



**Executive Board of the
United Nations Development
Programme, the United Nations
Population Fund and the United
Nations Office for Project Services**

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Recommendations of the Board of Auditors

**UNDP: Report on the implementation of the
recommendations of the United Nations Board of
Auditors, 2018**

Summary

In July 2019, the United Nations Board of Auditors (UNBOA) formally issued its audit report for UNDP (A/74/5/Add.1) and awarded UNDP an unqualified (clean) audit opinion for the year ended 31 December 2018. This is the seventh full year of reporting under International Public Sector Accounting Standards (IPSAS) and the opinion reiterates the continuing commitment of UNDP to comply with IPSAS. This achievement marks 14 consecutive years of unqualified audit opinions for UNDP.

The Administrator wishes to emphasize that transparency and accountability for results and impact continue to be top UNDP priorities. The governance mechanisms and the accountability framework ensure that funds are administered with appropriate fiduciary accountability and integrity, reinforced by a commitment to ongoing improvement and innovation. UNDP continuously learns from and implements recommendations of its independent oversight bodies to help drive efficiency and effectiveness. In 2018, UNDP continued to rank as one of the most transparent aid organizations in the world, according to the Publish What You Fund's (PWYF) Aid Transparency Index.

As UNDP improves its standards of organizational transparency and accountability, the strategic management of top audit-related priorities continues to be monitored closely, with the direct engagement of the Administrator and the Associate Administrator.

Several corporate initiatives including the People for 2030 strategy, the clustering of transactional activities, and technology investments in procurement, are expected to have significant impact in addressing audit-related priorities. In late 2019, UNDP conducted a detailed internal study to understand the root causes underlying recurring audit observations. The study provides a series of recommendations for UNDP to pursue, in conjunction with ongoing corporate initiatives, in order to help address the top audit priorities.

The present report reviews the progress made in addressing the refined top seven audit-related management priorities for the biennium 2018-2019, as established by management and endorsed by its oversight bodies (as presented in document DP/2017/11 and supported by Executive Board decision 2017/5) and reports on the implementation status of the recommendations of the UNBOA for the year ended December 2018 and earlier. Pursuant to Executive Board decision 2010/9, details of the implementation status of the individual audit recommendations and the full audit report of the UNBOA are available on the UNDP Executive Board website.



Elements of a decision

The Executive Board may wish to: (a) note the unqualified audit opinions issued by the UNBOA for 2018; (b) note progress made by UNDP in addressing the refined top seven audit-related priorities in 2018-2019; (c) support the ongoing efforts of UNDP management in implementing the recommendations of the UNBOA for the year ended 31 December 2018, and the remaining recommendations from prior years.

I. Introduction

1. The UNBOA gave UNDP an unqualified (clean) audit opinion on its financial statements for the year ended 31 December 2018. For UNDP, this marks 14 consecutive years of unqualified audit opinions – an achievement that confirms the organization’s commitment to continuous improvement in transparency and accountability. The tone set at the top, by the Administrator and the Associate Administrator, has been instrumental in enabling UNDP to receive unqualified audit opinions from its external auditors and ensures UNDP will continue to strive for greater operational excellence.
2. UNDP adopts a risk-based approach in addressing recurring audit issues. The purpose of setting the organization's top audit-related management priorities is to identify, from the perspective of internal and external oversight and governing bodies, significant, recurring or emerging risks and their associated inherent root causes. This allows management, on a priority basis, to ensure that adequate mitigating strategies and controls are put in place to address such issues.
3. In the following sections, UNDP assesses progress in implementing the refined top seven audit-related management priorities for the biennium 2018-2019, which was endorsed by the Executive Board in its decision 2019/2 and reflects the recurring issues raised by the oversight and governing bodies. An overview of the top audit related management priorities is also listed in annex 1.
4. UNDP has made continuous improvements in addressing its audit priorities, as indicated in the progressive reduction in the number of priorities from the original 15 in 2006-2007 to the current seven priorities. In order to sustain these improvements and realize additional gains, UNDP will continue to be proactive in its oversight and monitoring.
5. In 2018, UNDP embarked on reviews of its policy advisory services as well as its management services and business processes. UNDP has initiated implementation of most of the recommendations emerging from these reviews in 2019, which are expected to yield significant progress in some of the top seven audit priorities.

II. Review of progress made in addressing the refined top seven audit-related management priorities for 2018-2019

6. Based on the UNBOA findings for the period ended 31 December 2018 and in discussions with the Office of Audit and Investigations and the Audit and Evaluation Advisory Committee, UNDP has made progress on all of the top seven audit-related priorities for the 2018-2019 period as set out below, although more work needs to be done.
7. Based on the scope of the work undertaken and the adequacy and effectiveness of the UNDP framework of governance, it is the opinion of the Office of Audit and Investigations that the elements of risk management and control covered in the audit reports issued in 2018 were, in aggregate, ‘partially satisfactory/some improvement needed’. This means that the majority of business units or projects audited in 2018 were adequately established and functioning but need some improvement.
8. Annex 1 contains a summary of the progress assessment of the top seven audit-related management priorities for the 2018-2019 period. The results of the internal assessment have been presented and endorsed by the Organizational Performance Group, chaired by the Associate Administrator, and reviewed by the Executive Group, chaired by the Administrator.
9. The following is a summary of progress made in the top seven audit-related management priorities for 2018-2019. These priorities were refined as per Executive Board decision 2019/2 in January 2019.

A. Implementing partner fiduciary and capacity management

10. Implementation of the 2014 revised harmonized approach to cash transfers (HACT) framework continues to be among the top UNDP priorities in its efforts to facilitate 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.

11. As of October 2019, 85 per cent of country offices had carried out macro assessments. In addition, 1,407 micro assessments of implementing partners had been completed by October 2019, compared to 1,236 as of October 2018.

12. HACT compliance continues to improve as offices initiate new programme cycles, which give them an opportunity to fully embed HACT activities during project planning. Offices transitioning to the full elements of the HACT framework continue to perform project financial audits. The cooperation of programme governments, which expect their institutions to be involved in implementation of projects funded with government cost-sharing funds, continues to be a challenge, especially where the institutions are deemed not to have adequate capacity.

13. In 2019, in order to enhance the oversight and management of implementing partners, UNDP has:

- (a) Revised the prescriptive content of programme and project management by providing greater clarity and ensuring greater consistency in managing the risk of working with implementing partners in the wider context of project implementation;
- (b) Strengthened the updated HACT monitoring platform to ensure it is more robust in tracking and reporting HACT implementation and offers better support to country offices' and their bureaus' decision-making by incorporating planning activities; the new platform provides daily updated information on partners with which country offices are working;
- (c) Included HACT in the mandatory year-end assertion process to ensure that issues relating to the management of implementing partners are brought to the attention of the Heads of Office;
- (d) Jointly with other United Nations organizations, rolled out long term agreements with 3rd party service providers to perform HACT assessments and assurance activities including capacity development of implementing partners where required;
- (e) Published four HACT e-courses through the UNDP Transparency Portal, which allows internal and external stakeholders to build capacity for HACT implementation;
- (f) Developed and launched, in collaboration with other United Nations organizations, a financial management guide for disclosure of HACT-related information with third parties.

B. Programme/project management and evaluation

14. Recurring audit issues in programme/project management and evaluation require comprehensive solutions rather than piecemeal fixes. UNDP is addressing this in a number of ways that strengthen the capacities of staff and partners to do quality programming, develop new instruments that provide differentiated approaches to programming requirements and reduce unnecessary administrative burdens, and establish institutional systems and guidance to reinforce good practices.

15. The examination of the reasons behind recurring audit issues informed the reform of UNDP programming policies in 2018. UNDP developed new programming instruments to deliver results – including the creation of the Engagement Facility for upstream development activities – that do not demand the same requirements larger downstream projects need. Training and communication programmes help staff to apply programming policies expected to contribute to a reduction in recurring audit issues.

16. In 2019, UNDP customized the certification course Managing Successful Programmes (MSP) for development programming in the United Nations system. This course covers international best practices in programme management – including establishing a vision for delivering benefits for

people and society, programme oversight, benefits/results management, stakeholder engagement, risk management, and quality and assurance management. The course was customized to reflect development programming under the United Nations Sustainable Development Cooperation Framework, through UNDP country programme documents and project-level delivery instruments. Ninety UNDP staff members participated in the pilots in 2019; the course will be rolled out to over 1,100 additional staff and key national partners in 2020-2021. The expectation is that programme and project management will improve over time as a result of this course as more staff and partners benefit from understanding why such requirements are so important and learn best practices on how to apply them.

17. Country offices are continuously showing an improvement in the area of project closure. By early October 2019, there was a reduction of over 80 per cent of inactive cost-sharing projects, compared to 2016. Similar results are recorded on closing inactive trust funds, with a further 29 per cent drop from 103 in October 2018 to 73 in October 2019. While management's efforts have yielded notable improvement, inactive project and trust funds closure still remains a challenging area, requiring continuous oversight and monitoring to maintain and build on success achieved.

18. The revised UNDP evaluation policy, adopted by the Executive Board in its decision 2019/19 at its second regular session 2019, further strengthens the preceding policy. In accordance with that policy, the Independent Evaluation Office (IEO) will help UNDP strengthen the decentralized evaluation function by providing technical support and capacity building and by conducting oversight at the regional and country levels. A new regional-based cadre of IEO evaluation specialists are expected to help further strengthen linkages between decentralized and independent evaluations, with a view to enabling organizational learning from evaluation findings and the implementation of the 2030 Agenda for Sustainable Development. In addition, the revised evaluation policy underscores the continuing UNDP engagement in the ongoing development of system-wide evaluation.

19. In the annual report on evaluation 2018, 76 per cent (170) of the assessed evaluations were rated 'highly satisfactory', 'satisfactory' or 'moderately satisfactory', indicating an improvement in the quality of the evaluations conducted by UNDP programme and policy units over the past three years- up from 72 per cent (187 evaluations) in 2016. UNDP and the IEO continue to work closely together to improve the decentralized evaluation function which has included the revision of the decentralized evaluation guidelines (released in January 2019), strengthened quality assessment process for decentralized evaluations, a series of regional workshops and webinars, and the development of online trainings. In addition, an annual review of decentralized evaluation implementation and results will be undertaken by the Organizational Performance Group. All of which are expected to boost the organization's evaluation function and capacities as well as management accountability and oversight.

C. Procurement oversight and fraud mitigation strategies

20. This priority area seeks to improve process compliance based on evidence and risk-based approaches to monitoring and oversight, mitigation of procurement-related fraud risks, and improved recovery of assets lost due to fraud. Progress has been made in 2019 driven by several initiatives noted below.

21. The regional procurement specialists in the regional hubs continued to increase the capacity at the field level, providing technical and advisory services on complex procurement cases and successfully coordinating regional-level procurement activities, including planning.

22. In order to address the highlighted deficits in procurement planning, UNDP has implemented the use of the consolidated UNDP procurement planning platform (PROMPT), which allows for the consolidation of demand across projects at country, regional and global level in priority categories.

23. In an effort to further increase its procurement capacity, UNDP continues to provide an increasing number of courses as part of the procurement certification road map. The popularity of these courses with other United Nations organizations, international financial institutions (IFIs) and governments attests to their value.

24. The ‘supplier of interest’ (SOI) project continues to support vendor management initiatives, such as vendor management workbench and the dashboards. The automated archiving process has significantly reduced vendor records and duplicate payees and bank accounts.

25. The use of the e-tendering system was made mandatory in 2019 for procurement requirements above \$150,000. The system has been integrated with the procurement oversight system (ACP-online) for increased automation and a seamless procure-to-pay process.

D. Human resources management: mandatory courses and service contract management

26. In 2019, UNDP launched its people strategy, People for 2030, which aims to progressively transform its culture and capacity to deliver more and better results. Under the overall notion of enabling UNDP to “avail of the right people with the right skills at the right time”, this strategy targets nine focus areas that over time also address the issues raised in recent audit recommendations.

27. The completion and quality of mandatory trainings are identified as key objectives of the recently launched People Development Governance Group, which consists of senior representatives from all Bureaus. This group will capture the key talent development needs of the organization, identify corporate priorities and allocate resources to them, monitor and measure outcomes and impact, and exercise oversight over the use of corporate resources in this regard. In addition, a new mandatory training on environmental sustainability ‘Greening the Blue’ was added and several interventions, both central and local, to drive compliance have continued in 2019.

28. Optimising contract modalities is at the heart of People for 2030. UNDP is considering how best to adjust and refine current contract modalities, including those for service contractors, individual contractors and professionals at the P6 and P7 grades, in order to ensure that personnel are working within appropriate contractual modalities to support UNDP in fulfilling its mandate. This includes clarifying responsibilities and scenarios under which each modality may be used while ensuring accountability with regard to UNDP project delivery. Revised policy and guidelines for the use of P6 and P7 grades and strategic placements are expected in the first quarter 2020.

E. Financial management

29. Financial accountability is a major priority for the organization as it seeks to address the challenges in the following areas: (a) financial sustainability of country offices; (b) management of advances; (c) management of banking risks; (d) accurate recording of expenditures; (e) document management for financial transactions; and (f) mitigation of fraud risks and improved recovery of fraud-related losses.

30. Following the successful implementation of clustering of financial services in one region, in 2019 the Executive Group approved a business case for the clustering of financial, procurement and human resource services for all regions. The rollout began in October 2019, with gradual phasing in of activities and offices over 18 months. This initiative is expected to have a significant positive impact towards improving the quality and control over many activities that are the subject of repeat audit reports.

31. In order to ensure control in the increasingly clustered environment for financial transactions, UNDP updated its ‘Operational Guide of the Internal Framework for UNDP’ to include all financial services provided at the Global Shared Services Unit (GSSU), including a clear division of roles and responsibilities between country offices and the GSSU.

32. The UNDP Office of Financial Resources Management consolidated various dashboards and performance indicators used by country offices and bureaux to monitor financial transactions and underlying risks. This integrated dashboard includes new metrics and robust analytics that enhance transparency and financial management.

33. While good progress is being made, financial issues, particularly related to cost recovery, management of advances, recording of expenses, and project financial management, continue to be mentioned in country office and other audits, and require ongoing oversight and monitoring.

F. Partnerships and resource mobilization

34. The UNDP Strategic Plan, 2018-2021, aims to support countries in their achievement of the Sustainable Development Goals and to position UNDP as a partner of choice in a complex and evolving landscape. As the lead development organization of the United Nations, UNDP recognizes that partnerships are key to fulfilling its integrator role and works continuously to reinforce partnerships with governments, including through South-South and triangular cooperation, vertical funds, IFIs, the private sector, civil society organizations (CSOs), academia and the United Nations system.

35. UNDP continues to improve transparency and enhance donor visibility at global, regional and country level, including through enhanced communications that illustrate the link between resources provided and results achieved on the ground and through more focused strategic dialogues with funding partners.

36. UNDP has benefitted from discussions with its Executive Board to better demonstrate the link of resources to development priorities as part of the structured funding dialogues.

37. UNDP continues to engage stakeholders to find innovative ways to respond to development needs. The organization's maturing collaboration with IFIs goes beyond co-financing of development interventions, and UNDP remains a strong partner to vertical funds in addressing complex environmental issues and delivering last-mile health services.

38. Recognizing the crucial roles of both public and private sector in achieving the 2030 Agenda for Sustainable Development, UNDP is working with countries to integrate the Goals within financial systems and access different types of development finance through the use of innovative finance instruments, such as green bonds, social impact bonds and Islamic sukuk bonds. UNDP, in partnership with others, will work with governments to establish integrated national financing frameworks for implementation of the Goals. UNDP is also increasing its focus on long-term transformative relationships with the private sector through its Finance Sector Hub and working to eliminate barriers and drive more integrity for 'SDG'-enabling investment at scale. UNDP launched new global assurance standards to support investors in making informed decisions about whether and how their investments contribute to achievement of the Goals and has developed 'SDG' investor maps that bring country-level data and insights into 'SDG'-enabling investment opportunities, highlighting areas where development need and investor appetite coalesce.

39. Contributions to regular resources were \$624 million in 2018, a 2 per cent increase over 2017. Despite this positive development, downward pressures persist and regular resources remain at risk due to currency fluctuations affecting major donor currencies. In line with the Secretary-General's funding compact, UNDP will continue to engage with its funding partners to change the mix and quality of its resources, with the objective of stabilizing core and transitioning from heavily earmarked to less earmarked funding, in order to provide greater agility when responding to development and crisis situations.

G. Integration and operationalization of enterprise risk management

40. UNDP launched an updated enterprise risk management (ERM) policy in 2019. It collectively approaches risk management so that UNDP becomes a smarter, more agile organization able to move from risk aversion to responsible risk-taking.

41. Since part of the rollout plan focuses on building institutional capacity and risk culture, UNDP has introduced an ERM toolkit that includes operational guidance and tools for risk mapping. This comes in addition to the training opportunities organized in 2019. And there are ongoing internal discussions on how best to encourage knowledge sharing of lessons learned and best practices on effective risk management.

42. The Risk Committee, the highest-level UNDP risk governing body, chaired by the Associate Administrator and comprising all bureau directors at the Assistant Secretaries-General level, continues its active role in overseeing the overall implementation and use of the ERM framework in UNDP and focuses on strategic corporate risks and risks that are escalated or substantial.

III. Status of audit recommendations of the Board of Auditors for the year ended 31 December 2018

43. For the year ended 31 December 2018, the UNBOA, in its audit report of UNDP (A/74/5/Add.1), issued 25 audit recommendations (2017: 31 recommendations). Of those, nine were classified as 'high priority' while the remaining 16 were assigned a 'medium priority' rating. Management agreed with all recommendations issued. The recommendations have target completion dates in the first and second quarters of 2020.

44. Of the 25 recommendations issued, eight relate to human resource management (service contract and individual contract management), four to the implementation of HACT, three to the internal control framework, three to revenue recognition, and the remainder to various other areas. Implementation of recommendations will require continuous efforts by UNDP management to address underlying issues, primarily the need for project-level quality assurance; monitoring and evaluation; monitoring of activities carried out through implementing partners; and monitoring compliance.

45. Consistent with practices adopted in previous years, and as agreed with the UNBOA, UNDP has a phased approach for implementing the audit recommendations, with clear accountabilities for the implementation of each recommendation and target completion dates. The phased approach is based on the complexity and time required to resolve and discuss each issue with the UNBOA. It is important to note that implementation of the 2018 recommendations could start only after issuance of the final UNBOA report in July 2019.

46. As of mid-November 2019, four months after the formal release of the UNBOA report and despite the 2020 due dates, UNDP management has indicated that one of the recommendations were implemented, pending review by the UNBOA. Actions had already begun on 16 of the remaining audit recommendations to ensure full implementation by the target completion dates. Pursuant to Board decision 2010/9, a tabular listing of the status of audit recommendations implementation is available on the Executive Board web page.

Table 1. Implementation status by target completion dates

Target completion date	Number	Implemented or closure requested	In progress	To be started	Total
2020, 1st quarter	7	1	4	2	7
2020, 2nd quarter	18		12	6	18
Grand total	25	1	16	8	25
Percentage	100%	4%	64%	32%	100%

Table 2. Implementation status by priority

Priority	Implemented or closure requested	In progress	To be started	Total
High	1	7	1	9
Medium		9	7	16
Total	1	16	8	25
Percentage of total	4%	64%	32%	100%

IV. Status of audit recommendations of the United Nations Board of Auditors for the year ended 31 December 2017 and prior years

47. As of November 2019, of the 96 audit recommendations issued to UNDP for the 2017, 2016 and 2015 financial years, 70 (73 per cent) were assessed as ‘fully implemented’ or ‘overtaken by events’ by the UNBOA and 23 (24 per cent) as being ‘in progress’. Further, three (3 per cent) recommendations are reiterated.

48. The recommendations from prior years that remain in progress or have been reiterated are part of the top seven audit priorities.

Table 3. Implementation status of previous years’ (2015-2017) recommendations – UNDP

Recommendation status	Number of recommendations	Percentage of total
Implemented	63 (2017-12, 2016-23, 2015-28)	66%
Overtaken by events	7 (2017-2, 2016-2, 2015-3)	7%
Not Implemented	3 (2017-1, 2016-1, 2015-1)	3%
In progress	23 (2017-16, 2016-6, 2015-1)	24%

V. Conclusion

49. UNDP is pleased to receive an unqualified audit opinion from the UNBOA. This is a testament to the hard work of all staff across UNDP offices globally. The suggested, refined top seven audit-related management priorities for 2018-2019 and the actions required to address them establish a framework for UNDP management to respond to ongoing and emerging challenges. These include significant changes in the leadership of country offices during 2019 resulting from the de-linking of the resident coordinator system from UNDP and the subsequent appointment of new resident representatives. The Executive Group and the Organizational Performance Group will continue to closely monitor these changes and the progress made in addressing audit-related management priorities, with a view to ensuring that UNDP continues to enhance productivity, accountability, transparency and performance for enhancing results and impact, while making every effort to close the recommendations of the UNBOA in a timely manner.

Annex 1**UNDP refined top seven audit-related management priorities
for the 2018-2019 period and assessment of progress**

1. Implementing partner fiduciary and capacity management	
2. Programme/project management and evaluation	
3. Procurement oversight and fraud mitigation strategies	
4. Human resources management – mandatory courses and service contract management	
5. Financial management	
6. Partnerships and resource mobilization	
7. Integration and operationalization of enterprise risk management	

Legend	Colour code
Conditions effectively addressed	5
Good improvements noted. On target	4
Improvements noted. More work remains	3
Remedial actions yet to be fully taken or intended effects of actions yet to be fully realized or inherent risks to be mitigated	2
Conditions worsened	1