



**United Nations Development Programme
Audit and Evaluation Advisory Committee
2022 Annual Report
(DP/2023/12 - Appendix)**

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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 2022.
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 investigations, external audit, risk management, evaluation and ethics functions, 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 (including United Nations Volunteers) and its operating environment, as well as one its affiliates, United Nations Capital Development Fund (UNCDF).
3. The Committee comprises members with relevant skills and backgrounds who are external to UNDP and are therefore independent of UNDP, including its administration and management. All the members of the AEAC individually declared that they had no conflicts of interest at the start of each pre-meeting briefing session.
4. The members of the Committee during the calendar year 2022 were as follows:
 - Mr. Fayezul Choudhury (Bangladesh/United Kingdom/United States), Chairperson
 - Mr. S. Ashish Bali (India/United States)
 - Ms. Ana Maria Elorrieta (Argentina)
 - Mr. Chris Hemus (United States /United Kingdom/South Africa)
 - Mr. Greg Johnson (New Zealand/ Switzerland)
 - Mr. Rakesh Nangia (USA/India)
 - Mr. Hock-Chye Ong (Malaysia)

B. OVERSIGHT UNDERTAKEN IN 2022 AND OVERALL ASSESSMENT

5. The strategic direction for UNDP in 2022 was primarily shaped by the SDGs, the 2030 Agenda for Sustainable Development. The Committee focused its activities and discussions with management on their understanding of the risks to be managed and plans to ensure the continuity of operations, delivery of work programmes and the accomplishment of initiatives to improve efficiency and effectiveness.
6. The Committee held regular private sessions with the Administrator, Associate Administrator, Directors of the Office of Audit and Investigations (OAI); the Independent Evaluation Office (IEO); the Ethics Office (EO); the UN Board of Auditors (UNBOA); the Executive Office; the Bureau for Management Services (BMS); and the Chief Financial Officer, and briefing sessions with functional managers, as relevant.
7. In 2022, the Committee held three, one virtual and two in-person, meetings (March, June, and November) to fulfil its mandate as specified in the approved Terms of Reference, in addition to a separate virtual meeting on a specific technical issue.
8. The Committee confirms that it was able to carry out its mandate of providing oversight and advice to UNDP senior management in accordance with its Terms of Reference. It held meetings with the UNDP Administrator and Associate Administrator. The Committee is discussing with Management on potential procedural improvements to ensure that it can systematically provide suggestions in a timely manner on policy formulation and policy review matters within the mandate of the AEAC.



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9. The Committee greatly appreciated the support and cooperation 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 constructive dialogue on key issues during briefing sessions and in formal meetings with the UNDP Administrator and Associate Administrator.

C. DETAILS OF AEAC ACTIVITIES AND ADVICE PROVIDED

C.1 UNDP PROCESSES AND BUSINESS UNITS

Executive Office Briefings

10. During the course of the year, the Committee was regularly briefed on broader global developments and within the UN system which impacted UNDP. UN Development System Reform was continuing, and UNDP actively participating in this endeavour. Overall funding uncertainties for the reformed system remain. Control and governance failures at UNOPS prompted deep reflection within the Executive Board on oversight modalities and avoidance of similar situations in the future. Global economic conditions and redeployment of development funding to new humanitarian crises created uncertainties in projecting funding patterns and programming requirements in the future. With regard to the issues at UNOPS, the Committee confirmed that Management had made an assessment as to whether the control weaknesses which had given rise to the problems at UNOPS were appropriately addressed within UNDP.

Strategic Plan 2022-2025

11. The Committee discussed with UNDP senior management the 100 days initiative of the Strategic Plan 2022–2025. It was regularly briefed on the action plan and its implementation and progress against the Strategic Plan.

UNDP and UNCDF financial statements

12. The Committee reviewed and discussed the 2021 financial statements of UNDP. The Committee noted that the UNDP draft financial statements were somewhat late compared to prior years. Management concurred on reviewing the year-end closing process to determine where the bottlenecks were and how timelines could be improved. This would be undertaken in the context of new financial systems implemented in early 2023. The Committee looks forward to this exercise so that in the future draft financial statements are prepared to timelines which enable adequate time for the review process, and which are consistent with reporting deadlines of organisations of UNDPs standing.
13. The Committee met with the outgoing UNBOA members from Germany and expressed their appreciation for their constructive engagement over their tenure. The Committee noted that UNDP and UNCDF statements received clean opinions from UNBOA.
14. The Committee also met with the incoming UNBOA members from France over the year, and was briefed on their comprehensive preparatory work and, subsequently their proposed audit plan. In the particular area of performance audits, the Committee was briefed by the UNBOA that it would look at management processes and the delinking of the Resident Coordinator system.

UNCDF business model

15. The Committee was briefed on the UNCDF's strategic plan. The Committee noted that the targeted growth, diversity of instruments and country coverage was very ambitious. It strongly urged that an appropriate risk



management strategy be in place, especially in the light of the UNOPS experience, to ensure a clear risk-based focus to plan implementation.

Global Environmental Facility (GEF)

16. A particular focus over the year related to the consequences of various control and governance failures arising in the use of a particular GEF-funded program. The Committee received detailed briefings on the status of the implementation of recommendations arising from various independent reviews and management reviews over the year.
17. The Committee noted that management had created a clear focus for coordinating these reviews and integrating the findings; it stressed that it was essential to identify the root causes of the issues identified and address them holistically. In addition, recommendations addressing weaknesses should consider the responsibilities to be assigned to staff, ensuring they have both the capacity and competence to fulfil the required tasks. The resource requirements required to adequately support donor requirements should also be assessed and discussed with funding partners. Management plan, subsequent to implementation of the various agreed actions, to take stock of their impact and effectiveness and the Committee strongly supports this planned approach.
18. The Committee strongly encouraged management to take the lessons learned from the GEF set of issues, as well as the OAI audit relating to implementing partners, and to develop a comprehensive approach to strengthening the risk management and control framework for all activities for which UNDP is the implementing partner, and/or works with the implementing partners.

Enterprise risk management

19. The Committee has observed the gradual implementation of the enterprise risk management system over the last five years. It looks forward to being briefed on how the various units charged with management or overseeing various aspects of risk, including alignment with the UNDP Risk Appetite Statement, will coordinate and interact to ensure a coherent and overarching approach to risk management and adjust where needed.

Financial resources management

20. The Committee was briefed on the funding outlook by the UNDP Office of Financial Management and acknowledged that the budget scenario of UNDP was quite challenging and the core and non-core projections for 2023 were sobering. UNDP 12-month reserves may provide a cushion, but it would only be short-term measure. The Committee took note of the scenario analyses under various funding assumptions.
21. The Committee noted the funding and budget pressures can lead to budget cuts and potentially cutting corners. Care needed to be taken to ensure that any budget reallocations did not undermine the accountability framework.

Bureau for Management Services (BMS)

22. The Committee received regular briefings on a broad range of BMS activities. Topics discussed included the new budget process, the new Human Resources strategy (People 2030), planned arrangements for return to the office, the current developments in the Treasury management, various improvements in the procurement function and workload status in the Vendor Review Committee, progress and plans for the clustering project, a deeper and more comprehensive approach to Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) issues , and cybersecurity.



Enterprise resource planning (ERP)

23. The Committee received regular briefings over the year on the implementation of the new ERP (Quantum) system. The Committee believed the planning and implementation activities were well-designed and thorough and supported the pushing back of planned implementation dates to ensure that identified issues had been appropriately resolved. The Committee noted that with any ERP implementation post-implementation issues always arose, and advised that contingency plans are in place to address this prospect.

Presentations by other offices

24. The Committee met and received briefings from the Bureau for Policy and Programme Support (BPPS) and the Bureau for External Relations and Advocacy (BERA) to better understand policies, processes and issues about UNDP programme and resource mobilization and the nature of their interaction with Regional Bureaus and Country Offices to provide broader background and context to the Committees work.

D. INTERNAL AND EXTERNAL OVERSIGHT OFFICES

Office of Audit and Investigations (OAI)

25. The Committee was briefed at each meeting on the implementation of OAI's work plan, progress against key performance indicators and audit reports of particular interest. The Committee was also briefed on the external quality assessment process of the internal audit activity. The Committee also met, in private sessions, with the Director of OAI at each meeting.
26. The Committee suggested including a short annotation indicating the reasons for long outstanding recommendations and for undertaking. A root-cause analysis to assess possible reasons giving rise to implementation delays. It also suggested a similar rating system for financial and compliance audits.
27. The Committee noted that in an environment of numerous process and control improvements identified through various internal and external reviews and audits, and of increasing donor requirements, UNDP should consider developing a combined assurance framework to clarify ownership of key business processes and their duties and responsibilities using the first, second and third lines of defense model.
28. The Committee noting that OAI does not have observer status on the Risk Committee and that establishing clear roles of the observer function would ensure the independence of OAI.
29. Regarding investigations, the Committee believed that while the investigation procedure was sound, with experienced staff managing heavy workloads, it also noted that the caseload could be unpredictable in terms of both volume and complexity of cases. The Committee suggested using benchmarks to determine whether resources are adequate compared to similar organisations.
30. The Committee was also informed of a proposal to management to consider whether an investigation of subjects under a UNDP contract but working for other agencies would be taken by the corresponding agency. This would significantly reduce the workload at the UNDP end.
31. The Committee also reviewed OAI's 2023 annual work plan before its submission to the Administrator. The Committee suggested a backwards-looking audit and a forward-looking audit approach. OAI will conduct audits, provide advisory services and continue investigating all credible misconduct allegations.



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32. Noting that the term of the current Director of OAI ends in January 2023, the Committee urged Management to establish a selection process for a new Director in a timely fashion so that continuity of leadership is maintained.

Independent Evaluation Office (IEO)

33. The Committee was briefed at each meeting on the implementation of the 2022 work plan of the IEO. The Committee also met, in private sessions, with the Director of IEO at each meeting.
34. The Committee received information on the work plan for 2023. It noted the status of the 2022 Independent Country Programme Evaluations and those planned for 2023, thematic audits, and capacity development activities. The Committee was pleased with the overall progress, including partnering on capacity building through the GEI. The Committee and IEO also discussed how learning from evaluations could be more effectively mainstreamed into ongoing operations.
35. The Committee was impressed by the more collaborative, holistic, and strategic approach to the evaluation being instituted by the Director of IEO, with publications and the communication strategy. The Committee appreciated the AIDA platform as a very useful tool.
36. In view of the importance of the procurement activity, the after-action review undertaken by Management, the independent compliance review undertaken by OAI and various other improvement initiatives the Committee suggested IEO to survey the work done to date to assess whether an independent evaluation related to procurement policy and process reforms would be useful.
37. There were discussions regarding the humanitarian/crisis response, and nexus of humanitarian and development, and how the transition is being made. There was also a discussion on decentralized evaluations and the nature of the difference between decentralized evaluations and independent assessments.
38. Overall, the Committee was satisfied with the scope, coverage, and implementation of the 2022 work plan. Management's responses to evaluation findings have generally been timely, with appropriate mechanisms to monitor the implementation status of findings.

Ethics Office (EO)

39. After the departure of Mr. Liria, the Committee appreciated the well-managed transition to the new Head of the Ethics Office. Stability had been maintained and a very forward-looking approach to and addressing emerging issues.
40. The Committee suggested a "joined-up approach" to the internal justice system with periodic formal information sharing and coordination meetings among the various groups (i.e. Ombudsman, Ethics Office, investigations, PSEA, HR, etc.). The Committee also suggested a consideration of the merits of conducting a culture audit/assessment of the organization.
41. Overall, the Committee was satisfied with the scope, coverage and implementation of the 2022 work plan within a tight resource envelope.

E. WORK PLAN FOR 2023

42. The Committee will continue its work in accordance with its Terms of Reference and in consultation with the Administrator, the Associate Administrator, and UNDP senior management. It will also work with Management



to ensure it reviews and comments on policy documents relating to the areas under its purview before they are finalized and approved.

F. COMPOSITION OF THE AEAC

43. The Administrator extended Mr. Rakesh Nangia's appointment term as AEAC member to October 2025. Three members of the Committee, including the Chair, will rotate off the Committee in the course of 2023.