



**United Nations Development Programme
Audit Advisory Committee**

**Annual Report
for the Calendar Year 2009**

I. Introduction

1. This Report covers the work of the Audit Advisory Committee (AAC) of the United Nations Development Programme (UNDP) for the Calendar Year 2009.
2. The AAC was established by former Administrator Kemal Dervis in May, 2006. The AAC is composed entirely of members who are external to UNDP, and are therefore independent from UNDP and its administration and management. The Terms of Reference (TOR) of the AAC are attached as Annex 1.
3. The list of current members of the AAC is attached as Annex 2. During 2009, the term of Mr. Stephen Hume ended in June, and he was replaced by Ms. Hilary Wild. .
4. Annex 3 presents a detailed listing of the AAC meetings and other sessions in 2009. Annex 4 contains a summary of issues discussed during the sessions in 2009
5. The AAC is most appreciative of the support and cooperation it has received from UNDP offices during this past year. The presentations and briefings to the AAC have been of the highest quality, reflecting a great deal of thought and attention. We have also appreciated the dialogue on key issues that occurs in briefing sessions and in formal meetings.
6. This report will be divided into two parts. The first will address the overall areas of strategic advice which has been provided to UNDP via the Administrator and Associate Administrator during 2009. The second will address the activities related to the internal audit function and particularly the Office of Audit and Investigations (OAI).

II. Strategic Advice to UNDP Management

International Public Sector Accounting Standards (IPSAS)

7. At its 11th meeting in May of 2009, the AAC concurred with management's decision to delay IPSAS implementation until 1 January 2012. The latter is a departure from the original expected implementation plan that called for completion at the start of 1 January 2010. The AAC understood and agreed with the overall assessment that the demands on the organization resulting from the requirement to implement the UN General Assembly resolution on the contractual reform as well as other competing priorities and the realities of the global financial crisis mitigated against maintenance of the original schedule.



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8. In its 12th and 13th meetings, the AAC reviewed plans for IPSAS implementation, and on both occasions advised UNDP that the implementation must be properly resourced. The AAC recalls once again its advice in its last three annual reports regarding the need to provide the required level of administrative support for an undertaking of the breadth of IPSAS, since the impact of IPSAS extends beyond the pure financial management functions and affects all programme managers.

9. The AAC is concerned that over the duration of its 12th and 13th meetings, the answers to questions and concerns raised on how the needed training and development of staff will be resourced and managed, have not been provided. It is clear that budgetary constraints affect UNDP's ability to provide resources for its programmes. However, the AAC has advised UNDP that the benefits of IPSAS implementation may be negatively affected if there is a lack of properly trained staff to operate the new system, and if there are not adequately qualified staff resources to perform the functions required under IPSAS in the new system. If these conditions occur, they may negatively affect UNDP's ability to produce reliable accounting information and financial statements, including donor reporting on a timely basis.

10. The AAC also encourages UNDP, UNFPA, and UNOPS, which all share in the common Atlas system that will support IPSAS, to ensure continued cooperation and communications as the system goes forward.

Internal Control Framework

11. The AAC reviewed the Internal Control Framework (ICF), which is a key feature of the overall UNDP accountability framework.

12. At its 11th meeting, the AAC urged that future revisions of ICF take into consideration OAI's recommendations resulting from that office's review of ICF and to do enhanced ICF's monitoring. The AAC also suggested that UNDP perform a gap analysis between the requirements of generally accepted internal control standards, such as those published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and its current ICF. Such a gap analysis would provide a more comprehensive assessment of the UNDP system of controls, while at the same time holding out as a goal the meeting of the best industry practice on internal control system.



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Information Technology Management

13. The AAC expresses here once again its overall conclusion and concern that the governance of UNDP's information technology (IT) functions is not at a level at which organizational requirements and costs are clearly outlined so that well-informed decisions can be made on them. Once again, the AAC notes that there is no information available to decision-makers on the total cost of ownership of a system, or the full requirements for a system. There does not seem to be a clear mechanism to prioritize system development across all functions and locations of UNDP. The AAC has repeated these concerns to UNDP since its first annual report.

14. While some improvements have been made in terms of reconstituting the Information and Communications Technology (ICT) Board and developing an overall Information Management Strategy and IT Roadmap, the AAC notes that, in its view, these products could benefit from improvement through benchmarking with similar or comparable organizations and that they did not in its opinion constitute a strategy. Still missing from IT governance mechanisms and reports were relationships between resources and identified systems, prioritization of systems, life cycle costing, discussions of systems architecture and the balance between centralized vs. decentralized IT environments.

15. As has been noted before, as many of UNDP's management and financial systems are now so reliant on IT systems and platforms, it is imperative to assure that these platforms are resourced and managed in such a way as to reduce the overall risk to the organization from system failure, lack of resourcing of key elements of systems, and inability to account for resources. Furthermore, UNDP would benefit from a more strategic approach to system design and development so as to ensure value for money.

16. In 2010 the AAC will focus more effort on providing advice to UNDP on IT governance.

Reform of Human Resource Contractual Modalities

17. The AAC was briefed on the efforts on UNDP to implement the decision of the UN General Assembly regarding the contractual reform. It congratulates UNDP on its successful implementation in spite of short timeframes and the complexity of this reform, which required extensive work on the part of the entire organization.

18. AAC had comments on the implication of potential conversion of large numbers of staff to permanent contracts which would provide less flexibility for the organization to manage its human capital. It also pointed out that decisions regarding the limitations of



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permanent resident status may limit the Organization in attracting potential well qualified staff.

Budget Cost Classifications

19. The AAC applauds the efforts by UNDP to recast budget cost classifications to meet the needs of the organization and enhance informative and transparency of its financial activities. It was briefed on these changes, and notes the Executive Board approved the new classification in 2009. The ACC pointed out that it would be important that the new IPSAS chart of accounts be in line with the budget cost classifications.

20. The AAC would like to work further with UNDP on developing the concept of capital budgeting as it finds current presentations lack sufficient clarity.

Ethics Office

21. The AAC was extensively briefed by the UNDP Ethics Office on its work, and provided advice to this office that a more strategic approach to achieving some of its responsibilities might be taken. The number of staff required to file Financial Disclosure statements is very significant, and the work involved in follow up on technical compliance has consumed resources which could more optimally be devoted to analysis. The AAC encourages UNDP to ensure adequate training is in place for all staff that are required to complete these forms, and to consider how the use of this disclosure can best meet the goals of transparency, and not fall into rote compliance.

Accountability Framework

22. The AAC was pleased to see the continued development of messages and tools which integrate the elements of the Accountability Framework for UNDP staff, so that it is clear how all of the elements fit together. The AAC encourages UNDP to continue to develop the integrated Accountability Framework as a mainstream activity rather than as a project. A key mechanism for doing this would be to ensure that the human resources performance management policies are well integrated with the Accountability Framework. The AAC also recommended that a portal for all the elements of the accountability framework (ICF, Enterprise Risk Management [ERM], Results-Based Management [RBM], etc) be created to host all the information related to the subject.



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III. Advice Related to the Office of Audit and Investigations

23. The AAC approved the 2009 annual work plan for OAI in December of 2008, and in subsequent meetings received updates on performance against plan. The AAC requested OAI to make improvements in its overall presentations of the updates, which were accomplished during the year, so that the reports are more useful to the AAC.

24. The Committee has continued concerns which were expressed to UNDP senior management about the effects of budget reductions on the work of OAI. The amount of resources available to OAI for 2009 from the overall budget of the UNDP have remained at a level at which the work of OAI has not been compromised. The AAC has asked the Director of OAI to continue to provide the AAC with his assessment of the effects of reductions on the ability of the office to cover the approved workplan, identify risks, and to provide these assessments as well as reasonable assurance to UNDP Administrator and its senior management.

25. The AAC has been briefed on the continued increases in workload of the Investigation function and notes that if trends continue into 2010, there may be need for added resources, or changes in policies/procedures, so that the most important investigation cases are addressed. The AAC notes the effective cooperation between OAI Investigations Section and Legal Support Office/Office of Human Resources in implementing the new legal framework.

26. The AAC notes that during 2009 OAI had implemented its quality assurance and improvement programme and that its internal quality assessment was independently validated. These reviews found OAI to be in general conformance with the *International Standards for the Professional Practice of Internal Auditing* and the Code of Ethics promulgated by the Institute of Internal Auditors. The external peer review done by the European Union Anti-Fraud office on OAI's Investigation function received a satisfactory rating. The AAC applauds this type of reviews and continued self assessment conducted by OAI.

27. The AAC is pleased to note that the head of the OAI now participates, as an observer, in the Operations Group, and as appropriate, in Management Group meetings. As one of the elements of the AAC terms of reference is to promote the usage of audit and investigation information in enhancing risk management and controls, the AAC is pleased to note that the audit results are being used by UNDP management in such a proactive way.



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IV. Disclosure of Internal Audit Reports

28. Executive Board Decision 2008/37 requests a report from UNDP at its annual session 2010 on implementation of the elements of that decision relating to disclosure of internal audit reports to Member States. This decision further references a request for conclusions of reviews by Audit Advisory Committees of the implementation of this decision.

29. Subsequent to the adoption of Decision 2008/37, the AAC was kept apprised as to the approach to be taken by OAI in handling the requests for disclosure, and the actual requests made to that office for internal audit reports. The AAC was also kept informed of the disposition of the Member States requests. AAC concludes that UNDP, through the OAI, has complied with the requirements of Decision 2008/37 regarding adherence to principles of confidentiality, and to procedures designed to safeguard sensitive information. The AAC anticipates that it will continue to be kept informed as a matter of course, of these requests for disclosure of internal audit reports.

V. Summary/Future Concerns

30. In the coming year, the AAC will focus on the impact of the financial crisis to the organization operation and its oversight functions. The AAC will continue to review the area of Accountability Framework and related subjects, such as, ICF, ERM and RBM. IT Governance and Implementation of IPSAS and Atlas will also be subjected to review by the AAC.

31. In addition, the AAC will be interested in reviewing how central financial functions are operating.



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ANNEX 1: Terms of Reference of the Audit Advisory Committee

Purpose and Context

1. The purpose of the Audit Advisory Committee (hereafter referred to as the “Committee”) is to assist the Administrator in fulfilling his/her responsibilities regarding financial management and reporting, internal and external audit matters, risk management arrangements, 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 and its operating environment.

2. The United Nations Board of Auditors (BOA) performs the external audit of UNDP operations and the Office of Audit and Investigations (OAI) provides internal audit services.

Mandate

3. The Committee shall:
- a) Advise the Administrator on all issues arising from its activities under these terms of reference and make appropriate recommendations to him/her;
 - b) Review and advise the Administrator on policies significantly impacting financial management and reporting, the internal audit function, and the effectiveness of UNDP’s systems of internal control and accountability;
 - c) Review and advise the Administrator on UNDP’s financial statements and reports;
 - d) Promote the understanding and effectiveness of the audit and investigation functions within UNDP, and provide a forum to discuss internal control and matters raised by internal and external audits;
 - e) Monitor and advise on risk management arrangements;
 - f) Review and provide comments on the OAI strategy and annual work plans;
 - g) Review and advise the Administrator on the budget of OAI;



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- h) Review and provide comments on the OAI annual report to the Executive Board;
- i) Review and advise the Administrator on the appointment, performance evaluation, and dismissal of the Director of OAI;
- j) Discuss BOA audit work plans;
- k) Consider all relevant reports and management letters by OAI and BOA, including reports on UNDP's financial statements;
- l) Consider the risk and control implications of audit reports and highlight, as necessary, audit issues that may need further investigation with due considerations to confidentiality and due process;
- m) Monitor the implementation by management of OAI and BOA audit recommendations;
- n) Advise on UNDP's fraud prevention policy, code of ethics and whistleblower policy; and
- o) Prepare and submit an annual report on its activities to the Administrator that is also presented to the Executive Board for information.

Authority

4. The Committee has the authority and the responsibility to review any activity relevant to these terms of reference. This includes, but is not necessarily limited to:
- a. Obtain all information and/or documents it considers necessary to perform its mandate including all internal and external audit reports;
 - b. Seek any information from any UNDP personnel or request information generated from UNDP's systems and require all UNDP personnel to cooperate with any request made by the Committee in performing its mandate; and
 - c. Obtain legal or other independent professional advice if it is considered necessary.



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5. The Chairperson and the members of the Committee will meet with the Director of OAI at least annually in a private session.

6. The Chairperson and the members of the Committee will meet with the representatives of BOA at least annually in a private session.

Membership and Quorum

7. The Administrator shall appoint five members of the Committee. All members will be external to UNDP and among the five members, a Chairperson will be designated by the Administrator. An alternate cannot represent a member. Any three members shall constitute a quorum.

8. If the Chairperson designated by the Administrator is not present at a meeting, the members will elect an acting Chairperson from among the members present.

9. The terms of office for members will be two years renewable once. For the initial year, changes in membership will be staggered so as to provide continuity of oversight.

Attendance

10. All meetings of the Committee will be attended by the Associate Administrator or his/her representative and by the Director of OAI or his/her representative. Other UNDP staff may attend on the invitation of the Chairperson.

Number of Meetings

11. The Committee shall normally meet at least four times a year. The Chairperson, any member, the Director of OAI, and/or the BOA may request additional meetings, some of which may be virtual meetings.

Convocation of Meetings

12. The Associate Administrator will provide the Secretariat to the Committee. The meetings of the Committee shall be convened by the Secretariat on the request of the Chairperson. The members of the Committee shall normally be given at least ten working days' notice of meetings.



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13. The Chairperson, in consultation with members and the Director of OAI, will prepare a provisional agenda for the meetings, which should be circulated together with the notice of meetings.

Members' Participation Other Than In Person

14. It is expected that the members will be present for meetings in person. However, it is possible for a member to attend by videoconference or telephone, under exceptional circumstances, and such participation will be taken into account for the purpose of establishing a quorum.

Confidentiality and Disclosure of Interest

15. All members of the Committee shall sign a statement of confidentiality and disclosure of interest. A register of interests will be maintained by the Secretariat to record members' interests in general or on specific matters. Where an actual or potential conflict of interest arises, the interest will be declared and will cause the member(s) to either be excused from the discussion or abstain from voting on the matter. In such an event, a quorum will be required from the remaining members.

Voting

16. The Committee's decisions will be made by the members present by voting and on the basis of a simple majority. Should the votes be equally divided, the Chairperson shall have the casting vote. The Committee should, however, strive to achieve decisions on a consensus basis of all members present as the desired option.

Responsibility and Liability of Members

17. Members shall act in an independent, non-executive capacity while performing their advisory role on the Committee. As such, members shall not be held personally liable for decisions taken by the Committee acting as a whole.

Documents

18. On the request of the Chairperson, documents will be prepared and/or circulated by the Secretariat.

19. Minutes of meetings will be prepared and kept by the Secretariat. The Committee shall approve the minutes by correspondence within a month of each meeting.



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20. Documents may also be submitted by the BOA.

Confidentiality of Meetings and Minutes

21. The deliberations of the Committee and the minutes of the meetings are confidential unless otherwise decided. The documents and informational material circulated for the consideration of the Committee shall be used solely for that purpose and treated as confidential.

Reporting

22. The Committee shall prepare a report on its work for the previous year for presentation to the Administrator by 31 March of every year. The report will include recommendations with respect to changes to its mandate. The Committee will also prepare a report for the annual session of the Executive Board. Upon request, the Chairperson shall present this report.

23. The Chairperson will interact regularly with the Administrator on the results of the Committee deliberations as well as on forthcoming issues relevant to its business.

Indemnity of Members

24. The Committee members will be indemnified from actions taken against them as a result of activities performed in the course of business of the Committee, as long as such activities are performed in good faith and with due diligence.

Remuneration

25. Members will not be remunerated by UNDP for activities undertaken with respect to their membership of the Committee.

26. UNDP will reimburse all committee members for any travel and subsistence costs that are necessarily incurred in relation to participation in Committee meetings.

Approved by the Administrator
8 February 2008



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ANNEX 2: List of Audit Advisory Committee Members

1. Mary Ann Wyrsh (USA) -- Chairperson (21 April 2006 to 30 June 2011)

Associate Deputy Secretary for Management, United States Department of Labor 2009-2010.
Former Deputy High Commissioner, United Nations High Commissioner for Refugees 2001-2003

2. Hilary Wild (UK) (1 July, 2009 to 30 June, 2011).

Former Comptroller and Director Business Chae, Co Director Global Management System, World Health Organization, 1999-2007
Former Director Dresdner RCM Global Investors, 1997-1999

3. Patience Bongiwe Kunene (South Africa) (21 April 2006 to 30 June 2010)

Deputy Chief Economist for Policy Analysis and Coordination
Office of the President, Government of South Africa

4. Verasak Liengsrirawat (Thailand) (21 April 2006 to 30 June 2010)

Former Special Assistant to the Director General for Management
International Atomic Energy Agency, Vienna, Austria 2002-2008

5. Fernando Fernandez (Argentina) (31 July 2007 to 30 June 2011)

Former Principal Advisor Risk Management, Development and Effectiveness and Strategic Planning Department, Inter-American Development Bank.



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ANNEX 3: List of AAC Meetings and Other Sessions in 2009

- 1) Official Meetings: The AAC met in official session four times in Calendar Year 2009, at UNDP Headquarters in New York on 30 January, 2009 (10th meeting), 1 May, 2009 (11th meeting), 4 September, 2009 (12th meeting); and 4 December, 2009, (13th meeting).
- 2) Briefing Sessions: The meetings in UNDP New York were preceded by two days of briefings and informal discussions on issues of concern to the AAC.
- 3) External Auditor Coordination and Communication: Representatives of the Board of Auditors attended the 12th meeting.



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ANNEX 4: Summary of Subjects and Issues Discussed in 2009

Meeting Date	Subjects and Issues Discussed
10 th Meeting, 30 January 2009	(a) Results of the UN Board of Auditors' audit (b) Top audit priorities by UNDP Management (c) Information Management Strategy (d) Planned implementation of IPSAS (e) Internal audit and investigation matters, such as the work plan and budget
11 th Meeting, 1 May 2009	(a) Internal control framework (b) Enterprise risk management (c) Harmonization of contractual modalities (d) Financial matters, such as bank reconciliation, inter-agency accounts, treasury function, national implementation modality, harmonized approach to cash transfers (HACT) (e) Global financial crisis and its impact on UNDP (f) Atlas and IPSAS (g) Internal audit and investigation matters, such audit reports, results of the internal quality assessment, and budget status.
12 th Meeting, 4 September 2009	(a) Ethics Office (b) Regional Bureau for Latin America and the Caribbean (c) Financial matters, such as bank reconciliation, inter-agency accounts, treasury audits, HACT (d) IPSAS implementation (e) UNDP budget situation (f) Contractual reform (g) Atlas upgrade (h) Internal audit and investigation matters, such as the result of the independent validation of the internal quality assessment, budget status
13 th Meeting, 4 December 2009	(a) IPSAS implementation (b) HACT implementation (c) NIM task force (d) UNDP budget (e) Accountability framework and integrated work plan



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Meeting Date	Subjects and Issues Discussed
	(f) Management plan after the DPRK panel review (g) Internal audit and investigation matters, such as investigation workload, approach to auditing UNDP directly-implemented projects, implementation status of IT governance audit recommendations