41 per cent represented by the Professional category. There are disparities among entities participating in the FDP; for example, the Office of the United Nations High Commissioner for Refugees (UNHCR) has 642 filers comprising field-based staff members, while the Office for the Coordination of Humanitarian Affairs (OCHA) and the Office of the United Nations High Commissioner for Human Rights (OHCHR), also with an extensive field presence, have 17 and 18 filers respectively (i.e. senior officials at the headquarters only). OIOS also noted that United Nations Volunteers (UNVs) filed returns in the 2009 filing cycle. UNVs are not United Nations staff members; hence, they are not required to file disclosure statements.

20. The fact that disparities remain among participating entities points to the need to clarify the understanding of who should file the disclosure statements. There does not seem to be an adequate balance between the risk of perceived conflicts of interest and the increasing trend in the numbers of filers as shown in Table 1:

**Table 1: Summary of number of participants in the FDP**

<i>Year</i>	<i>Filers</i>			<i>Total</i>	<i>Filing statistics %</i>
	<i>Peacekeeping operations</i>	<i>Secretariat</i>	<i>Other</i>		
2006	603	762	339	1,704	98%
2007	1,062	997	469	2,528	92%
2008	1,449	919	750	3,118	99%
2009	1,584	1,212	822	3,618	99%
2010	1,700	1,380	985	4,065	99%

21. In OIOS’ view, the criteria for determining the designated positions that may pose conflict of interest should be fine-tuned based on the experience and lessons drawn in implementing FDP since its inception in 2006. Although the Secretary-General’s bulletin assigns responsibility to the various heads of departments for identifying those staff members who are required to file

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confidential disclosure statements, sound management practice requires overall consistency among the participating entities to the programme. OIOS is of the opinion that the UNEO should accordingly seek to ensure that its criteria for identifying persons who should file disclosure are applied more consistently.

22. *The UNEO explained that the FDP is a programme that covers 96 offices, departments and missions across the Secretariat and selected funds, programmes and offices. Disparities identified above do not reflect the relationship that the UNEO has with offices that participate in the FDP. UNHCR has selected to outsource its financial disclosure programme to the UNEO, which accounts for the higher number of participants from that office. OHCHR and OCHA, being part of the United Nations Secretariat, submit names for inclusion in the FDP in line with UNEO guidelines and ST/SGB/2006/6. Further, the UNEO is aware that some UNVs are included in the FDP and that certain offices ask UNVs to file financial disclosures. The UNEO is also aware that at some locations, UNVs undertake functions normally performed by staff members, but the decision to include such UNVs in the FDP is a decision taken by the head of office based on their risk assessment. There may be a larger issue with regard to the appropriateness and risk level of tasks assigned to UNVs; however, the UNEO believes that where UNVs are tasked with performing procurement-related duties, it is appropriate for them to be included in the FDP.*

23. OIOS takes note of these clarifications, but points out that inconsistencies in the profiles of participants in the FDP may lead to misinterpretation of the extent of participation by the target population of staff members as defined in ST/SGB/2006/6. While it is the responsibility of department heads to identify participating staff members, the UNEO must review the Departmental Lists comprehensively to ensure there is an appropriate balance between extent of departmental participation and potential risks, independent of any bilateral relationships with individual offices.

## **Recommendation 2**

**(2) The UNEO should revise the guidelines for preparation of the Departmental List to streamline the categories of personnel that file disclosure statements and ensure consistency among the participants of the programme.**

24. *The UNEO stated that it is in the process of further revising the FDP guidelines for the 2012 filing cycle. While the Office can streamline further the categories of personnel who file and ensure greater consistency among the participants of the FDP, it does not currently have the authority to “enforce” the revised criteria for identifying persons who should file a disclosure. This responsibility rests with the head of department as per ST/SGB/2006/6. Any changes to the Secretary-General’s bulletin can only be considered after the General Assembly considers the future direction of the FDP in its 66<sup>th</sup> session. Recommendation 2 remains open pending receipt of the revised guidelines for the 2012 filing cycle, which indicates further streamlining of the criteria for participation in the FDP.*

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Compliance with filing obligations by newly qualifying staff members needs to be strengthened

25. For the 2008 filing cycle (beginning on 1 March 2008 and covering the period from 1 January to 31 December 2007), a total of 3,118 staff members were required to file, using the established online financial disclosure filing system. As of the closing date, a total of 99.61 per cent of staff (or 3,092 participants) had fully complied with filing obligations. This compliance rate represents a significant improvement as compared to the 2007 filing cycle (92 per cent or 2,329 staff members). Regarding the 2009 filing cycle (commencing on 1 March 2009), a total of 3,657 staff members were required to file as of 25 June 2009, representing an increase of 11.7 per cent as compared to the previous cycle, and 99.61 per cent of staff complied with the filing requirements. For the 2010 filing cycle, 4,065 staff members were required to file (a further increase of 11 per cent over 2009) and 4,031 had filed by January 2011.

26. OIOS noted that the UNEO had established written procedures to ensure compliance, including steps to increase compliance among non-responsive filers. Furthermore, the online financial disclosure system contains guidance developed by PwC in collaboration with the UNEO, such as: frequently asked questions; step by step instructions to complete the disclosure statement; glossary of terms; and technical tips.

27. As part of the audit procedures, OIOS reviewed the filing of confidential financial disclosure statements by newly appointed staff members meeting the criteria. According to Section 7 of the ST/SGB/2006/6, “any person offered an appointment at a level or position that would require disclosure [...] shall file an initial financial disclosure or declaration of interest statement”, and that “failure to submit an initial statement may result in a withdrawal of the offer of appointment”.

28. OIOS noted that during the last two filing cycles, 122 staff members appointed or promoted to the D-1 level and above were not included in the 2009 departmental lists. None of these appointees had their appointments withdrawn as a result of non-filing. Enquiries with the Office of Human Resources Management (OHRM) showed that updates were not sent to the UNEO at regular intervals nor were the updates complete. Furthermore, from a sample of 25 initial appointees who filed confidential disclosure statements, the initial statements were filed between 130 and 676 days (4 – 23 months) after their appointment, contrary to the conditions stated in the appointment letters requiring filing prior to being appointed.

### **Recommendation 3**

**(3) The UNEO, in collaboration with the Office of Human Resources Management, should strengthen procedures for disclosure statements to be submitted by newly qualifying staff members upon appointment, and specify a time period for compliance.**

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29. *The UNEO stated that it will contact OHRM to ensure that an enhanced mechanism for enrolling newly qualifying members into the FDP is in place. Implementation of this recommendation requires the cooperation of OHRM. Recommendation 3 remains open pending receipt of evidence that mechanisms have been introduced to ensure that newly qualifying staff members participate in the FDP.*

#### D. Reviewing confidential disclosure statements

##### Review and verification process by third party reviewer

30. Since 2005, PwC has served as the independent third party reviewer of the FDP. PwC's scope of work is primarily focused on the review process and hosting the Financial Disclosure System (FDS), and includes: (i) applying the Analytical Framework to the disclosure statements submitted during the review process, (ii) communicating with staff members in cases where clarifications are needed regarding their statements, (iii) communicating progress of the analytical review and associated conflict of interest summaries on a monthly basis to the UNEO, and (iv) providing lists of staff members who are non-responsive and for which further action by the UNEO is required. The Analytical Framework is a PwC generated document and details its scope of work and timeline of activities, including the methodology used during the review cycle to analyze possible conflict of interest as defined by the UNEO. The Analytical Framework is reviewed and approved by the UNEO.

31. As the independent reviewer, PwC analyzes each of the submitted financial disclosure statements or declaration of interest statements provided by UN staff members to determine whether any actual, apparent or potential conflict of interest exists between the United Nations staff members' personal holdings and the Organization's activities and interests.

32. PwC conducts two levels of review of all submitted disclosure statements. The first level review analyzes the information on all financial disclosure reporting areas (i.e. assets, profits, stocks and options, publicly listed or private holdings, external income earned, direct or indirect supplement, [e.g. subsidized housing, gifts, per diem, reimbursements, entertainment, travel expenses, etc.], liabilities and outside activities). The FDP guidance requires a detailed review on a case by case basis on the nature of any outside activity which might impact the objectivity or independence of the staff member in the performance of duties for the United Nations. PwC performs research and determines whether a potential conflict of interest exists in fact or appearance for individual items. The second level review is a quality assurance of the first review and may include additional research on disclosed items, as required. The second reviewer is responsible for the assessment of the entire disclosure statements, to determine whether an actual or potential conflict of interest exists relating to role, responsibilities, functions or circumstances of the staff member.

33. PwC advises the staff member, based on advice from the Ethics Office, on how any potential conflict of interest could be mitigated. If needed, PwC

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conducts a meeting with the staff member to review the recommended course of action. If the staff member concurs with the recommendation, the issue is indicated in the FDS as resolved. No follow-up is conducted by PwC with the staff member to ensure that the recommended action has actually been carried out, except for the reviews in the following cycle. If the staff member disagrees with the recommended course of action to mitigate the potential conflict of interest, the matter is referred to the UNEO for resolution. If the UNEO and the staff member cannot reach satisfactory conclusion, the issue is referred to OHRM, or to the parent organization (for non-Secretariat participating entities) for action.

34. PwC is also responsible for conducting the verification process based on the criteria provided by the UNEO. The verification process involves the submission, analysis, and confirmation of third party documentation to substantiate each of the items disclosed in a sample of staff members' disclosure statements. The sample is selected by PwC, but is designed to ensure that it encompasses various departments/offices, grades/levels and duty stations of the United Nations.

35. Senior officials (at the grade of Under-Secretary-General and Assistant Secretary-General) are encouraged to also file public financial disclosure reports. Public disclosure is considered to be an important voluntary initiative and consists of a summary of the detailed financial disclosure statement. The summary is prepared by the UNEO once the confidential review by PwC has been completed and the staff member has been notified accordingly. The UNEO compiles the summary documents based upon five principles that are summarized in the "Policy on Voluntary Public Disclosure by United Nations staff members of Financial Disclosure and Declaration of Interest Statements". Accordingly, details of some assets or interests are not disclosed publicly.

Restricted entity lists are not effective as a key control document

36. The restricted entity list (REL) is a key control document in the review and verification of the individual confidential disclosure statements. RELs are lists of vendors with cumulative awards of \$100,000 and above in the reporting year, and in which United Nations staff members are restricted from holding a financial interest. Conflict of interest may arise if a staff member's roles and responsibilities are incompatible with financial interests held in these vendors.

37. According to the contractual arrangements, PwC reviews individual disclosure statements, by screening for conflict of interest using up to five RELs. On an annual basis, the UNEO provides PwC with the updated list of restricted entities compiled by the following five departments/organizations: (i) United Nations Procurement Division (PD); (ii) Department of Peacekeeping Operations (DPKO); (iii) United Nations High Commissioner for Refugees (UNHCR); (iv) United Nations Framework Convention on Climate Change (UNFCCC); and (v) United Nations Joint Staff Pension Fund (UNJSPF).

38. With the exception of staff members in DPKO, UNHCR, UNFCCC and UNJSPF, screening of the disclosure statements for conflict of interest is

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performed against the “Secretariat’s REL”, which is provided by PD. OIOS noted that this list contains around 300 vendors, of which ten were concentrated geographically and represented 60 per cent of the total annual value of procurement. In OIOS’ opinion, it is unlikely that the screening for conflict of interest is effective for the FDP participants from the Offices Away from Headquarters, as well as from other United Nations agencies, funds and programmes, because their vendors are not included in the REL. Further, significant activities may be executed through implementing partners, which are also not included in the REL. OIOS is of the view that completeness and accuracy of the RELs within the Secretariat should be ensured through independent checks and data confirmation from United Nations systems (such as IMIS).

39. *The UNEO stated that implementing partners are considered beyond the range and scope of the FDP given the number and variety of implementing partners in the wide range of departments, offices, and missions covered by the Programme. The issue of implementing partners addressed in the audit is one that poses much wider ethical risks than those identified in the audit in the context of the FDP. The FDP is not constituted to deal with the range of ethical issues and diverse portfolio of risks and business relationships between the United Nations and its implementing partners. While OIOS acknowledges that implementing partners are numerous and varied, their exclusion from the FDP leads to the omission of a constituent with which the Organization conducts a significant amount of business. The UNEO therefore needs to develop suitable parameters to incorporate implementing partners in the FDP.*

40. Financial disclosure statements submitted by staff members of the UNJSPF and its Investment Management Division (IMD) are analyzed against both the “Secretariat’s REL” and the “UNJSPF’s REL”. Due to the confidential nature of the investment activities within UNJSPF, the UNEO requests the Northern Trust – the custodian for the UNJSPF, to send directly to PwC a snapshot of the interests held in the Pension Fund (or a quarterly statement). In OIOS’ view, since the criteria for compiling the REL for UNJSPF are very broad and the investment holdings change frequently, there is no assurance that the review of the disclosure statements is effective.

#### **Recommendation 4**

**(4) The UNEO should ensure that the restricted entity lists are complete, accurate and reflect entities with which participants of the financial disclosure programme are likely to be in conflict of interest situations.**

41. *The UNEO stated that it has incorporated required vendors from offices away from headquarters into the RELs for the 2011 programme. Implementing partners are considered beyond the range and scope of the FDP given the number and variety of implementing partners in the wide range of departments/offices/missions covered by the programme. The review of disclosure statements of UNJSPF staff is facilitated by comparisons with the quarterly statements for the current period, by the compliance policies in place*

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*for pre-clearance by the UNJSPF and by the wider issue of addressing those conflicts of interest that do not always fall under a financial purview. While the UNEO has addressed recommendation 4 as far as it relates to the RELs and additional checks at UNJSPF, OIOS believes that implementing partners should be considered by the programme because they pose the same risks as vendors in terms of conflict of interest situations for United Nations staff members. Recommendation 4 therefore remains open pending notification of actions taken to incorporate implementing partners in the FDP.*

#### E. Collecting, processing and monitoring financial disclosure statements

##### The functionality and security of FDS need to be strengthened

42. FDS is the management information system used for filing and reviewing financial disclosure documents; it is a Lotus Notes database with a web-based interface. Due to the confidential nature of the information, the UNEO only has limited access to the information contained in the database.

43. As part of the proposed programme budget for the biennium 2010-2011, the UNEO listed as a strategic activity the development of an “internal confidential database system as a key tool for case management, trend analysis and reporting”. FDS was designed with limited built-in data analysis functions. For example, the current FDS does not have the functionality to compare staff member data against the RELs and prior year disclosure statement; this is done manually. Additionally, the audit trail capabilities and functionalities are limited. For example, there is no ability to generate reports such as filing status by entity; to trace the history of dealing with individual queries, or to trace each individual action in the FDS by PwC or Neva Group Inc., because both vendors share the same user account. A proper audit trail can assist in detecting security violations, performance problems and flaws in the application. In OIOS’ view, programme design changes (both functional and technical) are required to improve the functionality and security of the FDS.

44. *The UNEO stated that the Office has consistently noted the need for a system upgrade or system redesign to ensure the long-term viability of the FDP. The redesign costs are estimated between \$750,000 and \$800,000. Redesigning the system will be one of the options advanced to the General Assembly in its 66th session. However, a system redesign cannot be undertaken without executive, governance and budgetary direction and support. In view of the comments provided the UNEO, no recommendation is being made in this regard.*

##### Memoranda of understanding with participating entities are not in place

45. The UNEO administers the FDP of non-Secretariat entities at their request, on a cost sharing basis. In 2008, staff members in Secretariat entities (excluding peacekeeping field missions and headquarters) represented 20 per cent of the participants, while peacekeeping operations and other United Nations agencies and bodies represented 46 per cent and 24 per cent, respectively.



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46. United Nations entities such as the United Nations Development Programme and the United Nations Population Fund administer their own financial disclosure programmes. For entities such as the United Nations Environment Programme, the United Nations Human Settlements Programme, and the United Nations University, for which UNEO administers their FDP requirements, there were no formal memoranda of understanding (MOUs) in place, to formally clarify the respective areas of responsibility for the programme.

**Recommendation 5**

**(5) The UNEO should enter into memoranda of understanding with the United Nations agencies that are part of the financial disclosure programme, to clarify the respective areas of responsibility for the programme.**

47. *The UNEO stated that it has drafted proposed MOUs to be reviewed by the Office of Legal Affairs for consistency and accuracy. The UNEO will implement the recommendation subject to legal review.* Based on action taken by UNEO, recommendation 5 has been closed.

V. ACKNOWLEDGEMENT

48. We wish to express our appreciation to the Management and staff of UNOE for the assistance and cooperation extended to the auditors during this assignment.

## STATUS OF AUDIT RECOMMENDATIONS

Recom. no.	Recommendation	Risk category	Risk rating	C/O <sup>1</sup>	Actions needed to close recommendation	Implementation date <sup>2</sup>
1	The UNEO should enhance the framework to measure the effectiveness of the financial disclosure programme.	Governance	Moderate	O	Receipt of the UNEO's performance report based on the enhanced performance measurement framework.	31 December 2011
2	The UNEO should revise the guidelines for preparation of the Departmental List to streamline the categories of personnel that file disclosure statements and ensure consistency among the participants of the programme.	Operational	Moderate	O	Receipt of the revised guidelines for the 2012 filing cycle, which indicates further streamlining of the criteria for participation in the FDP.	31 December 2011
3	The UNEO, in collaboration with the Office of Human Resources Management, should strengthen procedures for disclosure statements to be submitted by newly qualifying staff members upon appointment, and specify a time period for compliance.	Operational	Moderate	O	Receipt of evidence that mechanisms have been introduced to ensure that newly qualifying staff members participate in the FDP.	31 December 2011
4	The UNEO should ensure that the restricted entity lists are complete, accurate and reflect entities with which participants of the programme are likely to be in conflict of interest situations.	Operational	Moderate	O	Notification of actions taken to incorporate implementing partners in the FDP.	
5	The UNEO should enter into memoranda of understanding with the United Nations agencies that are part of the FDP to clarify the respective responsibilities for the programme.	Operational	Moderate	C	Action completed	Implemented

1. C = closed, O = open

2. Date provided by UNEO in response to recommendations.

## SUGGESTED PERFORMANCE METRICS

**FDP Overarching Goal – administering an effective confidential financial disclosure system while at the same time ensuring it meets its primary purpose of identifying and mitigating personal conflicts of interest**

### **A) Participation in the FDP**

Objective 1: Improve staff compliance with filing and disclosure obligations – Goal: to ensure target population participates in the FDP.

Performance measures:

1. Percentage of qualifying staff members who file financial disclosure statements - by organizational and/or functional grouping;
2. Percentage of financial disclosure statements submitted by the submission deadline date;
3. Percentage of financial disclosure statements submitted by the date of the final report.

Objective 2: Increase outreach activities – Goal: To increase understanding of and collaboration with financial disclosure programmes

Performance measures:

4. Number of briefing/information sessions for identified categories of personnel;
5. Number of liaison initiatives with other UN specialized agencies, funds and programmes (e.g., members of the UN Ethics Committee and UN Ethics Network).

### **B) Acceptance and Understanding of FDP**

Objective 1: Clarify the financial disclosure process to staff members – Goal: To increase the awareness (and compliance) of staff members with the FDP.

Performance measures:

1. Percentage of staff launching the online education and training materials;
2. Number of staff participating in training sessions;
3. Number of FDP related case matters in which the Ethics Office provided advice.

### **C) Reducing Risks for Personal Conflicts of Interest**

Objective 1: Improve the capacity to identify personal conflicts of interest – Goal: To ensure that potential and/or actual conflicts of interest are mitigated.

Performance measures:

1. Percentage of participants with conflicts of interest who comply with recommendations;
2. Trends over time in three major sub-categories of personal conflicts of interest: financial, outside activities, family-related.

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Objective 2: Provide timely and confidential ethics advice - Goal: To ensure that participants are able to recognize, appreciate and resolve personal conflicts of interest.

Performance measures:

3. Track trends in ethics advice relating to personal conflicts of interest.