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1. This report consists of nine parts:
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  - Summary of AEAC advice provided during 2017,
  - Advice related to United Nations Development Programme (UNDP) management,
  - Advice related to the Office of Audit and Investigations (OAI),
  - Advice related to other internal oversight offices, particularly the Ethics Office and Independent Evaluation Office (IEO),
  - The responsibilities of the AEAC in relation to the United Nations Board of Auditors (UNBOA),
  - Self-evaluation and management survey, and
  - Conclusion and 2018 Work Plan.

### A. INTRODUCTION

2. This report covers the work of the AEAC of UNDP for the calendar year 2017.
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 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), member up to 6 April 2017,
- Mr. Jayantilal Karia (Uganda), member up to 30 June 2017,
- Mr. Fayezul Choudhury (United Kingdom/Bangladesh),
- Mr. Antoine Antoun (France/Lebanon),
- Mr. Ryokichi Hirono (Japan),
- Ms. Mallika Samaranayake (Sri Lanka),
- Ms. Ana Maria Elorrietta (Argentina), new member effective 1 June 2017, and
- Mr. S. Ashish Bali (USA/India), new member effective 1 June 2017.

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 high 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 the expanded TOR (attached) approved by the Administrator in 2016. The AEAC has incorporated changes reflecting its expansion to cover the activities of the IEO, 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 governance and management matters, such as UN reform issues, the service delivery model of UNDP, procurement, financial management, human resources, information and communication technology management, regional bureau operations, and internal and external oversight activities. In 2017, the Committee provided a total of 53 advice and recommendations to UNDP. The key comments are reflected in this document. During the meetings, the progress in the follow up on the advice and related recommendations was discussed and updated. The AEAC appreciated the meetings with the Administrators (Helen Clark in April 2017 and Achim Steiner in June 2017). Both meetings enabled the Committee to exchange views on the observations made.

## **D. ADVICE RELATED TO UNDP MANAGEMENT**

### *UN reform issues*

7. The AEAC was informed on the Secretary-General's report on UN system reform. The Committee was briefed on two main issues relating to the Resident Coordinator functions and the objective of rationalizing back office support.
8. The Committee was informed that UN reform was being closely followed to enable UNDP to align its position. UNDP would be at the forefront of the change and is being recognized as the agency to ensure the future support of the Resident Coordinator function.

### *Bureau for Management Services (BMS)*

9. BMS shared with the Committee that potential changes or upgrades to the enterprise resource planning system were being considered. The Committee took note and supported the need for strong business involvement.
10. On the progress of clustering procurement, finance, and HR functions, the Committee noted the need for executive leadership and adequate resources to achieve the desired results of clustering.
11. The Committee took note of the well-established cybersecurity controls but was also concerned with the lack of senior IT leadership.
12. Reports from the corporate risk log were shared and the Committee was informed about the interactions on escalating risks. The Committee appreciated the presentation and looked forward to being kept informed about risk management.

### *Procurement*

13. The Committee was concerned regarding the initial follow up on procurement exposures. Nonetheless, the Committee was pleased to note actions taken in implementing audit recommendations, including the recent strengthening of the procurement capacity in Country Offices, updating of procurement policies and the cleaning up of vendor records. The Associate Administrator informed the Committee that the procurement team has made significant improvement in the services delivered.

### *Financial resources management*

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

14. The AEAC received an update on the financial situation and Treasury position under the current international financial context. The Committee was pleased to note the risk reserves initiative undertaken by UNDP.
15. On the cost recovery strategy, the Committee noted the efforts made so far and the ongoing discussion with the Executive Board.
16. The Committee was pleased to be informed on the new self-assurance mechanism launched by UNDP and currently in its initial phase. The units would be providing their self-assessments regarding financial controls over reporting. The Committee noted that the self-assessments should lead to an assertion of the adequacy of internal controls over financial reporting.

### *Financial Statements*

#### *UNDP and UNCDF*

17. The AEAC reviewed the 2016 financial report and audited statements of UNDP and UNCDF noting with pleasure that the statements were completed earlier when compared with the previous year's submission.
18. The Committee also positively noted that no prior year adjustments were made.

19. The Committee complimented both the Office of Financial Resources Management and UNCDF management for the expeditious preparation of financial statements for 2016.

***Human resources management***

20. The Committee took note of the progress made on the initiatives undertaken by the Office of Human Resources in 2016 – 2017, including full implementation of audit recommendations. The Committee was also informed that the use of the e-recruit system had reduced the number of applications being reviewed by 25 percent.
21. The Committee was informed by the Office of Human Resources that the 2016 Global Staff Survey showed positive results in the areas of engagement, empowerment and quality of leadership, with room for improvement in innovation and work-life balance domains.

***Legal Office***

22. The Committee was informed of the structure and staff resources and took note of the resource challenges in the Legal Office.

***Bureau for External Relations and Advocacy (BERA)***

23. The AEAC was briefed by OAI on the result of the audit of BERA regarding organizational structure, policy, and external communication action plan. The Committee noted OAI's concerns about the resources for external communications and weaknesses in defining communications roles.

***Bureau for Policy and Programme Support (BPPS)***

24. OAI informed the Committee on the result of the audit of BPPS regarding its staffing, policy development process, and agreements with internal and external partners.
25. The Committee was briefed by the Director of BPPS on aspects of the collaboration between the different stakeholders in UNDP, including further clarification on the role and position in the organization.

***Regional Bureau for Asia and the Pacific (RBAP)***

26. The AEAC was briefed on the following:
- The fast-developing character of the region in comparison with other regions, as well as the general political stability in the different countries.
  - Various innovative activities, such as the use of digital technology, and the establishment of partnerships with the private sector.
  - The main challenges of the Bureau regarding Country Offices' sustainability, effective risk management and governance monitoring, as well as adequacy of resources.
27. The Committee noted with interest the Bureau's characterization of UNDP as a 'provider of development services' rather than a 'donor agency'.

***Regional Bureau for Africa (RBA)***

28. The AEAC was briefed by the Director of RBA on the activities of the Bureau in the region covering 46 countries. RBA is dealing with countries trapped in poverty, countries in conflict situations, and countries on the development path. To achieve Sustainable Development Goals, UNDP is supporting African countries by helping formulate the right policy, enhancing capacity for implementation including statistics, and providing funds.
29. During the presentation from OAI, it was noted that there were operational challenges in the region. The Associate Administrator acknowledged the challenges facing the region but also indicated the willingness to take drastic actions when required.

*Resource mobilization management*

30. The AEAC noted that the audit of UNDP resource mobilization highlighted weaknesses in the coordination of resource mobilization both within UNDP and the UN system.
31. UNDP management acknowledged the need to improve on coordination among its Bureaus to enable an institutional response to resource mobilization.

**E. ADVICE RELATED TO THE OFFICE OF AUDIT AND INVESTIGATIONS (OAI)**

*Work plan and resources*

32. The AEAC was briefed on OAI's 2016 annual report, the quarterly progress reports, and the 2016 post client survey report.
33. On the OAI audit opinion, following the Executive Board decision in 2015, the Committee noted that OAI provided a partially satisfactory audit opinion on the adequacy and effectiveness of the UNDP governance, risk management and control framework.
34. The Committee reviewed the quarterly progress reports of OAI and noted that actual performance related to audit activities exceeded targets, and suggested a review in 2018. The Committee was also informed by the Director of OAI on the full implementation of the work plan for 2017.
35. On investigations, the Committee noted positively the appointment of three new investigators, and their contribution to the percentage of cases closed after investigation under nine months and the reduction of the case load per investigator.

*External quality assessment*

36. The AEAC was pleased to note that an external quality assessment exercise on OAI's audit activities was undertaken in 2017 and OAI continued to be in "general conformance" (top rating) with the Standards and the Code of Ethics of the Institute of Internal Auditors.

*Audit monitoring of management actions*

37. On long outstanding recommendations, the AEAC was informed that there were six long outstanding recommendations as of 31 December 2017. The Committee took note of one long outstanding recommendation on measures to address capacity challenges in the Legal Office. The AEAC acknowledged the UNDP Associate Administrator's contribution to the reduction of such long outstanding recommendations.
38. In accordance with its TOR, the Committee held a private meeting with the Director of OAI immediately after the briefing session on OAI matters.

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

*Ethics Office*

39. The AEAC met with Director of the Ethics Office, and took note of the following:
  - UNDP's Code of Ethics was released in 2017. The introduction of the Code of Ethics was a breakthrough for UNDP. UNDP senior management was proud of the work achieved by the Ethics Office.
  - The addition of a UN Volunteer post to the Ethics Office had a good impact on the programme of the Office.
  - The possibility of changing the Financial Disclosure to a Declaration of Interest Program, which could be more relevant by disclosing better the interests of staff members in certain areas.

40. The AEAC continues to be impressed by the volume of work carried out by the Ethics Office with its limited resources.
41. In accordance with its TOR, the Committee held a private meeting with the Director of the Ethics Office immediately after the briefing session on Ethics Office matters.

***Independent Evaluation Office (IEO)***

42. The AEAC met with the Director of the IEO and took note of the following:
  - The IEO's progress in collaboration with the United Nations Evaluation Group (UNEG) in assisting UNDP in national evaluation capacity-building.
  - The IEO will engage more in country-level than in thematic evaluations.
  - Starting in 2018, the IEO will aim to conduct country programme evaluations for all Country Programme Documents submitted to the Executive Board.
  - The IEO has developed several indicators on its own performance and will develop these further.
43. In accordance with its TOR, the Committee held a private meeting with the Director of IEO, immediately after the briefing session on evaluation matters.

**G. ADVICE TO EXTERNAL AUDITORS, UNITED NATIONS BOARD OF AUDITORS (UNBOA)**

44. The AEAC met with UNBOA in 2017, including a closed session setting. The Committee noted the issuance of unqualified opinions on UNDP's financial statements.

**H. SELF-EVALUATION AND MANAGEMENT SURVEY**

45. The AEAC conducted a self-evaluation and management survey in 2017. The results of the self-evaluation showed that the members welcomed the recent improvements in addressing identified risks and looked forward to a continuation. Concerns were raised about the level of details shared during some of the meetings, while discussions might be more informative. The members noted the recent departure of AEAC members with a United Nations background and encouraged the selection of future members with this experience. The management survey, while responses were limited, showed support for the work of the Committee, and the scope increase regarding evaluations and ethics was positively referred to.

**I. CONCLUSION AND 2018 WORK PLAN**

46. During 2017, the AEAC was able to carry out its mandate of providing advice to UNDP senior management in various areas. It will continue its work in consultation with the Administrator, the Associate Administrator, UNDP senior management, UNDP's external auditors, and UNBOA. It will review the financial stability of UNDP and the impact of the ongoing changes, such as the UN Reform and the new UNDP Strategic Plan 2018-2021. It will also continue to provide advice to promote proper governance, including high ethical standards, risk management and control systems and accountability in UNDP in 2018.