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  - The responsibilities of the AEAC in relation to the United Nations Board of Auditors (UNBOA), and
  - Conclusion and 2017 Work Plan,

### A. INTRODUCTION

2. This report covers the work of the Audit and Evaluation Advisory Committee (AEAC) of the United Nations Development Programme (UNDP) for the calendar year 2016.
3. The AEAC is composed of members who are external to UNDP, and are therefore independent from UNDP including its administration and management. All of the members of the AEAC have individually declared that they had no conflicts of interest at the start of each pre-meeting briefing session.

The members are:

- Ms. Sheila Fraser (Canada) as Chairperson,
  - Ms. Ellen Yaffe (USA),
  - Mr. Jayantilal Karia (Uganda),
  - Mr. Fayezul Choudhury (United Kingdom/Bangladesh),
  - Mr. Antoine Antoun (France/Lebanon),
  - Mr. Ryokichi Hirono (Japan), new member effective 21 November 2016, and
  - Ms. Mallika Samaranayake (Sri Lanka), new member effective 21 November 2016.
4. The AEAC is very appreciative of the support and cooperation it received from UNDP and its offices during this past year. The presentations and briefings to the AEAC were of the highest quality, reflecting a great deal of thought and attention. The AEAC also appreciated the dialogue on key issues during briefing sessions and in formal meetings.

### B. TERMS OF REFERENCE

5. The AEAC operates under a revised TOR (attached) approved by the Administrator on 10 June 2016. As required, the AEAC reviewed its TOR and considered updates to ensure that the AEAC remains in line with best practices and reflects the changing environment in which UNDP operates. The AEAC has already incorporated changes that reflect its expansion to also cover the activities of the Independent Evaluation Office, the Ethics Office, and the UN Capital Development Fund (UNCDF), an affiliate of UNDP.

### C. SUMMARY OF AEAC ADVICE

6. During the year, the AEAC met three times and reviewed issues encompassing management matters, such as the new service delivery model of UNDP as well as new structure for the country offices, procurement, financial management, human resources, information and communication technology management, and regional bureau operations, and internal and external oversight activities. Comments and advice provided were assessed as needed. The key comments are reflected in this document.

### D. ADVICE RELATED TO UNDP MANAGEMENT

#### *Bureau for Management Services*

7. The AEAC was very pleased to acknowledge that UNDP ranked as the most transparent aid organization (per

the International Aid Transparency Index) for the second year.

8. The AEAC was briefed on the restructuring of the then Bureau of Management (currently Bureau for Management Services, or BMS) and in particular took note of the department created for new business to clarify the distinction between ongoing operations and new business. The AEAC also took note of a pilot project in the region of Asia and the Pacific, which was aimed at creating a risk reserve at the regional level. The AEAC encouraged management to ensure criteria are developed for maintaining an appropriate level of risk reserves and their utilization.
9. Several developments were presented, such as the budget and implementation rate, areas where processes and procedures can be improved ('choke points'), business ownership was clarified for eight major processes, KPIs were developed for certain services, and new systems such as e-recruitment and e-tendering were being deployed. The AEAC would appreciate an outline of the integration and rationalization of all initiatives presented, resources required, and timelines for their implementation, to ensure that the initiatives and projects can be completed within an appropriate timeframe.
10. Mr. Shah, Deputy Assistant Administrator, Deputy Director and Chief Financial Officer, BMS presented the risk management framework and various actions proposed to strengthen controls and mitigate fraud. The AEAC appreciated the presentation and took note. In response to the risk management framework, Mr. Wandel noted the relation with the reform aspect. Due respect should be given to prioritization, taking into account political and legal changes in major donor countries and institutions such as Canada and the European Union.

### ***Financial management***

#### *On financial situation and resource mobilization*

11. The AEAC was updated on the 2016 funding situation and the continued decline in core resources. The AEAC took note that the overall funding is sufficient to sustain the organization. The AEAC was briefed on the creation of four funding windows that replaced the thematic trust funds utilized earlier, and it encouraged UNDP management to strengthen the funding for thematic windows.
12. The independent review of cost recovery activities was presented. On Treasury functions, the current economic environment was discussed (fluctuations in the exchange rates, interest rates), and the AEAC noted that After Service Health Insurance (ASHI) is now funded for 65 percent. The AEAC also reviewed the seven top audit-related management priorities.

#### *On budget*

13. The AEAC received a presentation on the new approach to planning and budgeting effective 2017. The AEAC noted the fundamental change where country offices will no longer retain 75 percent of cost recoveries. The new approach in cost recoveries as well as the consolidation of XB risk reserves should result in the better resource utilization. The issue has been discussed for several years and the AEAC is pleased to note the increased transparency and alignment with UNDP's strategic objectives. Management is cautioned to be on alert for any unintended consequences, in particular effects that may result due to changes in incentives for regional resource mobilization.

### ***Financial Statements***

#### *UNDP*

14. The AEAC was pleased to note that the Office of Financial Resources Management had submitted their financial statements one week earlier than in 2015, and had successfully introduced new supporting software. The AEAC also noted the complete transition to IPSAS, the decrease of the number and value of prior period adjustments, and the establishment and use of a materiality level for the financial statements of this year.
15. The AEAC congratulated Mr. Shah and staff on the early completion of the financial statement exercise of UNDP and UNCDF. The AEAC reviewed the final draft and the statements of unadjusted errors, which amounted to \$180,000 for UNDP and to \$293,000 for UNCDF. The unadjusted errors were not material and corrected in

2016. A root cause analysis of prior period adjustments identified the errors in the accounting for capital assets. Mitigating actions such as communications improvements as well as a new attestation requirement for the heads of offices have been implemented. The AEAC noted that there were no more prior-year adjustments for the year.

#### *UNCDF*

16. During the first meeting with UNCDF senior management, an overview of the UNCDF mission and operations was presented. The AEAC reviewed the financial statements of UNCDF, and was pleased to note that its suggestions were implemented.
17. The AEAC was briefed on UNCDF's mandate, strategic plans and programmes, which was valuable for the committee's review of UNCDF's financial statements. The AEAC noted:
  - In 2014 OAI produced 10 recommendations for the UNCDF, all of which have been closed,
  - IEO, in accordance with the Evaluation Policy, will be offering methodological guidance and assessment of the evaluation function in UNCDF (and UNV), and
  - The AEAC was informed that the evaluations of UNCDF will be added to the decentralized evaluations of the evaluation function.

#### *Procurement*

18. The AEAC noted that the ownership of procurement oversight could be improved which would also improve the corporate control on procurement. The AEAC noted with concern, given the significant risks involved, the lack of progress in this area. A number of suggestions have been advanced over many years, and some action has been taken, but the number of investigations related to procurement continues to increase. The AEAC urged UNDP senior management to develop an action plan to address the recurring issues in procurement.
19. The AEAC was informed on the actions to strengthen controls over the travel system and e-tendering. It noted with interest that in two country offices UNDP has assumed the procurement activities of major governmental projects. There was concern on the offices' capacity, the existence of an exit plan and the capacity-building of government partners in these cases. Management is encouraged to ensure that there is sufficient capacity, appropriate controls, supervision, and contract management of such types of projects given the significant increase in procurement volume.
20. With concern, given its considerable risk, the AEAC noted the lack of progress in strengthening vendor management. The AEAC engaged in a conversation on the audit of vendor management conducted by OAI, which resulted in an unsatisfactory rating. The audit addressed the effectiveness of the Vendor Review Committee in 2015, and reported on the existence of over 480,000 vendors in the UNDP database, which are often multiple entries for the same suppliers. BMS acknowledged that the implementation of actions previously communicated to the AEAC have been delayed, recognizing that UNDP operates in decentralized and some high risk environments. BMS referred to the anti-fraud policy being developed that would assist in mitigating risks in vendor management.
21. During 2017, the AEAC will actively monitor the implementation of its advice regarding procurement risks.

#### *Human Resources*

22. On human resources-related matters, the AEAC was pleased to note that most of the long-outstanding recommendations have been implemented. The AEAC reiterated its previous advice to track the impact of changes to benefits on recruitment and retention.

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

23. The AEAC discussed the issue of a data breach that occurred in the Global Services Centre in Kuala Lumpur. The breach exposed confidential financial information of a large number of payees. UNDP had not adequately recognized that the information can be accessed by a large number of employees. The AEAC was pleased to note that reviews conducted by BMS and OAI concluded that management had responded appropriately to the incident; however, information management needs to be strengthened. The AEAC encouraged management to take the steps necessary to restrict access and increase employee training in this area. A broader review of

sensitive information and the related security measures should be undertaken. The AEAC also recommended to review the number of individuals with access rights, and their ability to download data and to transmit it externally. Appropriate control procedures should be implemented, including notifications of inappropriate downloads [ref: Dec para 18h].

24. The AEAC was informed by ICT, on the responsibility for information management including data management, record keeping, privacy, etc. It noted that responsibilities regarding the establishment of policies and frameworks are not clearly defined. The AEAC recommended that UNDP consider establishing the position of Chief Information Officer, with the responsibility for information management policies and procedures (including data management, retention, security, etc.). The AEAC was informed on the UNDP Digital Agenda for 2017 focusing on addressing systemic inefficiencies and obsolete applications. Regarding Atlas ERP, the AEAC noted its ageing and the need to plan for a renewal. The AEAC encourages management to develop a funding plan for the renewal of the ERP and to consult with other agencies in addressing funding requirements [ref: Dec para 18 h].

#### ***United Nations Office for South-South Cooperation***

25. Following up on the OAI audit of the Office for South-South Cooperation (UNOSSC), the actions undertaken and underway to address the issues raised were outlined by its new senior management. The AEAC was pleased to note and recognized that management is addressing the recommendations raised [Apr para 18]. Mr. Chediek, Envoy of the Secretary-General on South-South Cooperation and Director, UNOSSC, provided an overview of the activities of UNOSSC, and focused on the audit that took place in November 2015, after a request by UNOSSC's new senior management. The AEAC was pleased to note that out of the 16 recommendations raised in the audit report, only 3 remain outstanding. OAI will conduct a follow-up audit in early 2017. The AEAC encourages the management of UNOSSC to resolve issues as soon as possible, given the potential reputational risk associated.

#### ***Results Based Management***

26. The AEAC took note of the work being carried out by the Bureau for Policy and Programme Support to improve Results Based Management practices in UNDP as well as to address the audit recommendations. The OAI audit of Results Based Management was rated as satisfactory.

#### ***Regional Bureau for Arab States***

27. The Bureau presented a comprehensive strategic and operational overview of its activities and developments, with reference also to the recent performance audit by OAI, Mr. Ghrib, Chief, Headquarters Audit Section, briefed the AEAC on the results of the audit. The AEAC noted the following:
  - The AEAC acknowledged that 50 percent of the countries are in conflict, the emerging extremism, the large unemployment rate and the issue of women's rights, as well as the migration and displacement challenges that impede development in the region. The AEAC noted the programmatic priorities of the Bureau, and in particular the development of effective and innovative partnerships, as well as the organizational challenges in addressing the reduction in core resources (\$11 million in funding reduction of \$80 million requested). The inherent increase in safety and security hazards were noted with concern.
  - The AEAC noted the satisfactory rating of the recent OAI audit, and that the Bureau was effectively carrying out its key functions, taking into consideration the challenges such as the geopolitical constraints. The recommendation raised on filling vacant positions as a result of the restructuring was noted, and the AEAC acknowledges the challenges in its implementation. The AEAC encouraged the Bureau to implement the recommendation raised regarding monitoring and oversight of the regional programme and project activities, as well as to improve its contribution to the UN reform and coordination efforts in the region.

### **E. ADVICE RELATED TO THE OFFICE OF AUDIT AND INVESTIGATIONS**

#### ***Work plan and resources***

28. The AEAC was briefed on OAI's 2015 annual report, the quarterly progress reports and the 2015 post client survey report. On the annual report, the AEAC noted the two recurring issues on procurement and on the long-outstanding recommendations. On the post audit client surveys for 2015, the AEAC was pleased to note that the

results were satisfactory. On OAI budget and staffing, the AEAC noted the reduction for 2016 by 4 percent, which led OAI to reduce consulting and other expenses.

29. On the OAI audit opinion, following the Executive Board decision in 2015, the AEAC noted that OAI provided a partially satisfactory audit opinion on the adequacy and effectiveness of the UNDP governance, risk management and control framework. The AEAC discussed the approach and criteria used to develop the opinion.
30. The OAI progress report for the first, second and third quarters were reviewed. Performance indicators for internal audit and investigations were generally favorable [ref: June Para 7(a)]. On the OAI progress report for the third quarter, all performance measures were satisfactory, or expected to meet their targets by year-end.
31. On OAI budget and staffing - The Investigations Unit is dealing with a large number of cases, roughly 18 per investigator, in spite of a decrease in reported cases so far this year (following a record intake in 2015 with high carry-over into 2016). The AEAC was concerned to note that the number of investigation cases per investigator remained very high (18 per investigator) and that two investigator posts were vacant due to budget constraints. The AEAC was informed that a modest increase in budget for 2017 had been proposed and OAI hopes that adequate budgetary resources will be provided at the beginning of the year for timely recruitment. OAI was encouraged to look into the possibility of the assignment of investigation cases based on complexities, i.e. to explore whether specialized resources could result in a higher number of cases addressed.
32. On investigation matters, the AEAC took note of the progress made in addressing the 11 recommendations of the external review carried out last year. The current caseload of approximately 18 per investigator was expected to remain high.
33. On the work plan for the coming year, the AEAC noted the number of audits scheduled (106) to cover the variety of UNDP operations, comparable to the 2016 plan.
34. The AEAC noted the upcoming change in the rating system of audit engagements undertaken by OAI, which is the transition from the three-tier (satisfactory, partially satisfactory and unsatisfactory) to a four-tier rating (satisfactory, partially satisfactory/some improvement needed, partially satisfactory/major improvement needed, and unsatisfactory). The AEAC noted that this was the outcome of the UN-RIAS deliberations and that the same rating is used by UNOPS and UNFPA.

#### ***Quality assessments***

35. A quality control self-assessment conducted by OAI resulted in a rating of “generally conforms” to IIA standards. Certain areas for improvement were noted and presented to the AEAC. An external review is planned for 2017. The AEAC encouraged OAI to seek the services of an external reviewer who can provide value by sharing information on best practices and emerging areas for consideration. OAI invited a member of the AEAC to participate in the selection of the reviewer, in order to avoid the perception of a conflict of interest.

#### ***Audit monitoring of management actions***

36. On long-outstanding recommendations – The AEAC was pleased to note that the number had significantly decreased since 31 March 2016 from 69 to 18 as of May 2016.
37. The AEAC discussed the analysis of recurring issues in the audits, notably in the area of project management. OAI was encouraged to attempt to identify the underlying cause of the issues, such as human resources skills, training and/or tools. The Associate Administrator in referring to the long-outstanding recommendations, confirmed the commitment of senior management to eliminate to the extent possible such recommendations through close and thorough monitoring of their implementation.
38. Mr. Wandel, Assistant Administrator and Director, BMS presented a review on the status of recommendations and advice that the AEAC made to BMS in 2016. The following were noted:
  - The AEAC was pleased to see the attention paid to the management of the vendor database. However, the number of duplicate payees and duplicate bank accounts is high,
  - The AEAC notes the limited progress on other action items that management had proposed in response to the AEAC recommendations. In particular, the action item concerning the involvement of BMS in the

appointment of officials in the country and regional offices with fiduciary responsibilities as well as officers performing critical administrative functions, such as finance, procurement and HR, and

- On key indicators, the AEAC noted one area requiring further development as the costing of services provided to others. There was no specific action currently planned on the issue.

39. In accordance with its TOR, the AEAC held a private meeting with the Director, OAI immediately after the briefing session on OAI matters.

## **F. ADVICE RELATED TO OTHER INTERNAL OVERSIGHT OFFICES**

### *Ethics Office*

40. The AEAC met with Mr. Liria and took note of the following:
- The AEAC was informed that the Ethics Office participation in OPG meetings together with OAI and the IEO had resumed, and that there is better coordination among the Ethics Office, OAI, the Ombudsman, the Staff Counsel, and OHR.
  - There was a discussion on the financial disclosure practices and only a very few had not the AEAC congratulated the Office on the fact that the 2015 Programme had been completed in record time. been completed to date.
  - Ethics refresher training is now mandatory, and the previous issue regarding contractor access to mandatory ethics training has been resolved.
  - The AEAC discussed the recommendation by the Ethics Office, which remained outstanding since 2013, with respect to guidance required for secondments, special leaves and loaned personnel arrangements; it has since been addressed by management,
  - The AEAC continued to be impressed by the various activities undertaken by the Director and his office to promote ethics in UNDP, including training and educational materials, and
  - The mandate of the Ethics Office includes contractors in the scope of investigations of retaliation.
41. The AEAC was impressed by the volume of work the Ethics Office produces, in spite of very limited resources. The AEAC was extremely pleased to see that the Ethics Office met or exceeded nearly all of its objectives for 2016, despite having been a very ambitious plan. The AEAC continued to impress upon management the need to address the staffing issues faced by the Ethics Office and encouraged management to assist in lobbying for either a JPO or a UN Volunteer to assist the Ethics Office.
42. The AEAC took note that despite the small number of Ethics staff, the office reviewed a large number of financial disclosures (approximately 1,400), and all issues were resolved earlier than ever before in the history of the office. The AEAC also commended the Ethics Office in reinstating the verification procedure following the hiring of the new Ethics Adviser.
43. The AEAC also noted the very good working relationship of the Ethics Office enjoys with the Ombudsman, OAI and management (e.g., Legal, OHR, Finance etc.).
44. In accordance with its TOR, the AEAC held a private meeting with the Director, Ethics Office immediately after the briefing session on Ethics Office matters.

### *Independent Evaluation Office*

45. The AEAC met with Mr. Naidoo and took note of the following:
- There was a briefing on the 2015 annual report and the various types of evaluations carried out, in particular decentralized versus thematic.
  - There was a briefing on the External Evaluation Advisory Panel, which is perceived as useful and also provides a peer review function.
  - The AEAC noted the public presentation of country evaluations, with UNDP being the only organization to follow such a practice.

- The emphasis of the IEO during the reporting period was on methodology development and process. However, implementation was limited due to inadequacies in human resources.
- The new policy on evaluations has clarified the independence of the IEO, and
- All staff are certified evaluators.

46. The AEAC was pleased to note that in spite of budget constraints, the IEO was able to respond effectively to a growing demand for national evaluation capacity development in programme countries. The AEAC was informed that staff members are working beyond capacity for extended periods of time to provide adequate coverage of evaluation. While it has introduced efficiencies in its outputs, in order to achieve the IEO plan to extend coverage in the future, a modest increase in capacity has been proposed for 2017.
47. In accordance with its TOR, the AEAC held a private meeting with the Director, IEO, immediately after the briefing session on evaluation matters.

#### *Joint Institutional Effectiveness Assessment*

48. The AEAC was pleased to note the first joint effort of OAI and the IEO that provides a more holistic appreciation of institutional effectiveness. This practice is encouraged, following the identification of common areas based on the risk assessment processes applied by the two units. On the draft conclusions of the assessment, the draft report indicated that while there were signs of improvement in the quality of UNDP programmes, additional efforts and investments are required to strengthen capacity. Leadership is needed to further develop a culture of results-based management throughout the Organization.

#### **G. ADVICE TO EXTERNAL AUDITORS, UNITED NATIONS BOARD OF AUDITORS**

49. The AEAC met with the Director of External Audit of the UNBOA in 2016 and took note of the good working relationship between the UNBOA and UNDP management. The main areas of discussion were UNBOA's work plan and the audits of the 2015 and 2016 financial statements. The UNBOA confirmed to the AEAC that there was no impairment in the independence of the External Auditors and no scope limitation. The AEAC advised the auditors: (a) to use a risk-based approach in, the audit of the 2016 Financial Statements, other thematic areas, and in assessing and closing long-outstanding audit recommendations; and (b) to adopt a new audit report per the template issued by the International Auditing and Assurance Standards Board.
50. The AEAC noted that the UNBOA will adopt the new form of audit report, as per International Standards on Auditing; however, the report will not include Key Audit Matters at this time. The AEAC will follow this issue and after reviewing the 2016 long form report, it may provide advice for coming years. The UNBOA was encouraged to provide the AEAC with an example of the new audit report, and to include more references to the major risks assessed and how these are covered during the audit.

#### **H. Conclusion and 2017 Work Plan**

51. During 2016, the AEAC was able to carry out its mandate of providing advice to UNDP senior management on various areas. It will work in consultation with the Administrator, the Associate Administrator, UNDP senior management, UNDP's external auditors, and the UNBOA. It will continue to review the financial stability of UNDP and will continue to provide advice to promote proper governance including high ethical standards, risk management and control systems and accountability in UNDP in 2017. The AEAC will also closely monitor the implementation status of the aggregate recommendations and advice provided to UNDP management in the past, and will adjust its work plan for 2017 accordingly.