



**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 Board of Auditors, 2012**

Summary

In July 2013, the United Nations Board of Auditors formally issued its audit report for UNDP (A/68/5/Add.1), and awarded the organization with an unqualified (clean) audit opinion with no emphasis of matter for its first annual financial statements prepared by UNDP in accordance with International Public Sector Accounting Standards (IPSAS) for the year ended 31 December 2012. This is an important achievement given that 2012 was its first full year of implementation under IPSAS. Prior, the Board of Auditors awarded UNDP with a clean audit opinion for three consecutive biennia since 2006-2007.

The tone at the top set by the Administrator and the organization's risk-based, accountability-centred oversight approach for strategically managing audit risks enable UNDP to move towards meeting higher standards of organizational transparency and accountability. Progress made and challenges are deliberated at the Executive Group meeting chaired by the Administrator and at the Organizational Performance Group meeting by the Associate Administrator.

The present report reviews progress made in addressing the top nine audit-related management priorities for 2012-2013 (as presented in document DP/2013/8 and endorsed by the Board in its decision 2013/7), and the implementation status of the recommendations of the Board of Auditors for the year ended December 2012. Pursuant to Board decision 2010/9, details of the implementation status of audit recommendations and the full audit report of the Board of Auditors are available on [Executive Board website](#).

The top nine priority list reflects progress and positive gains noted by the Board of Auditors between the issuance of the original top 15 list (2006-2007), the revised top 11 list (2008-2009) and the revised top 10 list (2010-2011). The report takes into consideration comments from the Advisory Committee on Administrative and Budgetary Questions (ACABQ) (A/68/381) and the General Assembly Fifth Committee in their respective reviews of the audit report of the Board of Auditors (A/68/5/Add.1) and the summary report of the Board of Auditors to the General Assembly (A/68/163).

Elements of a decision

The Executive Board may wish to: (a) note the unqualified audit opinions issued by the United Nations Board of Auditors for 2012; (b) note progress made by UNDP in addressing the top audit-related priorities in 2012-2013; and (c) support ongoing UNDP management efforts in the implementation of the recommendations of the Board of Auditors for the year ended 31 December 2012.



I. Introduction

1. UNDP has received an unqualified (clean) audit opinion (with no emphasis of matter) from the Board of Auditors on its financial statements for the year ended 31 December 2012. This is an important achievement as it is the first year of full implementation of the International Public Sector Accounting Standards.
2. UNDP does not take this for granted. The tone at the top set by the Administrator and the organization's risk-based, accountability-centred oversight arrangement have been instrumental in enabling UNDP to strategically manage audit risks and receive clean audit opinion by the Board of Auditors for three consecutive biennia since 2006-2007.
3. Annex 1 presents the top nine UNDP audit-related management priorities for the biennium 2012-2013 (presented in document DP/2013/8 and endorsed by the Board in its decision 2013/7). It is important to remember that the top 10 audit-related management priorities for the 2010-2011 biennium reflected progress made on the original top 15 audit priority list identified by UNDP management during the 2006-2007 biennium and the top 11 audit priority list identified by UNDP management during the 2008-2009 biennium. The current top nine list of audit priorities has been established subsequent to discussions with the Board of Auditors and the UNDP Office of Audit and Investigations (OAI) and is based on dialogue with the Audit Advisory Committee on progress made.

II. Review of progress made in addressing top audit-related management priorities in 2012-2013

4. While it has moved to an annual financial audit cycle under IPSAS, UNDP considers it necessary to track progress over a two-year period, drawing on lessons learnt from the first year of IPAS-based auditing by the Board of Auditors. Consistent with practices started during the last three biennia, UNDP management continues to seek the independent view of the Board of Auditors and OAI to assess progress made by UNDP and to identify remaining challenges in addressing the top nine audit priorities.
5. Drawing from the audit findings of the Board of Auditors for the period ended 31 Dec 2012, and based on discussions with the Office of Audit and Investigations as well as with the Audit Advisory Committee, there is general agreement that there has been encouraging progress made on all top nine audit-related management priorities, though progress on various details within each audit priority has been uneven. UNDP expects more progress will be made in many (if not all) of these areas before the finalization of accounts in the second quarter of 2014.
6. While UNDP management will continue to accelerate progress in all nine top audit priorities before the next formal closing of financial statements in the second quarter of 2014, its current assessment (based on results of country office audits conducted by the Board of Auditors) is that greater attention at headquarters and field levels will be required to address remaining challenges in three key priority areas: (a) timely submission of national implementation (NIM) project audits, of NIM projects with significant net financial impact associated with qualified audit opinions, and of projects with consecutive years of modified audit opinions; (b) project/programme management (specifically project monitoring to address significant implementation delays), budgetary management, and financial closure for operationally closed projects; and (c) asset management, specifically the recording and appropriate treatment of

unusable assets owned by UNDP offices to meet the more stringent IPSAS policy requirements.

7. Annex 2 provides a summary of the preliminary assessment of the top nine audit-related priorities for the 2012-2013 biennium. In October 2013, the Organizational Performance Group, chaired by the Associate Administrator, endorsed the results of the internal assessment, which was in turn reviewed by the Executive Group chaired by the Administrator.

8. In line with the observations of the Board of Auditors in its report to the ACAQB (A/68/163), UNDP has been mindful of cross-cutting issues/challenges, including those associated with: (a) implementing partners of nationally implemented projects in programme countries with consistently poor/weak financial management system or relevant capacities; (b) the quality of in-country staff capacity in certain UNDP offices, especially in core business functions; and (c) oversight and monitoring in dispersed offices, while maintaining an appropriate balance of decentralized authority and control by the respective headquarters offices.

9. The following is a summary of progress made in the top nine audit-related priorities, with specific priority management actions planned or in progress to mitigate these challenges in the second year of IPSAS implementation:

- (a) *NIM audit follow-up and framework/monitoring/support of the harmonized approach to cash transfers (HACT)*. UNDP has made good progress on this front. For example, the concerted efforts of the regional bureaux and country offices have resulted in 97 per cent of NIM audit reports being reviewed and accepted by OAI (955 reports representing 98 per cent of project expenses totalling \$1.91 billion), compared to 94 per cent and 97 per cent, respectively, for the same period during the 2011 and 2010 NIM audit exercise. This is significant given that the new submission deadline of NIM audit reports has been one month earlier for many, to enable closing of financial accounts under IPSAS.

UNDP considers that results of NIM audit reports are important management tools for evaluating capacity challenges and fiduciary risks associated with implementing partners in programme countries. Management continues to improve on the timely submission of NIM audit reports for the next NIM audit cycle (barring cases where security and other political events made these improbable). Furthermore, the results of these NIM reports are useful management tools for necessary discussion with implementing partners on alternative governance arrangements and/or cash transfer modalities with implementing partners of NIM projects, as required in the local context.

In addition, UNDP continues to contribute actively to current efforts spearheaded by the United Nations Development Operations Coordination Office through its HACT Advisory Committee to make necessary revisions to the current HACT framework, which has been used since 2005. The revision (once finalized), will be based on cumulative lessons learnt by participating United Nations organizations. It is expected to provide greater clarity on the accountability and responsibilities of United Nations organizations and their country teams, and a more cost-effective approach for obtaining assurance over operational and financial activities and reporting.

- (b) *Programme/project design, monitoring and evaluation*. UNDP has made good progress in this area in the context of the agenda for organizational change, and as it prepares to deliver on the new strategic plan, 2014-2017, approved by the Board in decision 2013/27. UNDP has designed a new, more robust country programme document, which is under review by the

Organizational Performance Group and set to be launched in December 2013. A full redesign of the programme and project management (PPM) cycle was approved by the Organizational Performance Group in December 2012, with key elements in the process of finalization for inclusion in the corporate programme and operations policies and procedures (POPP). UNDP has also begun designing a programme quality assurance process, which will include revision of the terms of reference and guidelines of the headquarters Programme Appraisal Committee (PAC), anchoring programme quality reviews within the scope of work of senior management. UNDP has developed and is currently piloting a strengthened project quality assurance system, with wider rollout to commence in 2014.

UNDP also expects to begin rolling out its strengthened corporate strategic planning and results management system and online platform at the end of 2013. The system and online platform will include integrated programme and project spaces for effective results-based management, and will incorporate business analytics capabilities and features to support country office review of performance and results. Regional bureaux will leverage the corporate platform for regular reviews with their country offices of programme/project progress.

UNDP will continue to pay specific attention to the closing of inactive trust funds, and/or the reprogramming of unused funds with the approval of contributing governments. Similarly, UNDP expects to further improve the financial closure of projects that are operationally closed. A new corporate system for extracting, consolidating and analysing lessons from evaluation reports is being designed, for roll-out in June 2014, and for which the dataset is already in place and feeding into corporate decision making.

At the country team level, UNDP continues to contribute to the United Nations Development Group (UNDG)-level initiative to find ways to improve monitoring and evaluation and results-based management practices in programme countries, in cooperation with other United Nations organizations. UNDP expects that the Country Office Support Initiative (COSI), approved by the Organizational Performance Group, will improve results-based management of programmes over time, particularly in support of the strategic plan, 2014-2017, starting in January 2014. As part of COSI, UNDP will launch an online platform for learning about managing for development results, with a first course on indicators ready for roll-out in December 2013.

- (c) *Procurement management at UNDP country offices.* UNDP has made good progress. For example, UNDP continues to invest in the professionalization of its procurement practice by encouraging procurement staff to complete different levels of the procurement certification programmes accredited by the United Kingdom-based Chartered Institute of Purchasing and Supply. This is expected to help UNDP procurement deliver value in support of programme impact. There is increased focus on promoting good practices in procurement planning at UNDP country offices to capitalize on potential cost savings through better planning and coordination with anticipated programme demands.

Apart from ensuring that staff have access to confidential, anonymous mechanisms to report allegations of fraud or corruption via various channels, UNDP has also taken steps to curb unethical procurement practices, requiring all procurement practitioners/specialists to undergo mandatory training on ethics in procurement and code of conduct, which are jointly organized by the Procurement Support Office of the Bureau of Management and the Ethics Office. In accordance with its zero-tolerance policy on fraud

and corrupt practices, the Annual Report of the Administrator on Disciplinary Measures Taken in Response to Fraud, Corruption and Wrongdoing and Other Actions is made available to the general public, and provides information on cases of disciplinary measures taken against staff members as well as former staff members and other personnel, such as contractors.

Furthermore, the UNDP Vendor Review Committee, which became fully operational in 2012, has taken action against vendors and other third parties for proscribed practices deemed detrimental to UNDP and substantiated by OAI-conducted investigations.

- (d) *Atlas change controls.* UNDP has made good progress in this area, including establishing a fully functional information and communications technology (ICT) governance group comprising key business representatives from across the organization appointed by the Associate Administrator. The ICT governance group has been actively engaged in reviewing and prioritizing ICT initiatives for ICT resource allocations, investments and implementation, while taking a longer-term view of the life cycle costing of ICT investments. UNDP has revised and updated the Atlas change control manual to reflect current practical methods applied during the change process and related controls. UNDP expects to further strengthen its Atlas change control and internal controls arrangements by drawing on recommendations from OAI-commissioned external experts who conducted an audit of Atlas controls.
- (e) *Leave records and recruitment management.* The Atlas absence management functionality (eServices) is now fully operational and being used in all UNDP offices for staff application and supervisor approval of leave/absence. The Compliance Review Panel/Board established at headquarters and country offices continues to provide independent reviews of the recruitment and selection process of successful candidates. In addition, the audit of leave management is now part of the OAI work plan.

UNDP considers that the necessary processes are now in place to allow it to comply with the IPSAS requirement for more complete, accurate estimates of after service health insurance (ASHI) and leave accrual liabilities. As recommended by the Board of Auditors, UNDP will review its funding plan for ASHI liability at the next actuarial valuation, possibly in 2014, which will be centrally coordinated by the United Nations Secretariat.

- (f) *Management of high-risk programme portfolios.* UNDP has made good progress in this area. The review of progress, conducted by the Organizational Performance Group twice each year and chaired by the Associate Administrator and at the bureau levels, remains an important oversight mechanism to manage high-risk programme portfolios proactively and strategically. Additional risk management measures that have been implemented so far include the pilot roll out of the control self-assessment (CSA) tool in three pilot countries where it was applied to portfolios of the Global Fund to Fight AIDS, Tuberculosis and Malaria. The CSA tool was developed in cooperation with the Bureau for Development Policy and OAI, which facilitated CSA application in the three pilot countries. The CSA approach enables UNDP to apply a more systematic, comprehensive and participatory approach to risk management. The CSA tool also gives country offices a broader perspective of risk management, helping them to prioritize risks, identify functional risks emanating from business processes, identify those risks within its sphere of influence, and develop action plans for proactive risk management. UNDP will apply lessons

learnt from pilot CSA implementation in the next iteration of the tool, which is projected to have wider implementation.

The risk-based analysis and structured audit regime implemented by OAI has been specifically applied to mitigate specific risks associated with directly implementing programmes/projects, particularly in transition or crisis countries.

UNDP continues to proactively manage and provide guidance and support to country offices dealing with risks inherent in euro-denominated trust funds, which are subject to currency fluctuations and programmes in countries with special development situations.

- (g) *Asset management.* While UNDP has taken several steps to address audit risk in this area, the risk still remains based on the audit findings of Board of Auditors in country office audit missions. Apart from regular user training, webinars and country office advisory support, other steps UNDP has taken include: exception reviews on expensed items and on high value/volume capitalized assets by the Office of Financial Resources Management within the Bureau of Management, in order to ensure proper capitalization of assets; enhancement of Atlas asset reports to make them more user friendly when reviewing asset records; implementation of an enhanced asset certification letter to capture non-capitalized assets. UNDP expects that the lessons learnt in physical vouching, collating and verifying asset data will serve UNDP offices well in uploading development project assets data once the transition phase (per IPSAS 17) is over. However, the audit risk still remains for UNDP given that the closing balance for property, plants and equipment is significant at \$92.91 million, and the Board of Auditors has cited further improvements in asset data quality at country offices. The full effects of further remedial actions are expected to be more fully recognized at the closing of the accounts, and thus remains a key audit risk to be managed.
- (h) *IPSAS implementation.* The implementation of IPSAS was not only a major organizational change initiative in terms of adopting a new accounting standard but also a change in business processes and practices. Key lessons learnt during the first year of IPSAS implementation include recognition that staff require ongoing refresher and remediation training in specific areas; finding efficient ways to make balance sheet changes as a result of policy adjustments to the UNDP asset depreciation policy as required by the Board of Auditors; streamlining steps in the preparation and finalization of IPSAS-compliant financial statements (and related accounting schedules) within a compressed timeline. UNDP expects to be ready to implement periodic updates of its IPSAS policies, procedures and processes, and to make required changes to Atlas system configurations as the accounting standards under IPSAS evolve. UNDP expects to be on track to meet the deadline stipulated by the Board of Auditors for the closing of financial statements for the year ended 31 Dec 2013.

In response to recommendation of the Board of Auditors, UNDP is currently in the process of developing an IPSAS-benefits realization plan, which should inform management reviews of how IPSAS implementation has contributed to greater organizational transparency and accountability, as well as management corporate decision making.

- (i) *Long outstanding audit recommendations.* UNDP remains vigilant in actively resolving long outstanding audit recommendations for 18 months or more (pursuant to Executive Board decision 2006/19) and including it as a

key unit performance indicator on the Balance Scorecard. As at end September 2013, a total of 58 recommendations remain long outstanding. UNDP anticipates that it will be able to reduce the number of long outstanding recommendations further, specifically those within the control of UNDP country offices.

III. Status of audit recommendations of the United Nations Board of Auditors for the year ended 31 December 2012

10. In July 2013, the Board of Auditors formally issued its audit report of UNDP (A/68/5/Add.1) for the year ended 31 December 2012. In its report, the Board of Auditors issued 20 audit recommendations (2010-2011: 33 recommendations). Of these, the Board of Auditors identified nine main recommendations and as a result management has made them high priority. The other 11 recommendations were assigned medium priority. Management agreed with all recommendations issued.

11. While the total number of 20 recommendations issued is numerically lower than that of previous audit periods, their full implementation is expected to be significantly more demanding and will require concerted, continuous efforts by UNDP management to address underlying issues in impacted UNDP offices.

12. Consistent with practices adopted in previous biennia, UNDP has, in consultation with the Board of Auditors, adopted a phased approach to the implementation of the audit recommendations. UNDP has established a clear accountability matrix and ownership designation for the implementation of each recommendation. Target completion dates have also been set for different recommendations based on management assessment of the effort and complexity involved to fully address the audit recommendations. The phased approach minimizes disruption of work at UNDP headquarters and country offices during peak periods. Progress is therefore measured in terms of target completion and against completion standards as discussed with the Board of Auditors.

13. As of end September 2013 (the cut-off date for this report), about three months since the formal release of the audit report of the Board of Auditors, UNDP is pleased to note that management actions have already started on many of the 20 audit recommendations to ensure its full implementation by the target completion dates. Pursuant to Executive Board decision 2010/9, a tabular listing of the status of the audit implementation is available on the Executive Board website.

Table1. Implementation status by target completion dates

Target completion date	Due	Implemented	In progress	To be started	Total
2014, 1st quarter	3	0	3	0	3
2014, 2nd quarter	6	0	6	0	6
2014, 3rd quarter	5	0	5	0	5
2014, 4th quarter	6	0	6	0	6
Grand total	20	0	20	0	20
Percentage	100%	0	100	0	100

Table 2: Implementation status by priority

Priority	Implemented	In progress	To be started	Total
High	0	9	0	9
Medium	0	11	0	11
Low	0	0	0	0
Total	0	20	0	20
Percentage of total	9	100	0	100

IV. Status of audit recommendations of the United Nations Board of Auditors for the prior biennium ended 31 Dec 2011

14. Of the 33 audit recommendations issued for the 2010-2011 biennium, eight (24 per cent) were deemed fully implemented by the Board of Auditors, and 25 (76 per cent) were under implementation, including two recommendations related to the United Nations Capital Development Fund (UNCDF) as noted in the report of the Board of Auditors (A/67/5/Add.1). At the time of writing, 16 recommendations had been implemented (including an additional 11 audit recommendations for which management is requesting closure by the Executive Board). Various factors contributed to delays in the full implementation of the 23 pending audit recommendations (excluding the two UNCDF recommendations):

- (a) Recent progress has been made and therefore management is requesting closure by the Board (11 recommendations);
- (b) Progress is expected to be ongoing and over time (five recommendations);
- (c) Management reprioritization due to resource and other reasons (three recommendations)
- (d) Full implementation requires timely and reciprocal actions of third parties (two recommendations);
- (e) Higher expectations of the Board of Auditors in terms of completion standards (two recommendations).

V. Conclusion

15. UNDP is pleased to receive an unqualified audit opinion by the Board of Auditors for its first year of IPSAS implementation. However, the organization does not take the achievement for granted or its inherent or residual risks lightly. Progress to date has been encouraging in all top nine audit-related management priorities, although uneven at the detailed level within each audit priority area. UNDP is actively engaged at different levels to ensure more progress is made in many (if not all) of these areas before the finalization of the audit report of the Board of Auditors in the second quarter of 2014. The Administrator continues to set the tone while the Associate Administrator spearheads the work of the Organizational Performance Group in closely monitoring progress made in addressing audit priorities and mitigating relevant enterprise risks.

Annex 1: UNDP top nine audit-related management priorities for the 2012-2013 biennium

NIM audit follow up and HACT framework monitoring/support	Programme/project design monitoring and evaluation	Procurement management at UNDP offices
Atlas change controls		Leave records and recruitment management
Management of high-risk programme portfolios		Asset and inventory management
IPSAS implementation		Long outstanding audit recommendations

Annex 2: Preliminary assessment of progress: UNDP top nine audit-related management priorities for the 2012-2013 biennium

1. NIM audit follow and HACT monitoring and support	2
2. Programme/project design, monitoring and evaluation	2
3. Procurement management at UNDP country offices	3
4. Atlas change controls	3

5. Leave record and recruitment management	4
6. Asset and inventory management	2
7. Management of high-risk programme portfolios	3
8. Long outstanding audit recommendations	3
9. IPSAS implementation	3

Legend used	Colour code
Conditions effectively addressed.	5
Good improvements noted. On target.	4
Improvements noted. More work remains.	3

Legend used	Colour code
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