Executive Board of Undp/unfpa/unops

Annual session 2019
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**UNDP management response to the:**

1. **Annual report of the Office of Audit and Investigations on internal audit and investigation activities in 2018 (DP/2019/23);**
2. **Activities of the UNDP Ethics Office in 2018 (DP/2019/20); and**
3. **2018 Annual Report of the Audit and Evaluation Advisory Committee (Annex 3 to DP/2019/23)**

**Introduction**

1. This report is UNDP’s management response to the main recurring risks and matters highlighted in the 2018 Annual Reports of the Office of Audit and Investigations (OAI) DP/2019/23, Ethics Office – DP/2019/20, and the Audit and Evaluation Advisory Committee (AEAC) - Annex to DP/2019/23.
2. The Administrator and the Associate Administrator of UNDP give the highest priority to recommendations of the independent oversight offices and the AEAC; and the implementation of all recommendations is closely monitored by senior management. There are many factors, including the disclosure of audit reports, which contributed to UNDP having received a “very good” rating in all four Publish What You Fund Aid Transparency Indices published since 2013. The Index is an independent ranking, which assesses the timeliness, accuracy and comprehensiveness of data published by 45 of the largest aid organizations using the standard established by the International Aid Transparency Initiative.
3. **Annual report of the Office of Audit and Investigations on internal audit and investigation activities in 2018 (DP/2019/23)**
4. **General comments on audit performance and OAI’s overall audit opinion**
5. Pursuant to EB decision 2018/13 in which the EB r*ecalls decision 2017/17, in which the Board expressed concern about recurring weaknesses for both UNDP and UNFPA related to programme management, procurement, governance and financial management, notes that similar challenges have been identified in the 2017 reports, and underscores the urgent need to intensify efforts to address these issues*, Management is pleased to comment on the general audit performance, as highlighted by OAI. Management would also like to highlight the actions that have been taken to address key recurring risks identified in the 2018 OAI Annual Report and the impact of such measures.
6. After having received a “satisfactory” rating on governance, risk and control (GRC) mechanisms in 2017, management is very concerned that the rating declined in 2018 to “partially satisfactory/ some improvement required”. Management takes this rating very seriously and has already put together a team and plan to provide both a short-term as well as a longer-term response, including accountability of senior managers and looking at ways to improve the management of risks while working in some of the riskiest environments. The organization will invest time and resources necessary to address audit issues in a sustainable manner, including the top seven audit-related management priorities, as approved by the Executive Board. 2018 was also an extraordinary year as much management attention especially at the Country office level, was focused on UN reform, including the delinking process. Nevertheless, work will be done in 2019 to address this situation and to improve UNDP’s audit rating.
7. Management is planning to improve its audit performance through several means, including, in the short term, SURGE teams for particularly poorly performing Country Offices. In the longer term, a root cause analysis will define the way forward to addressing repeat audit observations. Moreover, the current reform initiatives, including the work on business models, UNDG’s business operations strategy, the UNDP digital strategy, clustering and the rethinking of Country Office functions remaining post clustering and oversight arrangements, are expected to bear fruit. These have already made significant progress but have not been completed, yet. Based on the good experience from last year, Management will also amplify regular reporting on audit issues and progress made to the Executive Group and Organizational Performance Group. It should also be noted that an evaluation to address repeat audit findings is scheduled for 2019.
8. Noting that some of the challenges flagged by audits were identified in crises countries in 2018, which face extremely difficult working conditions and staff capacities as well as the urgency to deliver, Management is considering extending some of the Fast Track Policies. UNDP has had significant success with its Fast Track Policies, which would likely result in risk-based adjustments to controls to account for the challenging conditions of such countries, including e.g. longer periods to finish annual performance reviews, more time to complete mandatory courses and others.
9. **Comments on areas of recurring audit issues and unsatisfactory audit ratings**
10. Management continues to adopt a risk-based approach in addressing, where possible, recurring audit matters. Based on the reports issued by the United Nations Board of Auditors (UNBOA), OAI and the AEAC, as well as the decisions of the EB, the Executive Group and the Organizational Performance Group, Management has continued to establish audit-related management priorities on a biennial basis since 2006. Progress in achieving these priorities is monitored through regular meetings and is reported annually to the EB at its first regular session. Most of the recurring issues highlighted in the 2016 through 2018 OAI Annual Reports are captured in the 2016-17 top 7 audit-related management priorities that were approved by the EB in January 2017 (DP/2017/11) and, with refinements, were extended for the biennium 2019-2020 by the EB in January 2019 (DP/2019/2). As reported to the EB in January 2019 (“UNDP and UNCDF: Report on the implementation of the recommendations of the United Nations Board of Auditors, 2017”; DP/2019/7), there is general agreement that encouraging progress has been made on all top seven audit-related priorities for the 2016-2017 period, although more work needs to be done.
11. With regards to general governance, Management takes note of issues related to resource mobilization, organizational structures and risk management, as identified by OAI. As reported in 2019/7, Management continues to work on expanding and strengthening its catalogue of financial instruments to help programme countries access development finance opportunities and to provide partners with different modalities for investing in the 2030 Agenda for Sustainable Development. Some of the key areas of focus in 2018 have been the enhancement of UNDP’s performance-based payment modalities to deliver measurable and sustainable results as well as the strengthening of operational guidance on existing modalities based on leading practices. Management also continues the work on reversing the decline in core resources and further broadening the UNDP funding base. On organizational structures, Management is convinced that the current reform initiatives, as mentioned above, provide the means to clarify and improve deficiencies in organizational structures. With regards to risk management, Management has rolled out a new enterprise risk management policy in 2019 and has proposed an action plan to support its implementation.
12. **Country Office (CO) Audits and Directly Implemented (DIM) Project Audits**
13. **Programme/ Project Management (PPM):** Management takes note of the recurring issues on programme and project management that require new approaches to break old patterns. As programme/ project management and evaluation is also one of the top 7 audit-related management priorities, an update on recent and ongoing activities to address the repeat audit issues was included in DP/2019/7. The document elaborated *inter alia* on UNDP’s continued initiative to implement uniform quality standards for projects, the new evaluation policy and strengthened evaluation function, the continued efforts to ensure timely project closure as well as the rewrite of UNDP’s prescriptive content for PPM, so that it reflects a more differentiated approach to programming requirements and reduces unnecessary administrative burdens. Driven by the need to have the capacities to ensure quality programming at all stages, the document also flagged the planned introduction of a “Managing Successful Programmes” certification to staff starting in 2019. In addition to these initiatives, as part of the ongoing discussions on the new People Strategy (see below), accountability mechanisms in annual performance reviews are also under review for all staff, including senior managers.
14. These recently completed and planned initiatives are expected to yield further improvements in the programme/ project management area in 2019 and beyond. This applies particularly to further strengthened programme quality through effective quality assurance, improved staff capacity and further strengthened evidence-based programming.

1. **Financial Management:** Management takes note of the recurring issues on financial management. It is important to highlight that DIM audits are mostly purely financial audits and therefore, it is expected that most of their recommendations will be related to the financial management area. The issues identified by DIM audits are addressed by the respective Country Offices, including with their responsible parties. In addition, as reported in DP/2019/7, Management has continued its efforts to cluster financial services, to reduce banking risks, to promote financial training and certifications among UNDP’s employees and to promote self-assertion in an effort to certify the performance of key controls in UNDP’s decentralized offices. For the 2019 and 2020, the further streamlining of processes as part of the current reform initiatives is also expected to yield further improvements in financial management.
2. **Procurement:**

Management takes note of the recurring issues on procurement. As reported in DP/2019/7, Management has undertaken several important steps to improve performance inter alia through the establishment of regional procurement specialists in regional hubs as well as by investing in procurement planning, vendor management, the contract management module in Atlas and procurement training. UNDP recorded about $1.2 billion in planning procurement volume for 2018 in the PROMPT planning tool. Funding has been received in 2019 for investments in digitizing and integrating the procurement function and systems, including further roll out of e-tendering; integration of ACP online with e-tendering and improvements in vendor and data management. In 2019 and 2020, the funded projects will be implemented, while seeking further investments in greater centralization and consolidation, end-to-end automation of the management of individual contractors, and development of an e-commerce platform to provide seamless access, and integration with the procure-to-pay process, to increase levels of transparency, integrity and accountability.

1. **Human Resources Management*:***

Management takes note of the recurring issues in human resources management. As reported in DP/2019/7, the completion of mandatory courses is addressed through various channels, including through reminders sent to staff and a dashboard to review completion status. Completion rates of mandatory courses have increased to 71% of personnel at the end of 2018. Management is also working on a new People Strategy to be published in 2019, which will focus on organizational development, redesign of the human resources function, and a talent management strategy and system. UNDP will furthermore assess the structure of human resources management as part of its current reform initiatives, as above.

1. **Information and Communication Technology (ICT) and general administrative management*:***

Management takes note of the recurring observations, which do not include ICT-related issues, but relate solely to asset management. Management has introduced a new asset monitoring dashboard in 2018. This new tool allows Country Offices to have a full picture of any asset related issues in their offices, including asset information or pending corrective actions as a results of bi-annual asset certifications and internal reviews. Management also continues to provide asset management webinars for Country Offices.

1. **Unsatisfactory CO and DIM Audits:** Of the 30 Country Office audits undertaken, OAI rated 3 as unsatisfactory in 2018. Management is particularly concerned about the unsatisfactory rating of a mid-size Country Office, which has received several consecutive unsatisfactory audit ratings and NGO/NIM review letters in recent years and is taking appropriate action. One of the mitigating strategies considered in 2019/20 is the clustering of Country Offices, particularly of those with weak operational capacity. With regards to DIM project audits, Management acknowledges the qualifications, as reported in 2018, noting that they relate largely to one project in one Country Office. The issues related to this project have been mostly resolved and have received the highest management attention in UNDP. They have also been discussed several times with the Executive Board and lessons learned from them have been incorporated for similar endeavors in the future.
2. **Global Fund Audits**
3. UNDP is an important partner of the Global Fund in its efforts to work in highly challenging operating environments. UNDP is the Principal Recipient in 18 countries and implements 3 regional programmes that cover another 29 countries, of which 8 are under the Global Fund’s Additional Safeguards Policy (ASP).[[1]](#footnote-1)
4. Management continues to make substantial investments to continuously and systematically refine risk mitigation and prevention measures that address the operational realities that arise from working in capacity-constrained environments. These interventions specifically respond to OAI’s audit findings and recommendations and are reviewed periodically by UNDP’s senior management.
5. After having received an unsatisfactory audit rating in 2017, UNDP Management is pleased to report that a follow-up audit conducted in September 2018 noted that nine out of 10 recommendations given in 2017 had been implemented, despite a challenging operating environment in the affected country. Management is further pleased to report that none of the audits in the Global Fund portfolio were rated unsatisfactory in 2018. UNDP thus continued the good performance recorded in 2016 and 2017.
6. In general, Management notes that issues in monitoring and evaluation, weaknesses in sub-recipient management and in procurement and supply chain management, are recurring risks under Global Fund projects. These risks are managed through the development of tailored tools and guidance available through a web-based Implementation Manual,[[2]](#footnote-2) trainings, global monitoring, deployment of vetted experts for targeted support, and a centralized advisory team. Noting weak capacity of sub-recipients and the operational realities, there will, however be some residual risk.
7. **Headquarters (HQ) Audits and interagency audits**
8. Management welcomes the recommendations made in the 7 HQ audits issued in 2017, of which 4 were performance-based, thus focusing on efficiency and effectiveness of systems and procedures. Management is pleased with the satisfactory ratings received for the organization’s engagement with the Green Climate Fund, UNDP’s $200 million p.a. global procurement activities and the Human Development Report Office, which produces UNDP’s flagship report of the same name. Management also notes the partially satisfactory/ some improvement required ratings received for the large Regional Bureau for Latin America and the Caribbean as well as UNV. While no unsatisfactory reports were issued for HQ in 2018, the partially satisfactory/ major improvement required results of the audits of the UNDP clustering process (pilot stage) and UNDP’s government cost sharing management are concerning. The new clustering strategy initiated by the Administrator, will be a phased approach, commencing in 2019 and to be completed during the current Strategic Plan period. It draws on lessons learned from the pilot stage. In general, Management is working on the implementation of the recommendations from all HQ audits.
9. **Audits of projects executed by Non-Governmental Organizations (NGO) and/or National Governments**
10. Management recognizes the role and importance of the national implementation modality (NIM) as a way of ensuring national ownership and sustainability of projects at the country level. Management takes note of the continuing high share of Country Offices receiving satisfactory review ratings from OAI (assessment of the quality of the management of the NGO/NIM audit process and of the qualifications in the report). Management is concerned, however, with regards to the share of Country Offices that received unsatisfactory audit ratings, which were mostly due to the audit qualifications recorded.
11. Management is also concerned to note the net financial misstatement for the year 2017, which amounted to 2% over the total audited expenditure of non-governmental organization/nationally implemented projects. While mainly originating in one large Country Office, the net financial misstatements as well as the share of unsatisfactory ratings point to continued capacity challenges at the implementing partner level and in implementing partner oversight.
12. As reported to the Executive Board in DP/2019/7, UNDP has undertaken several steps in 2018 to enhance the oversight and management of implementing partners and to step up training efforts. As these initiatives will begin to bear fruit over time and are expected to contribute to significant improvements, it is expected that issues related to implementing partners will become less of a common audit issue over time than they are currently.
13. The implementation of the 2014 revised Harmonized Approach to Cash Transfer (HACT) framework continues to be among the top priorities for UNDP to assist in the risk management of implementing partners and responsible parties by selecting and updating the implementation and cash transfer modality based on the results of micro assessments and assurance activities. The number of reported micro assessments, which determines each partner’s risk rating continues to improve. The number of partner micro assessments increased from 794 in November 2017 to 1,598 micro assessments as of March 2019. HACT compliance continues to improve as offices enter new programme cycles, which provides them an opportunity to fully embed HACT activities in programme and project planning.
14. **Follow up on long outstanding audit recommendations**
15. Management frequently monitors implementation of OAI audit recommendations through its management group meetings. This is evidenced by (i) the further improvement in the implementation rate of recommendations issued over the past 3 years, which increased to 95%, after 92% in 2017 and 87% in 2016; (ii) the significant improvement from 50 long outstanding audit recommendations at the end of 2015 to 17 at the end of 2016, 6 at the end of 2017 and 4 at the end of 2018. Management will continue to provide focused attention to the long outstanding recommendations with a view to bringing them to 0 in 2019. Since 2016, the Administrator and Associate Administrator, with significant support from the Bureau for Management Services, have been closely following up on the implementation of audit recommendations and have been sending corresponding messages to all Bureaux to ensure that the process is expedited. Management is certain that further improvements in this area are possible, particularly given the continued, senior management attention.
16. **Investigations and complaints received and response to Executive Board decision 2014/21, 2015/13 and 2017/17 (requesting disclosure of financial loss recovery)**
17. The Annual Report on Disciplinary Measures and Other Actions taken in response to fraud, corruption and other wrongdoings shared by UNDP’s Administrator and ethics trainings carried out on a regular basis to sensitize staff on the types of issues that should be reported may result in an increase in the number of reported cases. In support of the priority given by the Secretary-General as a system-wide issue, management facilitated reporting on sexual harassment, exploitation and abuse in 2018. This was done through a strengthened policy and by enabling anonymous reporting through a third-party vendor and resulted in an increase in the number of sexual harassment cases received. Management would like to refer to DP/2019/21 “Independent review of UNDP, UNFPA and UNOPS policies and processes on tackling sexual exploitation and abuse and sexual harassment” for the further discussion of this topic.
18. Management notes that procurement fraud remains the highest category of newly reported (31%) as well as substantiated cases (21 cases; 27%). UNDP’s action plan continues to be one of ensuring increased ethical awareness through a mandatory training course on fraud, special training courses to procurement staff, sharing of lessons learned, an updated anti-fraud policy, as well as timely response and adaptation when fraud is substantiated. Anti-fraud clauses have also been included in all agreements with implementing partners and responsible parties. Furthermore, many of the current and planned initiatives, as mentioned in paragraphs 12 and 13 also have the potential to mitigate the risk of fraud.
19. Management would like to re-emphasize that while it remains a challenge, UNDP pursues full recovery of funds lost to fraud based on the actions proposed by an inter-bureau standing board established to improve provide transparency on the collection process. The board will follow up on the monitoring of the substantiated losses.
20. As shared with individual EB Members in January, management is pleased to provide a comprehensive analysis on recoveries in line with EB decision 2017/17. As such, the following losses, recoverable amounts and recoveries were noted in recent years:



1. As can be seen from the above table, UNDP recovered approximately 48% of the estimated losses and 70% of the recoverable amounts between 2013 and 2018.
2. As mentioned last year, UNDP mostly has to rely on the national judicial systems to pursue recovery of funds for cases of substantiated frauds within the country. Effective partnership and collaboration with the national authorities and Member States are critical to the success of management actions. Most of the fraud recoveries take place in future years, as opposed to the year in which the case was closed, as recovery efforts can only commence after the fraud is substantiated and the case is finalized. As such, management notes that the recoveries for losses that occurred in prior years continued in 2018.
3. **Conclusion**
4. Management continues to be fully committed to the ongoing, excellent working relationship with OAI and will further improve its governance, risk and control processes as well as its follow-up on OAI’s recommendations.
5. **Activities of the UNDP Ethics Office in 2018 (DP/2019/20)**
6. **Management response to matters highlighted in the 2018 Annual Report of the Ethics Office**
7. UNDP Management takes note of the 2018 achievements of the Ethics Office, and notes that, as in 2016 and 2017, there is no management recommendation, which is a testament to the importance that management has placed on dealing with the issues raised by the Ethics Office during the past several years.
8. Management would like to thank the Ethics Office for its continued advocacy for a strong organizational culture of ethics and accountability. The continuously increasing number of matters addressed to and by the Ethics Office serves as evidence that the services from the Ethics Office are more important than ever and that staff members actively seek the advice from the Ethics Office when they are faced with potentially ethically questionable decisions. Management is pleased to note that the increased caseload will be met by a modest increase in the capacity of the Ethics Office in 2019.
9. Out of all the important work the Ethics Office carries out, Management would like to particularly note the Office’s advocacy related to the prevention of sexual harassment, exploitation and abuse, which continues to be a topic of concern throughout the United Nations System.
10. Management is committed to finalizing the UNDP Policy on Gifts, Honours, Decoration, Favours, Hospitality, or Remuneration from Governmental and Non-governmental Sources in cooperation with the Ethics Office in 2019. As stated in the Annual Report of the Ethics Office, management is also committed to ensuring that all UNDP personnel regardless of contractual modality are able to access and complete all mandatory UNDP on-line courses, including Ethics and Integrity at UNDP.
11. Management is fully committed to continue building the already excellent working relation with the Ethics Office.
12. **2018 Annual Report of the Audit and Evaluation Advisory Committee (Annex to DP/2019/23)**
13. **Management response to matters highlighted in the 2018 Annual report of the Audit and Evaluations Advisory Committee (AEAC).**
14. UNDP Management notes the overall positive report from the AEAC, particularly with regards to the progress acknowledged by the AEAC. The Committee’s concerns and recommendations for improvement, particularly in the areas of risk management and vendor management, are well noted.
15. Management wishes to express its gratitude to the AEAC for its strategic advice on administrative, audit, evaluations, ethics and management issues. The implementation of the AEAC’s advice and recommendations are ensured and tracked by UNDP’s senior management.
16. Management is committed to continue cooperating with the AEAC at senior management level and will continue to embrace the AEAC’s advice and recommendations.
17. Management would like to thank Ms. Sheila Fraser, who left the AEAC in February 2019, for her dedication and invaluable advice as well as her sterling service to the organization since July 2014; first as a member and then as Chair of the AEAC.
1. ASP countries are those where the existing systems to ensure accountable use of GF monies are not strong and require additional measures to mitigate risk. [↑](#footnote-ref-1)
2. [http://undphealthimplementation.org/](https://emea01.safelinks.protection.outlook.com/?url=http%3A%2F%2Fundphealthimplementation.org%2F&data=02%7C01%7Cdominik.brinkmann%40undp.org%7Cb42756c3bf92472dd8ab08d69dbe0ea3%7Cb3e5db5e2944483799f57488ace54319%7C0%7C0%7C636869836943801029&sdata=r4Muva49QFyDJImsnbtJJBHGwBx%2F5%2F5tjWTRnByuOZU%3D&reserved=0) [↑](#footnote-ref-2)