

## **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 2013.
2. The AAC is composed entirely of members who are external to UNDP, and are therefore independent from UNDP and its administration and management. The members are Ms. Ellen Yaffe (USA), Mr. Jayantilal Karia (Uganda), Mr. Kamlesh Vikamsey (India), Mr. Louis Wong (Australia) and Ms. Hilary Wild (UK) who continued as Chairperson.
3. The AAC is very appreciative of the support and cooperation it has received from UNDP 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 occurred in briefing sessions and in formal meetings, as this has helped us to formulate our advice to the Administrator.
4. The AAC appreciated the opportunity to meet with the Administrator in April 2013. The main focus was the provision of advice on the draft financial statements for 2012. This meeting provided a useful opportunity to exchange views and for the AAC to hear about the priorities of the Administrator which help frame the focus of the work of the AAC.
5. This report is in eight parts:
  - Introduction;
  - Terms of Reference (TOR) for the AAC;
  - Self-assessment and analysis undertaken by the AAC for 2013;
  - Strategic advice provided to UNDP via the Administrator and Associate Administrator during 2013;
  - Advice related to the internal audit and investigation functions and particularly OAI;
  - The responsibilities of the AAC in relation to the United Nations Board of Auditors (BOA);
  - Advice in relation to the Ethics Office; and
  - Conclusion and 2014 Work Plan.

## **II. Terms of Reference**

6. The AAC has operated under the TOR (attached) approved by the Administrator on 8 March 2011 for the whole of 2013.
7. As called for in the TOR, the AAC reviews its TOR annually to ensure it remains in line with best practices and reflects the changing environment in which UNDP operates. The AAC does not have any changes or recommendations to propose.

## **III. AAC Self-Assessment and Analysis**

8. The AAC carried out its annual self-assessment for 2013. The input from the Administrator and Associate Administrator was sought, and the results were shared with them. Based on this self-assessment, the AAC concluded that it had generally performed its duties and discharged its responsibilities in compliance with its TOR. The only area where the AAC believes there is room for improvement is in terms of the interactions with the External Auditor. Whilst both AAC and External Auditor have worked to develop this relationship, it has been challenging due to other demands on the External Auditor's time. Further effort will be invested in this during 2014 given the importance of the relationship between the External Auditor and the AAC.
9. Following its decision in 2011 to prepare an annual rolling work plan, the AAC has continued this process in 2013, dynamically adapting the plan to meet any emerging requirements. The AAC considers this facilitates its

work, helps to ensure that there is an appropriate focus on its responsibilities under its TOR, as well as assists UNDP in reporting on follow-up actions and planning for future briefings. Three on-site meetings were held in 2013 and the requirements of the fourth meeting were carried out virtually. The on-site meetings are all scheduled to meet corporate requirements of UNDP so that the advice given by the AAC is timely.

#### **IV. Strategic Advice to UNDP Management**

##### International Public Sector Accounting Standards (IPSAS)

10. The AAC received briefings at each of its meetings in 2013 on the status of IPSAS implementation. It was pleased to see that the first IPSAS compliant financial statements had received a clean audit opinion. The AAC considers this a significant achievement that would not have been achieved without the dedicated preparatory work across UNDP, the continued support of the Associate Administrator as the champion of this effort, and an appropriate focus on management of the risks inherent in this project at the corporate level, thus leading to a strong commitment to meet all deadlines.

11. The AAC was pleased to see that there had been an active exchange of views with the External Auditor on some accounting policy issues and that this had led to an agreed interpretation and application of all IPSAS related policies. The AAC wishes to commend the External Auditor for its contribution to the overall IPSAS project and achievement of a clean audit opinion.

12. The AAC noted that the Global Shared Services Centre continues to operate smoothly and believes this can be a model for other support services within the overall programme of structural change.

13. As noted in the AAC's Annual Report for 2011 and 2012, the AAC continues to emphasize its overall advice that IPSAS implementation reflects a new way of accounting and reporting that has significant implications since it affects programme management, donor relations and financial reporting. The AAC was encouraged to see that the demands this placed upon UNDP in 2013 appear to have been well managed and that IPSAS is becoming assimilated into day-to-day activities.

##### Strategic Plan and Structural Review

14. The AAC much appreciated the regular briefings received on the Administrator's initiative to move UNDP from "good to great", the Agenda for Organizational Change, and the evolution of this into the new Strategic Plan approved by the Executive Board in 2013, as well as the related Structural Review. During 2013, the AAC continued to follow progress on the work that was bringing together the strategic plan, integrated budget and strategic results framework as the AAC considers this is a crucial step in supporting a more coherent organization that is well equipped to prioritize and respond to the increasing demands made upon it.

15. The AAC notes that the Structural Review is a major undertaking for UNDP. Whilst the AAC appreciates the need for a strategic re-alignment to meet not only the requirements of the new Strategic Plan but also the present resource environment, the AAC cautions UNDP to ensure that the internal control framework is not diluted in the urge to reduce resource allocations for support areas. The AAC notes with some concern that the structural review places a significant demand upon the functions of BOM, as they are not only undergoing a significant structural shift, but are also supporting other Bureaux in their structural change. The AAC considers this is a risk that must be carefully managed and was pleased to hear that resources are being made available to support this effort. The AAC endorses the view that a decentralized organization depends upon a strong center in all functions.

16. The AAC continues to welcome the focus being placed on strengthening accountability at all levels of UNDP, and has previously advised that clear, unambiguous, definitions of ownership of policies and procedures together with appropriate management oversight of compliance is a vital element of a strong accountability framework in a

decentralized organization such as UNDP. The AAC placed emphasis on this area in 2013 and is pleased to support the work on alignment of functions and the greater clarity in accountability that will come from the application of direct functional reporting supplemented by a “dotted line” geographic reporting line.

17. The objectives of improving efficiency and effectiveness are important, and the AAC has continued to advise that care must be taken to ensure that an appropriate level of internal control is maintained, particularly in the area of procurement so that the drive for efficiency does not create unintended consequences, specifically the removal or weakening of necessary control procedures.

#### UNDP Financial Stability

18. In view of the continuing difficulties experienced within the global economy, the AAC has had regular briefings on the financial stability of UNDP. This enabled the AAC to appreciate the risk mitigation and control measures adopted for the investment of UNDP’s funds and ensuring its liquidity (including bond holdings of lower rated countries), as well as risks arising from high volatility of currencies as well as the risks posed to UNDP’s ability to attract funding to sustain the budget. The AAC noted that a pragmatic policy on criteria for risk tolerance levels was developed and implemented. The AAC also noted that UNDP is participating in a UN wide endeavor to consolidate some treasury activities. The AAC will continue to review the financial stability of UNDP in 2014.

#### Harmonized Approach to Cash Transfers (HACT)

19. In 2012, the AAC held a joint meeting with representatives of the AACs of UNICEF and UNFPA to consider the Joint Audit of the Governance Arrangements for HACT. The three AACs agreed on a set of common recommendations, which noted that there was significant room for improvement in the way that HACT is implemented and managed. The AAC was thus pleased to hear the results of the major review of HACT undertaken in 2013.

20. Another joint meeting with representatives of the AACs of UNICEF and UNFPA was held in 2013 during which the conclusions of the review were presented and discussed. The three AACs were pleased to hear that an agreement had been reached that UNDG is the ultimate owner of the HACT Framework, and thus has accountability and responsibility for it; that accountability for implementation resides with each agency according to its own internal accountability framework; and that governance and accountability has been clarified.

21. The three AACs further advised that it is crucial that precise accountabilities be spelled out, in unambiguous detail, in the forthcoming revision and any communication related to its issuance. The chain of accountability from UNDG to the HACT Advisory Committee (and vice versa) should be clearly set out, including the responsibility and authority at each level of the chain. The AAC has also emphasized the importance of continuing to make a realistic assessment of the resources, both human and financial, needed to effectively implement the revised Framework and identifying appropriate sources to meet these needs.

22. If the HACT Framework is to deliver on its objectives, the three AACs believe that the agencies should engage in coordinated discussion with the Technical Group of the Panel of the External Auditors (of which the BOA is a member) with a view to gaining their committed agreement to recognize the value of the HACT Framework as an effective means of assurance.

23. Whilst the three AACs noted that some national governments may decline to participate in a macro assessment and some implementing partners may decline to participate in a micro assessment, this does not alter the use of the HACT Framework as the sole cash transfer mechanism. The three AACs noted that it is expected that the absence of such assessments will be taken into consideration and commensurate risk ratings will be assigned to implementing partners.

24. The three AACs also advised that metrics be developed to monitor the effectiveness of the implementation of the Framework.

25. The UNDP AAC was also pleased to see that the flexibility available to each agency as to when and how to implement the Framework is set out, and strongly endorsed the statement that the HACT Framework is the sole mechanism for transferring cash to implementing partners. The AAC also noted that complementing internal guidelines would be used at the agency level, which would overcome one of the weaknesses under the previous Framework.

26. The AAC will follow up on progress in the implementation of the review in 2014.

#### Information & Communication Technology (ICT) Management

27. In contrast with previous reports, the AAC was pleased to hear that the new governance arrangements for ICT management are now implemented and user involvement is evident. The AAC was also pleased to note that its previous advice to implement both lifecycle costing and total cost of ownership protocols has been implemented. The AAC continues to note that the role of a corporate ICT function, whilst clearly defined and agreed upon, should also encompass an entity-wide view of ICT systems and budgetary resources, which is necessary to ensure that operational efficiency is promoted and value for money is obtained in a scarce resource environment. The AAC looks forward to continued dialogue on this issue.

#### Enterprise Risk Management (ERM)

28. The AAC noted in 2011 that UNDP management considered that ERM had matured to a level at which it had become part of mainstream management, and was thus concerned to note that whilst effort has been placed on this in 2013, the approach does not yet seem to be fully integrated into corporate systems. Managing risk is an integral part of UNDP's work at all levels of the organization. Thus, the AAC will continue to give this area high priority in 2014, bearing in mind its previous advice that UNDP must not only implement an integrated system, but also ensure that the escalation process is clear to all staff, not only in form but also in purpose.

29. The AAC continues to believe that the identification and continued management of a set of "Top audit-related management priorities" for a calendar year is a useful tool for keeping focus on important entity or agency-wide risks, and notes that the Organizational Performance Group monitors this regularly.

### **V. Advice Related to the Office of Audit and Investigations**

#### OAI Work Plan and Resources

30. The AAC is pleased to report that the first year under the leadership of the new Director has seen a number of positive developments in OAI. Plans are in progress to introduce performance auditing, and the AAC is pleased to note that a measured approach is being taken. The Director is holding regular meetings with senior management to review matters arising from the audits and investigations undertaken by OAI.

31. The AAC reviewed the 2013 Annual Work Plan for OAI in December 2012, and advised the Administrator that it was well developed. In subsequent meetings, the AAC received updates on performance against the Plan. The AAC noted improvement in the overall presentation of data, and progress against the Plan over the course of its meetings. Of particular note was the comprehensive assessment undertaken to determine the root causes of delays in issuing audit reports, and the steps that will be taken to address these causes. The AAC will follow progress on this in 2014.

32. Recalling the comments in its previous reports, the AAC spent time at each meeting reviewing with OAI its overall level of resources, and the relationship of its resources to its ability to perform its work so that OAI may be able to achieve a satisfactory level of assurance. The AAC was encouraged to hear that OAI felt that a reasonable level of assurance could be provided. The AAC will continue to review this regularly.

33. The investigations function of OAI has continued to experience growth in workload, which has been addressed to some extent by changes in work processes allied with a greater use of technology, but has also required additional resources. As previously reported, the AAC has been concerned that the high number of open cases may risk creating the impression that UNDP does not take reports of potential fraudulent activity seriously, and that this may pose a risk to the overall integrity and reputation of UNDP. The AAC was therefore pleased to hear that significant additional resources have been made available to OAI to strengthen the investigations function. This is consistent with the AAC's prior advice concerning the importance of pro-active investigation work.

#### Audit Follow-up

34. The AAC was provided with information on audit recommendation follow-up efforts and was pleased to see that action has been taken and that, as a result of additional follow-up efforts, the number has been significantly reduced. Notwithstanding this, the AAC continues to be concerned about the slow implementation of recommendations relating to procurement, particularly bearing in mind that this represents the highest incidence of fraud allegations and actual fraud investigations.

#### Disclosure of Internal Audit Reports

35. The AAC was pleased to note that the safeguarding policies and webpage designed to facilitate the public disclosure of all internal audit reports continued to operate satisfactorily.

### **VI. UN Board of Auditors**

36. As required under its TOR, the AAC met privately with the Director of External Audit in its April and July meetings in 2013. The main areas of discussion were the IPSAS implementation and the related review of IPSAS financial policies, as well as the audit opinion on the 2012 financial statements. The AAC noted that the new External Audit team had risen to the challenge of the tight timetable to complete the audit of the first set of IPSAS compliant financial statements in the first year of the External Auditor's appointment.

37. The AAC discussed the issue of the timing of the release of the financial statements for audit with the External Auditor. Whilst appreciating the valid basis on which the BOA has requested that the statements be made available earlier than the deadline foreseen in the Financial Regulations, the AAC also notes that UNDP management faces a number of challenges, some outside the control of UNDP, in meeting this objective. The AAC encourages UNDP management to work with the BOA to find a mutually effective solution.

### **VII. Ethics Office**

38. The AAC reviewed the Ethics Office work plan, action plan and operation of the financial disclosure policy.

39. The AAC welcomed the engagement of the Ethics Office with regional management and compliments the Ethics Office on its sustained high quality communications.

### **VIII. Conclusion and 2014 Work Plan**

40. The AAC has developed a work plan for 2014 to guide it in its work in the coming year. The AAC will continue to take a keen interest on the progress of the implementation of the Strategic Plan and Structural Review, as well as



its effects on efficiency and internal controls. Other areas of focus will include gaining a further understanding of how accountability is being assured in UNDP, human resources management, and how the ERM processes are integrated into management process. The AAC will follow up on its recommendations in respect of HACT governance and accountability and give continued attention to ICT governance as well as the financial stability of UNDP.

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ANNEX: Revised Terms of Reference of the AAC

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United Nations Development Programme



**AUDIT ADVISORY COMMITTEE**

**TERMS OF REFERENCE**

**Purpose and Context**

1. The purpose of the Audit Advisory Committee ("Committee") is to assist the Administrator in fulfilling his/her responsibilities regarding oversight, financial management and reporting, internal audit and investigation, external audit, risk management, 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 Committee has an independent advisory role and is not a governance body; no language or clauses in these Terms of Reference ("TOR") shall imply otherwise.
3. The Committee shall seek to promote proper governance and high ethical standards, as well as the adoption and use by management of best practices in risk and financial management.
4. Members of the Committee shall act in an independent, non-executive capacity. Members shall not be held personally liable for decisions taken by the Committee acting as a whole.
5. 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 and investigation services.

**Mandate**

6. The Committee shall:
  - a) Review and advise the Administrator on policies significantly affecting financial management and reporting, the internal audit and investigation functions, and the effectiveness of UNDP's systems of internal control and accountability; including its governance, risk management and control processes;
  - b) Review and advise on the fraud and corruption prevention policy, ethics function including the code of ethics and whistle blower policy;
  - c) Consult on any proposed changes to the Financial Regulations and Rules;
  - d) Review and advise on UNDP's financial statements and reports, including any significant changes in accounting policies, presentation and disclosures;

- e) Promote the understanding and effectiveness of the audit and investigation functions, provide a forum to discuss internal control and matters raised by the BOA and OAI as well as strive to maintain open communication with them;
- f) In relation to OAI review and advise on:
  - (i) The Charter;
  - (ii) The appointment, performance evaluation, extension and dismissal of the Director ;
  - (iii) The strategy, annual work plans, budget and periodic reports;
  - (iv) The quality and assurance improvement programme, including internal and external assessments;
  - (v) Relevant reports and management letters;
  - (vi) The status of implementation by management of audit recommendations;
  - (vii) Policy for disclosure of internal audit reports and implementation thereof.
- g) In relation to the BOA review and advise the Administrator on:
  - (i) Audit scope and related matters;
  - (ii) BOA reports and relevant management letters;
  - (iii) The status of implementation by management of audit recommendations.
- h) Consider the risk and control implications of audit reports and management letters and highlight, as appropriate, issues that may need further examination with due consideration as to confidentiality and due process;
- i) Review and advise on the governance, development and management of information technology systems impacting financial management and reporting;
- j) Review and advise on any issues arising from activities covered by these TOR.

#### **Authority**

7. The Committee has the authority and the responsibility to review all activities that it deems appropriate and relevant to these TOR. In exercising this responsibility, the Committee may:
- 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, as it deems appropriate.

8. The Committee shall meet with the Director of OAI at least annually in a private session.
9. The Committee shall meet with the representatives of the BOA at least annually in a private session.

#### **Membership**

10. The Administrator shall appoint five members of the Committee. All members will be independent and external to UNDP.
11. In appointing members, the Administrator shall ensure that the Committee as a whole is made up of people with working knowledge and familiarity of finance, accounting, governance, internal audit and investigation, external audit, internal control and risk management practices and principles.
12. The Administrator shall designate a Chairperson from amongst the five members of the Committee. The terms of office for members shall be three years, renewable once.

#### **Remuneration**

13. Members will not be remunerated for activities undertaken in their capacity as members of the Committee.
14. UNDP will reimburse all committee members for any travel and subsistence costs that are necessarily incurred in relation to participation in Committee meetings.

#### **Secretariat**

15. The Associate Administrator will provide the Secretariat to the Committee. The Secretariat will convene meetings at the request of the Chairperson.

#### **Number and Organization of Meetings**

16. The Committee shall establish an annual programme of work.
17. The Committee shall normally meet at least four times a year at Headquarters. The Committee may meet in a regional setting, as it determines appropriate. The Chairperson, any member, the Administrator, the Associate Administrator, the Director OAI, and the BOA may request additional meetings. Meetings will normally be face to face, but where circumstances demand, meetings may be conducted virtually such as by video or teleconference.
18. The time and duration of a meeting will be scheduled to reflect the quantum of work and as decided by the Chairperson in consultation with members and the Administrator/Associate Administrator. Time will be allowed for any pre-briefing of the Committee by UNDP staff and the BOA, as the Committee shall deem appropriate.

19. The Chairperson, in consultation with the members, will prepare a provisional agenda, which will be circulated by the Secretariat together with all supporting documents, (including any proposed presentations by staff invited to brief the Committee) one week prior to the relevant meeting.

20. The BOA may also submit documents.

21. Members of the Committee shall normally be given at least 21 days notice of meetings.

#### **Attendance**

22. All meetings of the Committee at Headquarters will be attended by the Associate Administrator or his/her representative and by the Director of OAI or his/her representative, Chief Finance Officer or his/her representative, Director of the Bureau of Management or his/her representative. Other UNDP staff may attend at the invitation of the Chairperson.

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

#### **Quorum**

24. Any three members present, in person or virtually, shall constitute a quorum. An alternate cannot represent a member.

25. It is expected that members will be present for meetings in person. Exceptionally, members may attend meetings by video or teleconference.

#### **Disclosure of Interest**

26. All members of the Committee shall sign a statement of disclosure of interest. In order to avoid any appearance of doubt, members shall consult the Director, Office of Ethics, prior to any meeting at which they expect to raise any potential conflict of interest and to inform the Chairperson and Administrator of the outcome of such consultation. 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 be excused from the discussion and abstain from voting on the matter. In such an event, a quorum will be required from the remaining members.

#### **Voting**

27. The Committee's decisions will be made by the members present (including by video or teleconference) by voting and based on a simple majority. Should the votes be equally divided, the Chairperson shall have the casting vote. However, as the desired option, the Committee should strive to achieve decisions on a consensus basis of all members attending the meeting.

**Minutes**

28. The Secretariat will prepare and keep minutes of all meetings. The Committee shall approve the minutes by correspondence within a month of each meeting.

**Self-Assessment and Reporting**

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

30. The Committee shall perform from time to time a self-assessment relative to the Committee's purpose, duties, and responsibilities outlined herein and also review its TOR to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Administrator for approval.

31. The Committee shall prepare a report on its work for the previous calendar year for presentation to the Administrator by 31 March of every year. The report will be made available to the Executive Board at its annual session. Upon request, the Chairperson shall present this report.

**Confidentiality**

32. All members of the Committee shall sign a statement of confidentiality on first appointment.

33. 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.

**Indemnity of Members**

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



Approved: \_\_\_\_\_  
Helen Clark, Administrator

8/3/11

Date: \_\_\_\_\_