United Nations Development Programme
Audit and Evaluation Advisory Committee
2023 Annual Report

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A. INTRODUCTION

1. In accordance with the Executive Board Decision (DP/2008/16/Rev.1), this annual report covers the activities of the Audit and Evaluation Advisory Committee (AEAC or the Committee) from 1 January to 31 December 2023.

2. The Committee operates under the updated terms of reference (ToR) approved by the Administrator in 2023. This updated ToR mandates that the Committee assist the UNDP Administrator in fulfilling organizational oversight, financial management and reporting, internal audit, investigation, evaluation and ethics functions, external audit, risk management, and internal control and accountability systems.

3. The main role of the Committee is to advise the Administrator, taking into consideration policies, rules, regulations and procedures applicable to UNDP (including United Nations Volunteers) and its operating environment, as well as its affiliate the United Nations Capital Development Fund (UNCDF).

4. The Committee comprises members with relevant skills and backgrounds who are external and independent to UNDP, including its administration and management. Each AEAC member declared they had no conflicts of interest at the start of each meeting briefing session.

5. Members of the Committee until June 2023 were:
   - Mr. Rakesh Nangia (United States/India), Chairperson
   - Mr. Fayeza Choudhury (Bangladesh/United Kingdom/United States) Until 30 April 2023
   - Mr. Ashish Bali (India/United States) Until 30 June 2023
   - Ms. Ana Maria Elorrieta (Argentina) Until 30 June 2023
   - Mr. Greg Johnson (New Zealand/Switzerland)
   - Mr. Chris Hemus (United States/United Kingdom/South Africa)
   - Dr. Hock-Chye Ong (Malaysia)

Three new members were appointed in November 2023 to replace the above outgoing members:
   - Dr. Nancy Onyango (Kenya/United Kingdom)
   - Ms. Caroline Najm (Canada)
   - Ms. Theresa Panuccio (United States)

B. OVERSIGHT UNDERTAKEN IN 2023

6. Strategic direction for UNDP in 2023 was primarily shaped by ongoing and emerging polycrises, the humanitarian-development-peace nexus, United Nations development system coordination and repositioning, and delivering on the 2030 Agenda for Sustainable Development and Sustainable Development Goal (SDG) commitments.

7. In 2023, the Committee focused its activities and discussions with UNDP senior management on priority issues based on their related understanding of UNDP risk management, organizational planning and processes to ensure a continuity of operations that improve organizational efficiency and effectiveness in achieving results.

8. The Committee held regular private sessions with the Administrator, Associate Administrator, Directors of the Office of Audit and Investigations (OAI), Independent Evaluation Office (IEO), Ethics Office, United Nations Board of Auditors (UNBoA), Executive Office, Bureau for Management Services (BMS), Chief Financial Officer, and briefing sessions with functional managers, as required.

9. In 2023, the Committee held three in-person meetings (March, June, and November) to fulfil its mandate as specified in the updated ToR.

10. AEAC members confirm meeting with the UNDP Administrator and Associate Administrator to discuss procedural improvements that ensure Committee recommendations on policy formulation and policy reviews
are made in an organized and timely manner. All advice and recommendations are in line with the AEAC mandate.

11. The Committee greatly appreciated cooperation and support from the UNDP Executive Office, senior management, staff, and members of the United Nations Office of Audit and Investigations—the latter acted as AEAC secretariat between January and July 2023. All presentations and briefings made to the Committee were evidence-driven, transparent, robust, and reflective. AEAC members also appreciated the private and thoughtful dialogues with the UNDP Administrator and Associate Administrator.

C. ORGANIZATIONAL MATTERS

12. By the end of 2023, three Committee vacancies were filled by new members — Ms. Caroline Najm, Dr. Nancy Onyango, and Ms. Theresa Panuccio — who brought new perspectives and expertise in risk management, audit and evaluation to the AEAC.

13. Committee meeting dates for 2024 were set: 2-5 April (New York); 1-5 July (Kuala Lumpur) and 12-15 November (New York).

14. The AEAC Chair acknowledged the multifaceted nature of the Committee's ongoing transition, which included the relocation of the secretariat, the introduction of new members, the inauguration of the new Chair, and briefings with UNDP and the United Nations Board of Auditors (UNBoA) that covered organizational performance issues. In order to facilitate a smooth transition for new members, the secretariat organized a virtual on-boarding session.

D. AEAC ACTIVITIES AND RECOMMENDATIONS

Executive Office

15. Despite a strong oversight architecture in UNDP, AEAC members asked management to rethink the UNDP approach to risk, oversight, and communication effectiveness with the Executive Board to ensure the oversight architecture remains “fit for purpose.” AEAC advised UNDP to continue progressing risk functions—architecture, anticipation, lines of defense, and identifying risks at an appropriate level of granularity—as a response.

16. In 2023, the outlook on non-core funding was more optimistic than in previous years. AEAC welcomed deliberations with senior management in the UNDP Executive Office and Bureau of External Relations and Advocacy (BERA) on addressing the UNDP funding base, particularly declining core funding and how UNDP leverages core resources, as well as re-examining the current financing philosophy. Ways forward included articulating a strategy for mobilizing resources from existing and potential partners and increasing engagement with international financial institutions (IFIs).

17. AEAC advised UNDP to clarify its overall business model by highlighting tangible and data-informed development results the organization has achieved through core funding. Determining the percentages of core funding essential to achieving these results will inform the UNDP strategic approach to resource mobilization.

18. Committee members suggested that the UNDP administration pay closer attention to the Global Shared Services Centre operations, noting that efficiencies can take time to fully realize benefits.

19. Updates on United Nations reform were shared with the Committee within the context of the situation involving the United Nations Office for Project Services (UNOPS) that impacted the governance environment in which UNDP operates.

20. The Committee recognized progress made with the Safer Tanker project (inclusive of CALM Buoy), and appreciated the way UNDP handled the situation in relation to political concerns and reputational risk. Moreover, AEAC members were pleased to learn the UNDP Administrator and United Nations Secretary-General had been actively and closely engaged in managing this project and associated reputational risks.
21. AEAC advised UNDP to communicate all processes linked to Safer Tanker and transparently document the entire process (e.g., transferring of oil) to better manage operations, external optics and expectations of key stakeholders. The suggested next steps are to carry out an assessment and elaborate responses in the Risk Committee.

22. Discussions also focused on the compounded challenges caused by polycrises in Ukraine and Gaza, delinking of the Resident Coordinator function, and complex UNDP financial architecture issues. AEAC members expressed concern over setbacks to advancing the SDGs and based on projected global economic slowdown, escalating debt, and rising costs of UNDP programming.

Strategic Plan 2022-2025

23. Senior management updates on UNDP Strategic Plan implementation and scaling positively resonated with AEAC members. Most notable was recognition of the organizational shift towards a portfolio approach in tandem with acknowledging inherent challenges associated with orchestrating this type of strategic evolution.

UNDP business model

24. AEAC members reflected on the UNDP business model, underscoring the significance of core financing, existing funding models, cost-effectiveness of activities, and roles of Bureau for Management Services (BMS) and Bureau for Policy and Programme Support (BPSS) in contributing to modeling cost structures.

25. The Committee asserted UNDP re-examine partnership objectives and structures with IFIs and, if feasible, the private sector, beyond mobilizing resources for programming to provide valuable support to governments.

26. AEAC suggested the Administrator and Associate Administrator consider convening a group of experts with an extensive understanding of UNDP and development operations to assist in examining cost structures, evaluating impact of activities, achieving development outcomes, and ensuring financial sustainability of the organization.

Enterprise risk management

27. The Committee was briefed on implementing the enterprise risk management system and how UNDP units worked together to ensure a coherent and overarching approach to managing risk across the organization.

28. The UNDP Associate Administrator shared progress with AEAC on the development of guidance documents and the launch of an external review of its Risk Committee. Additional refinement and clarification of UNDP guidance on risk management are forthcoming.

29. Committee members remarked that an internal audit presence at Risk Committee meetings would be helpful. This comes with a caveat, however, that they are not a party to final decisions. Currently, OAI does not participate in the Risk Committee and does not have access to meeting minutes.

30. The global environment is changing rapidly and current risks are different from the pre-COVID-19 pandemic period. Consultations between senior management and AEAC took place on fortifying the UNDP enterprise risk framework while clarifying roles and establishing accountability and ownership of business processes. As such, the Committee suggested the risk framework should enable a more granular approach to identify and mitigate risks, and enable adaptation, as needed.

31. AEAC appreciated constructive discussions on risk management and emphasized the need for UNDP to understand how risk registers at all levels, as well as integrate and channel risk into the corporate risk register. Doing so is crucial as UNDP continues to adopt a portfolio approach to programming to help determine how to allocate resources when managing risks.
32. Committee members underscored the importance of clarifying the value addition of the Risk Committee and encouraged UNDP senior management to better articulate links between top level risks and those at the country level.

33. The Committee noted Safer Tanker and DRC projects (both politically high risk) were not included on the Risk Committee agenda. This led to questions on the placement of issues on the Risk Committee agenda and need for continued maturation and enhancement of Risk Committee functions.

**Executive Office Corporate Performance Unit (CPU)**

34. CPU management briefed the Committee on ongoing initiatives: UNDP performance app (strategic management tool), Strategic Plan performance dashboard, and high-risk project definition exercise. Committee members welcomed these initiatives, the high-risk project definition exercise, in particular will be useful in supplementing the UNDP risk appetite statement and bringing focus to the project level.

35. The Committee acknowledged the CPU has ongoing initiatives that act as important monitoring tools for the Administrator and Associate Administrator. Despite this, the Unit looks at high-risk projects in a broad manner and does not yet distill risks at a granular level.

**UNDP and UNCDF financial statements**

36. AEAC discussions in June included a review of the Financial Statements of both UNDP and UNCDF. Particular attention was given to the audit adjustments required during the final preparation process.

37. Both UNDP and UNCDF received unqualified opinions on audits of their respective financial statements.

**UNCDF business model**

38. The Committee was briefed on UNCDF developments and noted that ongoing uncertainties on administration, management, material adjustments and resource mobilization have constrained momentum in achieving the strategic plan objectives.

39. AEAC members agreed that the widespread impact of temporary arrangements within UNCDF management had affected staff morale and core contributions. They suggested these issues should be urgently resolved.

40. The Committee welcomed the OAI audit report that highlighted key challenges and acknowledged the UNCDF acceptance of report recommendations. AEAC outlined the existing, solid foundation for implementing recommendations within an ambitious timeline and reiterated its expectation of seeing a detailed action plan from UNCDF that addresses OAI audit recommendations at each future session.

**Bureau for Management Services (BMS) – Budget and Treasury**

41. The AEAC appreciated the budget formulation process completed in December. Members discussed the budget cuts and incorporation of zero-based budgeting principles alongside challenges of comprehensive implementation. The consensus was that UNDP should explore incorporating elements of zero-based budgeting and explicitly link performance-based allocations to corporate priorities to enhance systems efficiency.

42. Although UNDP has strong reserves and a cushion of cash to rely on in the short term, AEAC recognized that scenario analyses are needed to reevaluate current funding models and use of resource allocation planning tools.

43. It was noted that UNDP works with a large network of banks (140), which informs ongoing work to create a master banking agreement. The Committee suggested UNDP consider which banking partners to onboard to find alternative solutions as was effectively seen in Afghanistan. Rationalizing and streamlining banking arrangements may lead to better service, fewer risks and, in the case of AML-CFT, more effective controls.
44. AEAC appreciated early engagement on the new revenue recognition standard (IPSAS 47) that will become effective in January 2026. While the adoption of new revenue recognition standards may alter certain ratios, Committee members emphasized these changes should not be a fundamental cause for concern and UNDP Management take proactive steps to effectively prepare for, and communicate, changes.

45. The BMS Treasury briefed the AEAC on performance and the UNDP portfolio. Members requested additional details about the Investment Committee that the Associate Administrator agreed to share given its significance in enabling AEAC to provide informed guidance.

46. During the BMS Treasury briefing the Committee learned that UNDP made good returns on fixed income as driven by market conditions and that these should continue throughout 2023. Investment duration had gone up to 16 months, which is below the five-year permitted threshold and, as such, should be monitored closely. Recent developments in the global banking sector that are being scrutinized do not pose a specific risk to UNDP.

47. In discussions with BMS Treasury, AEAC members noted that UNDP manages not only its own After-Service Health Insurance (ASHI) portfolio, but also the financial assets of other United Nations organizations. The Committee considered the asset split of 60 per cent equity and 40 per cent debt to be conservative and suggested there may be an opportunity for improved returns over the long term by optimizing investment strategies.

**Bureau for Management Services Enterprise Resource Planning (ERP) and Human Resources**

48. The Committee received regular briefings on the implementation of the new ERP system (Quantum) and acknowledged the challenges UNDP has faced since its full adoption in early 2023. Members expressed appreciation for BMS updates on Quantum-related progress and workstreams. AEAC was informed of tools in place for tracking and resolving issues — BMS informed that were operating effectively.

49. The ERP team reported that Quantum has achieved a good level of stability after a year with UNDP making concerted efforts to ensure cost-effectiveness in delivering the system. The Committee noted this reflects a strategic approach to resource management.

50. AEAC observed positive changes, which are attributed to Quantum and include increased user discipline in handling transactions. Committee members suggested applying lessons learned in the current Quantum roll-out in its continued implementation and future implementation of Quantum+.

51. The successful financial close and subsequent preparation of annual financial statements remain crucial milestones for Quantum. AEAC remarked that realizing these goals and continuing to refine and enforce donor reporting, are areas of risk that demand vigilant oversight from management. The Committee recommended that QUANTUM implementation continue to be an area of management focus until full functionality and reporting are available.

52. Progress shared by UNDP Human Resources management on the ‘People for 2030’ strategy was noted, including the focus on gender parity, diversity, equity and inclusion (DEI), lateral transfers, on-boarding and career development. AEAC members took note of the new UNDP staff survey through OHR (Glint) that noted improved response rates, increased frequency, and rapid turnaround in analyzing and sharing results.

53. AEAC members noted the variance in staff engagement ratings amongst different departments. They commended the ongoing work of BMS Human Resources to use AI to analyze respondent’s qualitative comments to garner meaningful insights.

54. The Committee emphasized the credibility of future Glint surveys hinges on proactive responses from UNDP management to current survey results. Management noted that targeted interventions informed by survey findings often led to significant improvements in staff engagement. UNDP senior management is encouraged to analyze and take concrete actions based on survey results thoroughly, and the Committee underscored the importance of leveraging insights for organizational enhancement.
55. AEAC members responded positively to concerted progress on real estate and mobility policies, and evidence on the successful integration of digital solutions into UNDP activities. They emphasized the need for maintaining discipline in aligning processes with system requirements and discourage creating manual workarounds when adopting new systems. Doing so can foster a streamlined and efficient integration of new technologies within UNDP.

E. INTERNAL AND EXTERNAL OVERSIGHT OFFICES

Office of Audit and Investigations (OAI)

56. The Committee was briefed at each meeting by the Director of OAI on the implementation of the office work plan, progress against key performance indicators (KPIs) and progress reports. Noting the high level of achievement against KPIs, Committee members suggested OAI reassess indicators to make them more ambitious.

57. The Committee noted recurring issues on procurement and the volume of long and outstanding recommendations and suggested reassessing how these are resolved and reported in the future.

58. The Institute of Internal Auditors (IIA) is discussing a new set of global audit standards and while these have not yet been adopted the Committee suggested OAI keep a close eye on updates should changes affect its charter.

59. Investigations benchmarks, particularly as they relate to caseload, are difficult to assess based on the nature and complexity of cases received. The Committee suggested the Investigations Unit look to other United Nations organizations to assess the types and complexity of cases handled, potentially leading to useful benchmarks.

60. Following discussions at the Executive Board meetings in June, Member States requested greater access to AEAC. To bridge this gap, UNDP management was asked to draft a standalone AEAC report to the Board rather than an annex to the OAI report. Another consideration was to stipulate in the ToR that AEAC is available at all times to engage in discussion with the President and members of the Executive Board.

61. AEAC welcomed new OAI leadership, appreciated its inclusive approach, and was encouraged by progress made to address longstanding audit recommendations, particularly discussions on further reforms and how to screen investigations better using digital solutions. It stressed that the timeliness of investigations was an area to be reviewed.

62. AEAC acknowledged that OAI has observer status on the Organizational Performance Group (OPG) but not on the Risk Committee.

Independent Evaluation Office (IEO)

63. The Committee acknowledged the departure of the IEO Director and welcomed new leadership that aligned itself with the IEO vision to promote increased utilization of evaluations. AEAC members were encouraged by the new IEO approach to enhance readability and utility of its reports and welcomed the proactive stance to establish a management action record system to effectively monitor the implementation of recommendations.

64. The Committee was pleased to note the expansion of the IEO regional advisor network, which will facilitate effective quality control over decentralized operations.

65. AEAC members were briefed on the important collaborative initiative of capturing lessons learned from SDG-related projects.

66. AEAC members indicated that the IEO continues to do good work, preparing many evaluations. It may be important to take stock, from a strategic perspective, of how these evaluation reports can help with UNDP decision-making processes.
67. AEAC expressed appreciation for ongoing IEO efforts to strengthen decentralized evaluations and establish regional advisory capacities in each region.

68. However, the Committee validated concerns regarding the number of planned Independent Country Programme Evaluations (ICPEs) and resources allocated for each, suggesting careful consideration of both given the extensive evaluation agenda.

**Ethics Office**

69. The Ethics Office continues to be well run and the Committee was pleased to note new staff members will ensure a more stable base for operationalizing programme activities.

70. AEAC acknowledged the seamless transition in leadership and commended ongoing efforts of the Ethics Office to raise awareness in regional bureaux. Members expressed appreciation for the internal reformulation of questions related to financial disclosure and noted 100 per cent compliance with filing requirements.

71. The Committee recognized the impactful work of the Ethics Office within UNDP and its broader influence across the United Nations system, especially in International Civil Service Commission (ICSC) standards of conduct review.

**United Nations Board of Auditors (UNBoA)**

72. The UNBoA representatives briefed the Committee on 2022 and 2023 audits, the audit plan for 2023-2024, the implementation of ‘de-linking’ functions, risk management, and implementation of audits and initiatives towards achieving SDG 16 (governance) and SDG 13 (climate action), as well as the UNDP ‘universal presence’.

73. Performance audits were discussed in Q1 and Committee members acknowledged that relevant issues were being raised.

74. The AEAC Chairperson indicated that the Committee was surprised by the major material audit adjustments at UNDP (revenue recognition) and UNCDF (non-compliance with IPSAS) levels. Both were ultimately resolved with UNBoA.

75. Following the risk management audit certain issues were identified that require a top-down and bottom-up approach, and where the top-down approach needs to be strengthened.

76. De-linking and reform remain central issues and AEAC members discussed ways for UNDP to use both as opportunities to stand out and capitalize on its position within the development sector.

77. On the Universal Presence audit, AEAC noted the strategic importance of this review and the need for UNBoA to consider historical and statutory decisions. Recommendations included close management engagement on this audit and leveraging it as an opportunity for UNDP to sharpen its brand and value proposition as a development partner of choice and ‘SDG integrator.’

**F. 2024 WORK PLAN**

78. The Committee will continue to work in accordance with its ToR and consultation with the UNDP Administrator, Associate Administrator, and senior management. It will also collaborate with management to ensure it reviews and advises on policy documents relating to areas under its purview before they are finalized and approved.