



**Audit and Evaluation Advisory Committee
2018 Annual Report
(DP/2019/23 - 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 2018.
2. The Committee 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
 - Mr. S. Ashish Bali (India/United States), as Acting Chairperson during November 2018 meeting
 - Mr. Antoine Antoun (France/Lebanon)
 - Mr. Fayezul Choudhury (Bangladesh/United Kingdom/ United States)
 - Ms. Ana Maria Elorrieta (Argentina)
 - Mr. Ryokichi Hirono (Japan)
 - Ms. Mallika Samaranyake (Sri Lanka)
3. The AEAC operates under the expanded Terms of Reference approved by the Administrator in 2016. The approved Terms of Reference mandated the AEAC 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.

B. OVERSIGHT UNDERTAKEN IN 2018 AND OVERALL ASSESSMENT

4. As a response to the UN Reform, the 2030 Development agenda, and the SDGs, the UNDP underwent substantial changes in 2018 that will be further implemented in years to come. While the scope of changes are far reaching, one of the more fundamental aspects is that the chairing of the UNDG and the responsibility for the Resident Coordinators has shifted from the UNDP to the UN. To implement this change, as well as to streamline other aspects of how UNDP operates, a comprehensive and complex program of change has been developed which will have a substantial impact on reporting structures, staffing and financial resources. Against this background the AEAC has been focused on understanding the change agenda, and through discussion with management, understanding their perception of the risks to be managed, and plans to ensure that continuity of operations is maintained while implementing the ambitious change agenda.
5. In 2018, the Committee held three meetings (April, June, and November) in New York to fulfill its mandate as specified in the approved Terms of Reference.
6. During 2018, the AEAC was able to carry out its mandate of providing advice to UNDP senior management in various areas. The AEAC held meetings with the UNDP Administrator and Associate Administrator and regular private sessions with the Directors of the Office of Audit and Investigations (OAI), the Independent Evaluation Office (IEO), the Ethics Office (EO), and the UN Board of Auditors (UNBOA), and the Director and Deputy Director of the Bureau for Management Services.
7. The AEAC is 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 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.
8. Arising from its review of documents presented and discussions with management, the Committee has provided numerous recommendations/advice to UNDP. At each meeting, the progress on the follow up on the

advice and related recommendations was discussed and updated. The Committee is pleased to note that UNDP takes the AEAC recommendations/advice seriously and has taken appropriate actions on many of the recommendations/advice as of the end of 2018.

C. DETAILS OF AEAC ACTIVITIES AND ADVICE PROVIDED

C.1 UNDP PROCESSES AND BUSINESS UNITS

UNDP and UNCDF financial statements

9. The Committee reviewed and discussed the 2017 financial statements of UNCDF and UNDP and was pleased to note their timely preparation and good quality. For the UNDP financial statement, the Committee was updated on the increase in non-core funding and in the After-Service Health Insurance costs.

10. *The Committee was pleased to note that both statements received clean opinions from UNBOA.*

UN Reform

11. The Committee discussed with UNDP senior management the progress of the implementation of the UN Reform, including the several activities carried out by UNDP regarding the de-linking of the Resident Coordinator/Resident Representative function.

12. The Committee was informed about the associated risks and mitigating actions taken with regards to the UN Reform.

13. *The Committee requested that it be regularly updated on the status of implementation of the UN Reform particularly as it affects the strategy and work programmes of UNDP.*

Strategic Plan 2018-2021

14. The Committee discussed with UNDP senior management several initiatives launched by UNDP to improve performance and support innovation, including identifying projects for private sector involvement. The Associate Administrator informed the Committee that change initiatives were necessary for UNDP to deliver on its Strategic Plan and to be in line with the UNDP Administrator's focus on innovation.

Vendor management

15. The Committee was informed that policies and procedures on vendor management have been updated and duplicate vendor records have been corrected. The Committee noted implementation of audit recommendations relating to vendor management. However, the Committee noted a high number of investigation cases involving vendors that were submitted to the Vendor Review Committee remained outstanding.

Financial resources management

16. The Committee was informed about the new cost-recovery methodology for the expenses incurred in line with the support services provided by UNDP to other UN agencies.

17. The Committee received a briefing about UNDP Treasury's hedging strategy and foreign exchange conversion management. The Committee noted that the budget deficit gap had been addressed in 2018.

18. The Committee was informed about a new methodology followed during the 2019 budget preparation exercise.

19. *The Committee requested the new 2019 budget allocation methodology and periodic updates on the functioning of the new cost recovery methodology.*

Risk management

20. During the year, the Committee discussed with the Bureau for Management Services the stage of development of the risk culture and the strategy to managing risks. The Committee reiterated its prior recommendation to consider appointing a Chief Risk Officer in the Executive Office. The new Enterprise Risk Management Policy was presented to the Committee during its meeting in November 2018. The Committee will provide its comments to the Enterprise Risk Management Policy during its meeting in April 2019.
21. *The Committee looks forward to regular briefings on this topic.*

Sexual exploitation and abuse, and sexual harassment

22. The Committee was briefed on UNDP's management of sexual exploitation and abuse cases, and sexual harassment cases. The Committee was pleased to note that the UNDP Administrator was addressing these issues as a priority and followed a zero-tolerance policy in line with the Secretary-General's vision. The Committee was informed that OAI has specially trained harassment investigators, enabling the office to act appropriately.
23. The Committee noted the work being done on a formalized information-sharing process in the UN system related to sexual exploitation and abuse, and sexual harassment.

Bureau for Management Services

24. The Committee discussed with the Director and staff of the Bureau for Management Services the ongoing review of UNDP's management services and business processes, as well as the Bureau's activities relating to the implementation of the UN Reform.
25. *The Committee noted the material changes that the organization is undergoing, the associated risks and mitigation plans, and looks forward to regular updates on this topic.*
26. The EU's General Data Protection Regulation (GDPR) was discussed. The Committee was informed that this regulation was not applicable to UNDP, although it could have a business impact with partners or vendors not covered by UNDP's privileges and immunities.
27. *The Committee requested periodic updates on the impact of GDPR on UNDP activities and partners.*

Bureau for External Relations and Advocacy

28. The Committee was informed of the functions of the Bureau for External Relations and Advocacy, including resource mobilization, external relations, and communication and advocacy. The Committee was also informed of the planned review of the Bureau.

Bureau for Policy and Programme Support

29. The Committee was informed about the new Global Policy Network, designed to share knowledge within UNDP globally to support a leading role for UNDP as a development agency.

UNDP Senegal

30. The Regional Bureau for Africa briefed the Committee about the financial implications and lessons learned from procurement issues involving a project in Senegal. The Committee noted lapses in internal controls and the mitigating actions carried out by the Bureau to address them.
31. The Committee was informed by OAI that the related investigation conducted was completed. The investigations report was submitted to the Legal Office.
32. *The Committee will follow up on this issue in future meetings.*

Office of the Ombudsman

33. The Committee was briefed on the Office of the Ombudsman. The office provides services to five UN agencies, namely, UNDP, UNFPA, UNICEF, UNOPS, and UN Women, and receives an average of 450 cases a year.
34. *The Committee noted the need to clarify contract terms and reporting line in the existing Terms of Reference of the Ombudsman.*

C.2 INTERNAL AND EXTERNAL OVERSIGHT OFFICES

Office of Audit and Investigations (OAI)

35. The Committee was briefed on the implementation of OAI's work plan, including key performance indicators. The Committee had advised OAI to adjust two audit performance targets, which were updated in 2018. The results of these new performance targets were again positive.
36. The Committee was informed that OAI provided UNDP an overall rating of 'satisfactory' based on the audit reports issued mostly in 2017 where large number of audits resulted in 'satisfactory' or 'partially satisfactory/some improvement needed'.
37. The Committee was informed on the status of long outstanding recommendations and noted a significant reduction as compared to previous years. The Committee was pleased to note the continuous focus of UNDP's management on the implementation of all long outstanding recommendations.
38. The Committee received an overview of investigations complaint categories. Financial irregularities and/or fraudulent conduct remained the largest group, and within this group procurement fraud represented the highest number of cases.
39. The Committee reviewed OAI's 2019 annual work plan prior to its submission to the Administrator. OAI planned to conduct approximately 99 audits and to continue investigating all credible allegations of misconduct.
40. *Overall, the Committee was satisfied with the scope, coverage and implementation of the 2018 work plan and managements responses to findings.*

Independent Evaluation Office (IEO)

41. The Committee was regularly briefed on the implementation of the 2018 work plan of the Independent Evaluation Office (IEO).
42. The Committee was also briefed on other significant IEO events such as the Executive Board session on IEO's 2017 annual report, evaluation advisory panel annual meeting, the completion of the draft IEO Charter, and the UN evaluation group annual general meeting.
43. The Committee reviewed and discussed the IEO's 2019 draft work plan.
44. The Committee was briefed on a number of independent country programme evaluations over the course of the year as well as the comprehensive report on the evaluation of UNDP support to poverty reduction in less developed countries.
45. The Office shared the results of its own quality assurance. These results showed that of the decentralized evaluations undertaken, on average, 75 percent were satisfactory.

46. Following a request from the AEAC, the IEO, starting in 2018, set up performance indicators. In the review of these, the Committee noted that performance goals set on the number of evaluations to be conducted by the Office were aspirational and could be too ambitious. It also requested IEO to add to its key performance indicators an item relating to relevance and effectiveness.
47. *The Committee recommended that the IEO add key performance indicators relating to diversity, effectiveness, and relevance.*
48. *Overall, the Committee was satisfied with the scope, coverage and implementation of the 2018 work plan and managements responses to findings.*

Ethics Office (EO)

49. The Committee was briefed on the activities of the EO during 2018, which included reviewing 1,393 financial disclosure statements completed by staff. EO also conducted training sessions to Country Offices where 1,570 individuals were trained.
50. The Associate Administrator reaffirmed that the organization values the work of the EO. The Committee was informed that access to the ethics training for service contract holders was addressed at the Organizational Performance Group and a cost-effective solution was being sought.
51. The Committee reviewed and discussed the EO's 2019 draft work plan.
52. *Overall, the Committee was satisfied with the scope, coverage and implementation of the 2018 work plan, in particular given the limited resources available.*

UN Board of Auditors (UNBOA)

53. The Committee met the outgoing UNBOA members and discussed the results of the 2018 financial statements of UNDP and UNCDF audits. The Committee thanked the UNBOA for their work and cooperation.
54. During the meeting in November 2018, the new UNBOA (The German Federal Court of Auditors) met with the Committee and presented its comprehensive risk-based audit plan. The AEAC was pleased to note the thoroughness of the planning document.

D. SELF-EVALUATION AND MANAGEMENT SURVEY

55. The AEAC conducted a self-evaluation survey and a management survey for 2018. The results of the self-evaluation showed that the members assessed the functioning of the Committee as positive. While appreciative of the level of details shared, the Committee would prefer higher level discussions during the meetings.
56. The results of the management survey, even though the responses were limited, showed support for the work of the Committee.

E. WORK PLAN FOR 2019

57. The Committee will continue its work in consultation with the Administrator, the Associate Administrator, and UNDP senior management. In 2019, it will continue to review the progress of the UN Reform implementation and its impact to 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 2019.