



**Audit and Evaluation Advisory Committee
2020 Annual Report
(DP/2020/16 - Appendix)**

TABLE OF CONTENTS

A.	INTRODUCTION	1
B.	OVERSIGHT UNDERTAKEN IN 2020 AND OVERALL ASSESSMENT.....	1
C.	DETAILS OF AEAC ACTIVITIES AND ADVICE PROVIDED	2
C.1	<i>UNDP PROCESSES AND BUSINESS UNITS</i>	2
C.2	<i>INTERNAL AND EXTERNAL OVERSIGHT OFFICES</i>	4
D.	WORK PLAN FOR 2021	6
E.	COMPOSITION AND OPERATION OF THE AEAC.....	6



A. INTRODUCTION

1. In reference to Executive Board Decision (DP/2008/16/Rev.1), this annual report is prepared covering the activities of the Audit and Evaluation Advisory Committee (AEAC or the Committee) from 1 January to 31 December 2020.
2. The Committee operates under the expanded Terms of Reference approved by the Administrator in 2016. The approved Terms of Reference mandated the Committee to assist the UNDP Administrator in fulfilling his/her responsibilities regarding oversight, financial management and reporting, internal audit and investigation, external audit, risk management, the evaluation and ethics functions, and systems of internal control and accountability.
3. The Committee is composed of members with relevant skills and backgrounds who are external to UNDP and are therefore independent from UNDP, including its administration and management. All of the members of the AEAC individually declared that they had no conflicts of interest at the start of each pre-meeting briefing session.

The members of the Committee during calendar year 2020 were as follows:

- Mr. Fayezul Choudhury (Bangladesh/United Kingdom/United States), Chairperson
- Mr. Antoine Antoun (France/Lebanon)
- Mr. S. Ashish Bali (India/United States)
- Ms. Ana Maria Elorrieta (Argentina)
- Mr. Greg Johnson (New Zealand/Switzerland)
- Mr. Rakesh Nangia (India/United States)

B. OVERSIGHT UNDERTAKEN IN 2020 AND OVERALL ASSESSMENT

4. The strategic direction for UNDP in 2020 was largely shaped by the SDGs, the 2030 Agenda for Sustainable Development and the related UN Development System (UNDS) Reform initiated by the Secretary-General.
5. In 2020, the Committee held three remote meetings due to travel restrictions imposed by the COVID-19 pandemic (April, July, and November) to fulfill its mandate as specified in the approved Terms of Reference, in addition to teleconference calls as needed on specific technical issues.
6. The Committee confirms that within the constraints imposed by the pandemic it was able to carry out its mandate of providing oversight and advice to UNDP senior management satisfactorily and in accordance with its Terms of Reference. It held meetings with the UNDP Administrator and Associate Administrator a.i. It also held regular private sessions with the Directors of the Office of Audit and Investigations (OAI), the Independent Evaluation Office (IEO), the Ethics Office (EO), the UN Board of Auditors (UNBOA), and the Assistant Administrator and Director of the Bureau for Management Services and the Chief Finance Officer, and briefing sessions with functional managers, as relevant.
7. The Committee was very appreciative of the support and cooperation it received from the UNDP Executive Office, senior management and staff during this past year. The presentations and briefings to the Committee were of high quality, reflecting a great deal of thought and attention. The Committee also appreciated the candid and constructive dialogue on key issues during briefing sessions and in formal meetings.



C. DETAILS OF AEAC ACTIVITIES AND ADVICE PROVIDED

C.1 UNDP PROCESSES AND BUSINESS UNITS

UNDP and UNCDF financial statements

8. The Committee reviewed and discussed the 2019 financial statements of the United Nations Capital Development Fund (UNCDF) and UNDP and was pleased to note their timely preparation and good quality. In order to underscore that UNDP and UNCDF were separate organizational entities, the Committee noted that the financial statements of each were reviewed separately by the management of each organization, and that representatives of UNDP and UNCDF would each separately present their respective financial statements.
9. IPSAS 23 has been successfully implemented, and the subsequent events note had been revised to the satisfaction of the UNBOA.
10. The UNBOA auditors assessed the COVID-19 pandemic as a non-adjustable event and considered there to be no impact on the 2019 financial statements.
11. Fraud risk management was covered extensively within the UNBOA auditors' report. The Committee was satisfied that UNDP had a fraud risk management framework in place. However, both the Committee and UNDP management recognized further work was required to implement the framework.
12. The Committee discussed the internal control observations of UNBOA and noted management's acceptance of the recommendations made.
13. *The Committee was pleased that both statements received unmodified opinions from UNBOA and that both UNDP and UNCDF had incorporated suggestions made by the Committee.*

COVID-19 response

14. The Committee was informed that as a result of the lockdown, there was an immediate move to virtual management. This created complexities in maintaining oversight over a complex field-based operation.
15. Following an increase in the procurement of health products in response to the pandemic, the Committee suggested to closely monitor health procurement, since any issues arising in this area could lead to significant reputational risk.
16. The Committee was updated on the three priorities of UNDP to the COVID-19 response; Health Systems Support; Crisis Management; and Social and Economic Impact. It looks forward to receiving further information during the next meeting. The Committee was informed that UNDP had a comparative advantage with the current travel restrictions by having people on the ground in most countries to minimize service disruption.

UNDS Reform

17. The Committee was updated on the latest developments with regard to UNDS reform. It was informed about the methodology for the continued funding of the Resident Coordinator function and the scope of support for the UNDS reform.
18. *The Committee was impressed with the manner in which these challenges were addressed while at the same time delivering on an already ambitious work programme and internal initiatives to improve the efficiency and effectiveness of the organization. It requested that it be regularly updated on the status of implementation of UNDS Reform going forward, particularly as it affects the strategy, funding and work programmes of UNDP.*



Strategic Plan 2018–2021

19. The Committee discussed with UNDP senior management the overall progress on the achievement of the Strategic Plan 2018–2021.

Vendor management

20. The Committee continued to pay close attention to the disposition of cases before the Vendor Review Committee. The Vendor Review Committee Chair confirmed that the closure rate of cases was increasing, and that the caseload was being well managed. While progress has been made as a result of a new focus in this area, the Committee will continue to closely monitor the procedures, control and oversight of the procurement function.

Financial resources management

21. The Committee received regular updates regarding the financial position of UNDP in terms of revenue, status of collection of voluntary contributions and expenditure trends, as well as updates on Treasury activities.
22. The Committee noted that funding targets were being achieved, and the funding base remained relatively stable. The Committee agreed with management to not just focus on using resources but to pay close attention to the delivery of results.
23. The Committee was informed that an adjustment to the financial statements would need to be made relating to IPSAS 23. While the adjustment related to 2020, the Committee shared the view of management that for amounts below the materiality threshold, no prior year adjustment would be required.
24. The Committee noted that the uncertainty of the initial funding of the delinking and future financial support for the Resident Coordinator function impacted the availability of funds.

Risk management

25. The Committee was informed that the function of Chief Risk Officer as well as the Risk Committee had been created. There was now a system in place by which risks identified in Country Offices could be escalated to the Risk Committee. Further work was required in developing risk mitigation measures as well as creating a feedback loop.
26. The Committee took note of the framework for enterprise risk management, and the tools that have been developed to support its implementation. The framework could be further enhanced by addressing cultural issues in successive versions.
27. *The Committee welcomed progress on the establishment of an enterprise risk management system and looked forward to regular briefings on this topic as the process matures. It noted that a sustained management focus on risk management was key to embedding a consistent and appropriately directed risk culture across the organization.*

Bureau for Management Services

28. The Committee received regular briefings on the following: impact of COVID-19, shared services, financial resource management matters including cost recovery, IPSAS 23 update, procurement, budget process and an update on new enterprise resource planning system.
29. The Committee was pleased with the progress made regarding the clustering process. It looks forward to receiving information on the extent to which clustering has been adopted by country offices, including challenges and successes.



30. The Committee was pleased to hear that the procurement after action reviews to retrospectively assess the impact of the streamlining measures put in place in response to COVID-19 were ongoing.
31. The Committee received a briefing on the enterprise resource planning strategy and had received the strategy document. The enterprise resource planning strategy was expected to cost \$31 million and take over four years to implement. This estimate was somewhat lower than previous figures due to technology changes, making its implementation more cost effective.
32. *The Committee will continue to monitor progress on the various business process initiatives underway.*

Global Environment Facility matters

33. The Committee observed that the GEF audit raised broader issues in relation to implementing partners, which is included as an audit area within the OAI 2021 annual work plan. The Committee would review the final report and management response at future sessions.
34. The Committee reviewed the challenges that exist with the management of implementing partners. The discussion highlighted the need to strengthen this area particularly in the implementation of Harmonized Approach to Cash Transfers (HACT). The Committee noted challenges relating to the management of implementing partners.

C.2 INTERNAL AND EXTERNAL OVERSIGHT OFFICES

Office of Audit and Investigations (OAI)

35. The Committee was briefed at each meeting on the implementation of OAI's work plan and discussed progress against key performance indicators. The Committee also met, in private sessions, with the Director of OAI at each meeting.
36. The Committee discussed modifications to OAI's overall rating of UNDP as 'partially satisfactory/some improvement needed' in the annual report of OAI on audit and investigation activities in 2019. The Committee received briefings on the number, nature, and status of investigations. Financial irregularities and/or fraudulent conduct remained the largest group, and within this group procurement fraud represented the highest number of cases.
37. The Director of OAI explained that the COVID-19 pandemic had increased both programmatic and operational risks within UNDP. He confirmed that OAI was still able to deliver by relying more on electronic information.
38. The Committee reviewed OAI's 2021 annual work plan prior to its submission to the Administrator. OAI planned to conduct approximately 92 audits and to continue investigating all credible allegations of misconduct. The audit plan included work on implementing partners, procurement, enterprise risk management and Information and Communication Technology.
39. *Overall, the Committee was impressed with the professionalism of OAI leadership and staff and satisfied with the scope, coverage and implementation of the 2020 work plan. Management's responses to audit findings has generally been timely, with appropriate mechanisms to monitor the status of implementation of findings.*

Independent Evaluation Office (IEO)

40. The Committee was briefed at each meeting on the implementation of the 2020 work plan of the IEO and progress against key performance indicators. The Committee also met, in private sessions, with the Director of IEO at each meeting.
41. The Director of the IEO explained that while the number of evaluations was reduced in 2020 due the



exigencies of working under COVID-19 restrictions, the Office used the available resources to strengthen outreach training programmes and to update guidance for decentralized evaluations.

42. The Committee received information on the work plan for 2021 and noted the planned corporate evaluations, the status of the 2020 Independent Country Programme Evaluations and those planned for 2021, as well as capacity development activities.
43. The Committee was impressed with the direction being taken by IEO, with a focus on timeliness and adoption of digital technology. It was noted there were meaningful and effective interactions both with management and the Board. The Committee was pleased with the presentation on the reflection series.
44. The Committee noted that evaluation strategy was being developed and would include a strategy for building the strategy of national partners. The Committee looked forward to receiving further updates in this area.
45. The Committee was made aware of the intention to adjust the role of the external advisory panel to focus on methodical advice. Peer reviews would be used as quality control. The Committee considered it important that there be an independent assessment of the IEO going forward.
46. *Overall, the Committee was satisfied with the scope, coverage and implementation of the 2020 work plan and welcomed the focus on increasing efficiency. Management's responses to evaluation findings has generally been timely, with appropriate mechanisms to monitor the status of implementation of findings.*

Ethics Office

47. The Committee was briefed on the activities of the EO at each of its meetings during 2020, and also met in private sessions with the Director of the EO at each meeting. The Committee discussed work programme delivery, resource constraints and the manner in which they were being addressed. The Committee welcomed the reaffirmation by the Associate Administrator that the organization values the work of the EO, and assurances of continued support.
48. The Director of the EO informed the Committee that the Joint Inspection Unit would review the EO within the broader UN system. Observations were expected in 2021.
49. *Overall, the Committee was impressed by the professionalism of the EO leadership and staff and satisfied with the scope, coverage and implementation of the 2020 work plan, in particular given the limited resources available.*

UN Board of Auditors (UNBOA)

50. The Committee met the lead auditors from UNBOA. Over the course of the year, the risk-based audit plan, the accounting policies adopted by UNDP and UNCDF, the 2019 financial statements, and observations on internal controls were discussed.
51. In December 2020, UNBOA representatives gave a presentation to the Committee on identified risks and audit scope for 2021. The Committee was pleased with the broad audit scope proposed.
52. *The Committee was pleased with the professionalism and constructive engagement of the external auditors.*

Self-evaluation and management survey

53. The AEAC conducted a self-evaluation survey and a management survey for 2020. The results of the self-evaluation showed that the members overall assessed the functioning of the Committee as positive, members noted that the restriction due to virtual meetings and look forward to meeting in person again. The results of the management survey showed broad support for the work of the Committee.



D. WORK PLAN FOR 2021

54. The Committee will continue its work in consultation with the Administrator, the Associate Administrator, and UNDP senior management. In 2021, it will continue to review the progress of UNDS reform implementation and its impact on UNDP, and the implementation of the Strategic Plan 2018–2021. The Committee will also continue to provide advice to the Administrator on financial resources management and the oversight functions of internal audit and investigations, evaluation, ethics, and UNBOA. Lastly, the Committee will continue to provide advice to promote proper governance, including high ethical standards, risk management and control systems and accountability in UNDP in 2021.

E. COMPOSITION AND OPERATION OF THE AEAC

55. In 2020 two new members joined the Committee, Mr. Greg Johnson and Mr. Rakesh Nangia.
56. In recognizing the challenging environment due to COVID-19, the Chair and Mr. Antoun extended their availability for the November meeting in 2021 with the approval of the Administrator.
57. The Committee provided advice on the profile for new members of the Committee, in particular on the need to attract individuals with senior level management experience in a UN or international development organization.