

## **I. Introduction**

1. This Report covers the work of the Audit Advisory Committee (AAC) of the United Nations Development Programme (UNDP) for the calendar year 2012.
2. The AAC is composed entirely of members who are external to UNDP, and are therefore independent from UNDP and its administration and management. The members are Ms. Ellen Yaffe (USA), Mr. Jayantilal Karia (Uganda), Mr. Kamlesh Vikamsey (India), Mr. Louis Wong (Australia) and Ms. Hilary Wild (UK) who continued as Chairperson.
3. The AAC is very appreciative of the support and cooperation it has received from UNDP during this past year. The presentations and briefings to the AAC have been of the highest quality, reflecting a great deal of thought and attention. We have also appreciated the dialogue on key issues that occurs in briefing sessions and in formal meetings as this has helped us to formulate our advice to the Administrator. As 2012 also saw the retirement of Mr. Egbert C. Kaltenbach as Director, the AAC wishes to record its great appreciation to him for the strong lead he has shown as Director, Office Audit and Investigations (OAI) but also within the UN system. The AAC looks forward to working with his successor, Mr. Helge Strand-Ostveiten. The AAC also expressed its appreciation for the collaboration with Ms. Elia Armstrong who reached the end of her term of office as Director, Ethics Office and looks forward to a productive relationship with her successor, Mr. Peter Liria.
4. This report is in eight parts:
  - Introduction;
  - Terms of Reference (TOR) for the AAC;
  - Self-assessment and analysis undertaken by the AAC for 2012;
  - Strategic advice provided to UNDP via the Administrator and Associate Administrator during 2012;
  - Advice related to the internal audit and investigation functions and particularly OAI;
  - The responsibilities of the AAC in relation to the United Nations Board of Auditors;
  - Advice in relation to the Ethics Office; and
  - Conclusion and 2013 Work Plan.

## **II. Terms of Reference**

5. The AAC has operated under the TOR (attached) approved by the Administrator on 8 March 2011 for the whole of 2012.
6. As called for in the TOR, the AAC reviews their TOR annually to ensure it remains in line with best practice and reflects the changing environment in which UNDP operates. Accordingly a review was undertaken in December 2012 and the AAC concluded that the TOR remains appropriate and thus no changes have been recommended or made.

## **III. AAC Self-Assessment and Analysis**

7. The AAC carried out its annual self-assessment for 2012. The input from the Administrator and Associate Administrator is sought, and the results are shared with them. Based on this self-assessment, the AAC concluded that it had performed its duties and discharged its responsibilities in compliance with its TOR. In its self-assessment for 2011, the AAC noted that improvement could be made to the process and quality of follow up on how UNDP had considered its advice. Steps have been taken in 2012 and the AAC feels that this process is now operating satisfactorily. In the 2012 self-assessment the AAC has noted that it may be appropriate to formalize the procedures for obtaining feed back from the Administrator and Associate Administrator on its effectiveness and value to UNDP and will consider mechanisms to do this in 2013.

8. Following on from its decision in 2011 to prepare an annual rolling work plan, the AAC has continued this process in 2012, dynamically adapting the plan to meet any emerging requirements. The AAC considers this facilitates its work, helps to ensure that there is an appropriate focus on its responsibilities under its TOR, as well as assists UNDP in reporting on follow-up actions and planning for future briefings. Three on-site meetings were held in 2012 and the fourth meeting was carried out virtually. The on-site meetings are all scheduled to meet corporate requirements of UNDP so that the advice given by the AAC is timely.

9. The AAC has also undertaken a number of visits to UNDP country offices, which have been most useful in broadening its understanding of the UNDP decentralized business model. This has also enabled the AAC to strengthen its work in promoting understanding and effectiveness of the audit and investigation functions, as called for in the TOR.

#### **IV. Strategic Advice to UNDP Management**

##### International Public Sector Accounting Standards (IPSAS)

10. The AAC received briefings at each of its meetings in 2012 on the status of IPSAS implementation. It was pleased to see the continued support of the Associate Administrator as the champion of this effort, and an appropriate focus on management of the risks inherent in this project at the corporate level thus leading to a strong commitment to meet all deadlines.

11. The AAC was pleased to see that following on from its recommendations in the 2010 and the four preceding Annual Reports, UNDP invested in an effective change management process that supported changes to the new system, and that adequate numbers of qualified staff with proper training in the enhanced system as well as in IPSAS were appointed to support its implementation. The success of the approach implemented by UNDP was borne out by feedback given directly to AAC members during country office visits.

12. As recommended by the AAC, UNDP prepared a set of “dry run” interim financial statements and also engaged with the Board of Auditors to carry out an audit of the opening balances after conversion to IPSAS. Both of these activities placed significant demands on UNDP, but the preliminary view of the AAC is that this effort was an important part of the preparation for the audit of the first annual IPSAS compliant financial statements.

13. The AAC was encouraged to hear that the Global Shared Services Centre is operating smoothly and that UNDP has paid sustained attention to ensure that the information and communication technology (ICT) changes related to IPSAS were accomplished in time for the scheduled operational implementation of IPSAS in 2012.

14. As noted in the AAC’s Annual Report for 2011, the AAC continues to emphasize its overall advice that IPSAS implementation reflects a new way of accounting and reporting that has significant implications since it affects programme management, donor relations and financial reporting. The AAC believes that this will place demands upon UNDP in 2013 whilst IPSAS becomes fully assimilated into day-to-day activities, and the results of the first annual audit of IPSAS compliant financial statements are known.

##### Agenda for Organizational Change (AOC)

15. The AAC much appreciated the regular briefings they received on the Administrator’s initiative to move UNDP from “good to great”, the Agenda for Organizational Change. The AAC believes this is a useful initiative, and is pleased to see that it is now moving into a more operational phase of implementation. In 2013 the AAC will continue to follow progress on the work to bring together the strategic plan, integrated budget and strategic results framework as the AAC considers this is a crucial step in supporting a more coherent organization that is well equipped to prioritize and respond to the increasing demands made upon it.

16. The AAC looks forward to hearing more about the development of the Strategic Plan and new approach to cost recovery.

17. The AAC welcomes the focus being put upon strengthening accountability at all levels of UNDP, and has advised that clear, unambiguous, definition of ownership of policies and procedures together with appropriate management oversight of compliance is a vital element of a strong accountability framework in a de-centralized organization such as UNDP. The AAC will place more emphasis on this area in 2013 since it is not yet evident to the AAC that this area has been sufficiently clarified and strengthened.

18. The objectives of improving efficiency and effectiveness are important, and the AAC has continued to advise that care must be taken to ensure that an appropriate level of internal control is maintained particularly in the area of procurement so that the drive for efficiency does not create unintended consequences of lack of proper control mechanisms.

#### UNDP Financial Stability

19. In view of the continuing difficulties experienced within the global economy, the AAC has had regular briefings on the financial stability of UNDP. This enabled the AAC to appreciate the risk mitigation and control measures adopted for the investment of UNDP's liquidity (including bond holdings of lower rated countries); risks arising from high volatility of currencies as well as the risks posed to UNDP's ability to attract funding to sustain the budget. The AAC noted that a pragmatic policy on criteria for risk tolerance levels was developed and implemented. The AAC also noted that UNDP is participating in a UN wide endeavor to consolidate some treasury activities. The AAC encourages this effort, but cautions that the implementation aspects be well thought through before a final decision to implement is made. The AAC will continue to keep this matter on its agenda in 2013.

#### Harmonized Approach to Cash Transfers (HACT)

20. In 2012 the AAC held a joint meeting with representatives of the AACs of UNICEF and UNFPA to consider the Joint Audit on HACT Governance. The three AACs agreed on a set of common recommendations, which noted that whilst the original purpose of the HACT regime remained valid, there was a need to review and improve the implementation measures, and in particular to define clearer accountability within each organization as well as to put an overall HACT governance arrangement in place, that sets out clear authority, roles and responsibilities. The AACs also recommended that appropriate consideration be given to reflecting that in some country settings HACT may not be appropriate, and that such a conclusion could be valid, provided it is justified. Furthermore, the UNDP AAC noted that their recommendations were also addressed to the Administrator in her capacity as Chair of UNDG since the AAC believes that UNDG must show appropriate leadership in addressing the recommendations contained in the internal audit report. The AAC will follow progress on the implementation of both its recommendations as well as those in the Internal Audit Report and plans to hold a further joint meeting in 2013 with representatives of the UNICEF and UNFPA AACs.

#### Information & Communication Technology (ICT) Management

21. The AAC received a briefing on the new governance arrangements for ICT management and is pleased to see that the governance gives due consideration to the importance of user involvement. However, the AAC believes that it is important that the interests of the Bureau of Management are not subordinated to those of other Bureaus in this new governance structure. The AAC has also re-emphasized its prior advice that the role of a corporate ICT function must be clearly defined, and agreed upon, and that an entity wide view of ICT systems, and budgetary resources is necessary to ensure that operational efficiency is promoted and value for money is obtained in a scarce resource environment. The AAC looks forward to continued dialogue on this issue, which has been a subject of strategic advice in its previous annual reports.

### Enterprise Risk Management (ERM)

22. Whilst the AAC noted that in 2011 UNDP management considered that ERM had matured to a level at which it had become part of mainstream management, the AAC did not receive any briefing in 2012 how ERM is now working in practice. The AAC will give this area a high priority in 2013, bearing in mind its previous advice that UNDP must ensure that the escalation process is clear to all staff not only in form but also in purpose.

23. The AAC continues to believe that the identification and continued management of a set of “Top audit-related management priorities” for a calendar year is a useful tool for keeping focus on important entity or agency wide risks, and notes that the Organizational Performance Group monitors this regularly.

## **V. Advice Related to the Office of Audit and Investigations**

### OAI Work Plan and Resources

24. The AAC endorsed the 2012 annual work plan for OAI in December 2011, and in subsequent meetings received updates on performance against the plan. The AAC noted improvement in the overall presentation of data, and progress against the plan over the course of its meetings.

25. Recalling the comments in its previous reports, the AAC spent time at each meeting reviewing with OAI its overall level of resources, and the relationship of its resources to its ability to perform its work so that OAI may be able to achieve a satisfactory level of assurance. The AAC was encouraged to hear that OAI felt that a satisfactory level of assurance could be provided. The AAC will continue to review this with OAI given that the work load of OAI is increasing with the implementation of the policy on full disclosure of internal audit reports.

26. The AAC notes that there continue to be delays in the issuance of audit reports, which OAI attributes to staff capacity and auditees concerns arising from public disclosure. The AAC is pleased to see that as previously advised, steps have been taken to strengthen the quality assurance function and attention been given to providing appropriate support to enable OAI staff to complete their reports in a timely manner. As far as the auditees concern regarding public disclosure of reports, whilst their concern is understandable, the AAC encourages OAI to continue with its present approach of extensive consultations with management, supported through OAI continued involvement in regional meetings.

27. The investigations function of OAI has continued to experience growth in workload, which has been addressed to some extent by changes in work processes allied with a greater use of technology, but has also required additional resources. As previously reported, the AAC is concerned that the high level of open case-load may risk creating the impression that UNDP does not take reports of potentially fraudulent activity sufficiently seriously and that this may pose a risk to the overall integrity and reputation of UNDP. Despite the recruitment of additional investigators during 2012, the number of open cases has not decreased. The AAC will continue to monitor the situation.

### External Quality Review

28. The AAC was briefed on the external quality review of the internal audit activities of OAI undertaken by the Institute of Internal Auditors in 2012, and was pleased to note that the review had determined that UNDP “generally conforms to the Code of Ethics, Standards and Definition of Internal Audit”, which is the highest rating possible. The AAC also noted that, for the few recommendations for improvement, OAI had developed a sound approach to meet these recommendations.

### Audit Follow Up

29. The AAC was provided with information on audit recommendation follow-up about which the AAC raised concerns during the year about the number of recommendations that had remained open after 18 months particularly those that are of a critical nature, such as those pointing to a lack of internal controls. However, the AAC was pleased to see that by the end of the year action had been taken and that, as a result of additional follow up efforts, the number has been significantly reduced. Notwithstanding this, the AAC continues to be concerned about the slow implementation of recommendations relating to procurement, particularly bearing in mind that this represents the highest incidence of fraud allegations and actual fraud investigations.

### Disclosure of Internal Audit Reports

30. The AAC was pleased to note that the safeguarding policies and web access designed to facilitate the public disclosure of all internal audit reports was in place to meet the planned implementation date of 1 December 2012. The AAC will monitor the implementation of this policy and the effect on the overall capacity of OAI to meet its assurance responsibilities in 2013.

31. Prior to the full public disclosure of internal audit reports, the AAC was kept apprised of the number and nature of requests from Member States for disclosure of specific internal audit reports. The AAC had no concerns about the operations of this disclosure process.

### Appointment of Director, OAI

32. The AAC was pleased to advise and assist in the recruitment process for the Director, OAI.

## **VI. UN Board of Auditors**

33. As required under its TOR, the AAC met privately with the Director of External Audit in its April and July meetings in 2012. The main areas of discussions were the IPSAS implementation and the related review of IPSAS financial policies, as well as the arrangements for the outgoing lead auditors to hand over to their successors.

34. As discussed with the outgoing member of the Board in 2011, the AAC was pleased to hear that there had been close collaboration between the outgoing member and the incoming member in relation to the transition.

35. The AAC expressed its appreciation for the good collaboration with the outgoing member of the Board of Auditors, the Auditor General of the Republic of South Africa, and looks forward to working with the incoming member, the Auditor General of the National Audit Office of Tanzania.

## **VII. Ethics Office**

36. The AAC reviewed the Ethics Office work plan, action plan and operation of the financial disclosure policy.

37. The AAC welcomed the engagement of the Ethics Office with the AOC and noted its contribution to the development of the Performance Compact for Assistant Secretaries-General as an important element of accountability in UNDP.

38. The AAC noted with pleasure the significant development of a more dynamic outreach program by the new Director of the Ethics Office and welcomed the use of the tag line “operating with unwavering integrity”.

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### **VIII. Conclusion and 2013 Work Plan**

39. The AAC has developed a work plan for 2013 to guide it in its work in the coming year. The AAC will continue to take a keen interest on the progress of AOC, its effects on efficiency and internal controls, the Strategic Plan and new cost recovery approaches. It will closely follow the effects of budgetary constraints on UNDP, and will continue to engage UNDP in discussions on how to resource the extraordinary requirements for audit that present themselves to OAI. As 2013 will see the first annual IPSAS compliant financial statements and audit thereof, the AAC will closely follow the progress being made to fully assimilate the new policies into UNDP, and will monitor the results of the external audit. The AAC will continue to closely monitor the timeliness of issue of internal audit reports. Other areas of focus will include gaining a further understanding of how accountability is being assured in UNDP, human resources management and how the ERM processes are integrated into management process. The AAC will follow-up on its recommendations in respect of HACT governance and accountability and give continued attention to ICT governance as well as the financial stability of UNDP.

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ANNEX: Revised Terms of Reference of the AAC

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United Nations Development Programme



**AUDIT ADVISORY COMMITTEE**

**TERMS OF REFERENCE**

**Purpose and Context**

1. The purpose of the Audit Advisory Committee ("Committee") is to assist the Administrator in fulfilling his/her responsibilities regarding oversight, financial management and reporting, internal audit and investigation, external audit, risk management, and systems of internal control and accountability. The primary role of the Committee is to advise the Administrator, taking into consideration the Financial and Staff Regulations and Rules as well as policies and procedures applicable to UNDP and its operating environment.
2. The Committee has an independent advisory role and is not a governance body; no language or clauses in these Terms of Reference ("TOR") shall imply otherwise.
3. The Committee shall seek to promote proper governance and high ethical standards, as well as the adoption and use by management of best practices in risk and financial management.
4. Members of the Committee shall act in an independent, non-executive capacity. Members shall not be held personally liable for decisions taken by the Committee acting as a whole.
5. The United Nations Board of Auditors ("BOA") performs the external audit of UNDP operations and the Office of Audit and Investigations ("OAI") provides internal audit and investigation services.

**Mandate**

6. The Committee shall:
  - a) Review and advise the Administrator on policies significantly affecting financial management and reporting, the internal audit and investigation functions, and the effectiveness of UNDP's systems of internal control and accountability; including its governance, risk management and control processes;
  - b) Review and advise on the fraud and corruption prevention policy, ethics function including the code of ethics and whistle blower policy;
  - c) Consult on any proposed changes to the Financial Regulations and Rules;
  - d) Review and advise on UNDP's financial statements and reports, including any significant changes in accounting policies, presentation and disclosures;

- e) Promote the understanding and effectiveness of the audit and investigation functions, provide a forum to discuss internal control and matters raised by the BOA and OAI as well as strive to maintain open communication with them;
- f) In relation to OAI review and advise on:
  - (i) The Charter;
  - (ii) The appointment, performance evaluation, extension and dismissal of the Director ;
  - (iii) The strategy, annual work plans, budget and periodic reports;
  - (iv) The quality and assurance improvement programme, including internal and external assessments;
  - (v) Relevant reports and management letters;
  - (vi) The status of implementation by management of audit recommendations;
  - (vii) Policy for disclosure of internal audit reports and implementation thereof.
- g) In relation to the BOA review and advise the Administrator on:
  - (i) Audit scope and related matters;
  - (ii) BOA reports and relevant management letters;
  - (iii) The status of implementation by management of audit recommendations.
- h) Consider the risk and control implications of audit reports and management letters and highlight, as appropriate, issues that may need further examination with due consideration as to confidentiality and due process;
- i) Review and advise on the governance, development and management of information technology systems impacting financial management and reporting;
- j) Review and advise on any issues arising from activities covered by these TOR.

#### **Authority**

7. The Committee has the authority and the responsibility to review all activities that it deems appropriate and relevant to these TOR. In exercising this responsibility, the Committee may:
- a) Obtain all information and/or documents it considers necessary to perform its mandate including all internal and external audit reports;
  - b) Seek any information from any UNDP personnel or request information generated from UNDP's systems and require all UNDP personnel to cooperate with any request made by the Committee in performing its mandate; and
  - c) Obtain legal or other independent professional advice, as it deems appropriate.



8. The Committee shall meet with the Director of OAI at least annually in a private session.
9. The Committee shall meet with the representatives of the BOA at least annually in a private session.

#### **Membership**

10. The Administrator shall appoint five members of the Committee. All members will be independent and external to UNDP.
11. In appointing members, the Administrator shall ensure that the Committee as a whole is made up of people with working knowledge and familiarity of finance, accounting, governance, internal audit and investigation, external audit, internal control and risk management practices and principles.
12. The Administrator shall designate a Chairperson from amongst the five members of the Committee. The terms of office for members shall be three years, renewable once.

#### **Remuneration**

13. Members will not be remunerated for activities undertaken in their capacity as members of the Committee.
14. UNDP will reimburse all committee members for any travel and subsistence costs that are necessarily incurred in relation to participation in Committee meetings.

#### **Secretariat**

15. The Associate Administrator will provide the Secretariat to the Committee. The Secretariat will convene meetings at the request of the Chairperson.

#### **Number and Organization of Meetings**

16. The Committee shall establish an annual programme of work.
17. The Committee shall normally meet at least four times a year at Headquarters. The Committee may meet in a regional setting, as it determines appropriate. The Chairperson, any member, the Administrator, the Associate Administrator, the Director OAI, and the BOA may request additional meetings. Meetings will normally be face to face, but where circumstances demand, meetings may be conducted virtually such as by video or teleconference.
18. The time and duration of a meeting will be scheduled to reflect the quantum of work and as decided by the Chairperson in consultation with members and the Administrator/Associate Administrator. Time will be allowed for any pre-briefing of the Committee by UNDP staff and the BOA, as the Committee shall deem appropriate.

19. The Chairperson, in consultation with the members, will prepare a provisional agenda, which will be circulated by the Secretariat together with all supporting documents, (including any proposed presentations by staff invited to brief the Committee) one week prior to the relevant meeting.

20. The BOA may also submit documents.

21. Members of the Committee shall normally be given at least 21 days notice of meetings.

#### **Attendance**

22. All meetings of the Committee at Headquarters will be attended by the Associate Administrator or his/her representative and by the Director of OAI or his/her representative, Chief Finance Officer or his/her representative, Director of the Bureau of Management or his/her representative. Other UNDP staff may attend at the invitation of the Chairperson.

23. If the Chairperson designated by the Administrator is not present at a meeting, the members will elect an acting Chairperson from amongst the members present.

#### **Quorum**

24. Any three members present, in person or virtually, shall constitute a quorum. An alternate cannot represent a member.

25. It is expected that members will be present for meetings in person. Exceptionally, members may attend meetings by video or teleconference.

#### **Disclosure of Interest**

26. All members of the Committee shall sign a statement of disclosure of interest. In order to avoid any appearance of doubt, members shall consult the Director, Office of Ethics, prior to any meeting at which they expect to raise any potential conflict of interest and to inform the Chairperson and Administrator of the outcome of such consultation. A register of interests will be maintained by the Secretariat to record members' interests in general or on specific matters. Where an actual or potential conflict of interest arises, the interest will be declared and will cause the member(s) to be excused from the discussion and abstain from voting on the matter. In such an event, a quorum will be required from the remaining members.

#### **Voting**

27. The Committee's decisions will be made by the members present (including by video or teleconference) by voting and based on a simple majority. Should the votes be equally divided, the Chairperson shall have the casting vote. However, as the desired option, the Committee should strive to achieve decisions on a consensus basis of all members attending the meeting.

#### Minutes

28. The Secretariat will prepare and keep minutes of all meetings. The Committee shall approve the minutes by correspondence within a month of each meeting.

#### Self-Assessment and Reporting

29. The Chairperson will interact regularly with the Administrator/Associate Administrator on the results of the Committee deliberations as well as on forthcoming issues relevant to its business.

30. The Committee shall perform from time to time a self-assessment relative to the Committee's purpose, duties, and responsibilities outlined herein and also review its TOR to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Administrator for approval.

31. The Committee shall prepare a report on its work for the previous calendar year for presentation to the Administrator by 31 March of every year. The report will be made available to the Executive Board at its annual session. Upon request, the Chairperson shall present this report.

#### Confidentiality

32. All members of the Committee shall sign a statement of confidentiality on first appointment.

33. The deliberations of the Committee and the minutes of the meetings are confidential unless otherwise decided. The documents and informational material circulated for the consideration of the Committee shall be used solely for that purpose and treated as confidential.

#### Indemnity of Members

34. Committee members will be indemnified from actions taken against them as a result of activities performed in the course of exercising their responsibilities as members of the Committee, as long as such activities are performed in good faith and with due diligence.



Approved: \_\_\_\_\_  
Helen Clark, Administrator

8/3/11  
Date: \_\_\_\_\_