

## **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 2011.
2. The AAC is composed entirely of members who are external to UNDP, and are therefore independent from UNDP and its administration and management. During 2011, the terms for Ms. Mary Ann Wyrsh (USA) and Mr. Fernando Fernandez (Argentina) ended in June. They were replaced by Ms. Ellen Yaffe (USA) and Mr. Jayantilal Karia (Uganda). Mr. Kamlesh Vikamsey (India), Mr. Louis Wong (Australia) and Ms. Hilary Wild (UK) continued as members. Ms. Wild was appointed Chair, replacing Ms. Wyrsh.
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 occurs in briefing sessions and in formal meetings as this has helped us to formulate our advice to the Administrator.
4. This report is in eight parts:
  - Introduction
  - Terms of Reference (TOR) for the AAC;
  - Self-assessment and analysis undertaken by the AAC in 2011;
  - Strategic advice provided to UNDP via the Administrator and Associate Administrator during 2011;
  - Advice related to the internal audit and investigation functions and particularly the Office of Audit and Investigations (OAI);
  - The AAC's responsibilities in relation to the United Nations Board of Auditors;
  - Advice in relation to the Ethics Office; and
  - Conclusion and 2012 Work Plan.

## **II. Terms of Reference**

5. The revised TOR for the AAC, attached, was approved by the Administrator on 8 March 2011. The AAC has thus operated under this TOR for all of its meetings in 2011.
6. As called for in the TOR, the AAC reviews its TOR annually to ensure it remains in line with best practice and reflects the changing environment in which UNDP operates. Accordingly, a review was undertaken in December 2011 and the AAC concluded that the TOR remains appropriate and thus no changes have been recommended or made.

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

7. The AAC carried out its annual self-assessment at the end of 2011. The results were shared with the Administrator and Associate Administrator, whose input to the assessment was also sought. Based on this self-assessment, the AAC concluded that it had performed its duties and discharged its responsibilities in compliance with its TOR, but noted that improvement could be made to the process and quality of follow up on how UNDP had considered its advice.
8. In 2011 the AAC decided to prepare an annual rolling work plan to facilitate its work and ensure that there will be an appropriate focus on its responsibilities under its TOR as well as to assist UNDP in reporting on follow up actions and planning for future briefings. This work plan envisages three on-site meetings with the 4<sup>th</sup> meeting being 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)

9. The AAC received briefings at each of its meetings in 2011 on the status of IPSAS implementation. It was pleased to see 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.

10. As noted in the 2010 and the four preceding Annual Reports, the AAC had strongly brought UNDP's attention to the need to invest adequately in change management resources to support changes to the new system, and in particular, timely decisions on adequate numbers of qualified staff with proper training in the enhanced system as well as in IPSAS to support its implementation. In 2011 it was very encouraging to hear that the momentum necessary to achieve implementation of IPSAS was on track for the software change to the Atlas system to be completed by the end of 2011, and that staff had been trained to use the new system functionality in 2012.

11. The AAC has however, noted that the implementation of software to support IPSAS implementation is in fact the beginning of a challenging period for UNDP as staff adjust to the new standards and all financial reporting will reflect the requirements of IPSAS. In this regard the AAC has made a number of suggestions that are intended to reduce the risk associated with a change of such magnitude.

12. The AAC was encouraged to hear that once the decision to set up a Global Shared Services Centre had been made, measures were taken to "fast track" its implementation to avoid any downside from further delays in implementation. The AAC also noted that, as advised in 2010, UNDP had paid sustained attention to ensure that the information and communication technology (ICT) changes related to IPSAS were accomplished in time for the scheduled operational implementation of IPSAS in 2012.

13. 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, and that this will place demands upon UNDP in 2012 and 2013 whilst IPSAS becomes fully assimilated into day-to-day activities.

##### Agenda for Organizational Change (AOC)

14. The AAC much appreciated the two briefings they received on the Administrator's initiative to move UNDP from "good to great", the Agenda for Organizational Change. The AAC believes this is a useful initiative, and has advised that the work to bring together the strategic plan, integrated budget and strategic results framework 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 welcomes the focus being put upon strengthening accountability at all levels of UNDP, and has advised that clear, unambiguous, definition of ownership of policies and procedures together with appropriate management oversight of compliance is a vital element of a strong accountability framework in a de-centralized organization such as UNDP.

16. The objectives of improving efficiency and effectiveness are important, and the AAC has advised 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 of lack of proper control mechanisms.

### UNDP Financial Stability

17. In view of the 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 liquidity (including bond holdings of lower rated countries); 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 advised that a policy on criteria for risk tolerance levels should be developed. The AAC will continue to keep this matter on its agenda in 2012.

### Harmonized Approach to Cash Transfers (HACT)

18. In 2011 the AAC followed up on its previous concerns, and pointed out that there was still a need for clear delineation of responsibility at all levels of UNDP as well as a need to better clarify the meaning of the terminology used in this area as a lack of clarity could lead to a lack of accountability. The AAC will continue to follow up on this, and expects to receive briefings in 2012 that will reflect the relevant aspects of the work under the AOC on accountability as well as input of the joint internal audit reviews from countries deemed to be HACT compliant.

### Information & Communication Technology (ICT) Management

19. The AAC received one briefing on ICT management in 2010, in which the overall strategies and roadmaps for ICT were shared. In 2011 the AAC continued to emphasize the need for an entity level view of ICT systems, and understands that the Associate Administrator has requested an entity level review of ICT corporate governance, which is still underway. The AAC looks forward to continued dialogue on this issue, which has been a subject of strategic advice in its previous annual reports.

### Enterprise Risk Management

20. The AAC was encouraged to hear that advice given in 2010 had substantially been taken into account and that ERM had matured to a level at which UNDP considers it has become part of mainstream management. In this respect, the AAC has advised that UNDP must ensure that the escalation process is clear to all staff not only in form but also in purpose. The AAC will continue to monitor progress on the further refinement of the ERM processes in UNDP.

21. The AAC continues to believe that the identification and continued management of a set of "Top audit priorities" for a calendar year is a useful tool for keeping focus on important entity or agency wide risks, and is pleased to see that this list is incorporated into corporate risk logs.

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

### OAI Work Plan and Resources

22. The AAC endorsed the 2011 annual work plan for OAI in December 2010, and in subsequent meetings received updates on performance against plan. The AAC noted improvement in the overall presentation of data, and progress against plan over the course of its four meetings.

23. Recalling the comments of the AAC in its previous reports, and noting the overall budget constraints of UNDP in 2011, the Committee 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 such that OAI may be able to achieve a satisfactory level of assurance. The AAC was encouraged to hear that OAI felt that a satisfactory level of assurance could be provided. The AAC will continue to review this with OAI given that the work load of OAI will increase in line with the Administrator's plan to move to full disclosure of internal audit reports.

24. 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. The AAC is, however, concerned that the high level of open case-load may risk creating the impression that UNDP does not take reports of potentially fraudulent activity sufficiently seriously and that this may pose a risk to the overall integrity and reputation of UNDP. OAI has indicated that with the recruitment of additional investigators during 2012, number of open cases should decrease. The AAC will continue to monitor the situation.

25. The AAC was briefed on the restructuring of the audit function that was designed to respond to the UNDP wide budget constraints without compromise on quality, and heard that implementation had gone smoothly particularly with respect to the human resource management aspects.

26. The AAC has noted a significant increase in OAI work related to the growth in multi-partner trust fund activities and Global Fund programmes. These activities create work outside the normal country office or Headquarters offices audits. Whilst funding has been made available for dedicated Global Fund auditors, the AAC believes that the audit requirements related to multi-partner trust fund activities should be resourced adequately from that source of funding.

#### OAI Impact on the Organization/Leadership in the United Nations system

27. The AAC was briefed on the OAI role in developing a framework for “Auditing as One” as well as other co-operation agreements reached with the Global Fund’s Inspector-General’s Office and with other investigation offices. OAI’s attendance at meetings of the Organizational Performance Group provides an opportunity for OAI to be well informed about emerging developments and to provide input as may be appropriate. The AAC noted the importance of OAI’s contribution to the AOC and advised OAI to be forward-looking and contribute to the creation of the right sort of change, but at the same time, not ignore the compliance aspect of its work.

#### OAI Strategy 2012-2014

28. The AAC reviewed the OAI strategy for 2012 -2014 and noted with concern the reduced coverage of country offices. Whilst the AAC appreciated that the level of coverage was adequate to allow OAI to give assurance to the Administrator on the adequacy of controls, governance, and risk management processes, the AAC expressed that caution should be exercised in this area. The planned audit cycle for low risk countries is such that there could be significant staff changes in the intra-audit period, which might impact the audit risk assessment made by OAI. The AAC will monitor progress of this during 2012.

#### OAI Internal Quality Assurance Review

29. The AAC was briefed on this and noted that the process had been thorough and well conducted. A major finding concerned the causes for delays in issuance of audit reports, namely staff capacity and auditees concern that the reports might be made available under the present disclosure policy. In this respect, the AAC has advised that steps be taken to strengthen the Quality Assurance function as well as attention be given to providing appropriate support to enable OAI staff to complete their reports in a timely manner. As far as the auditees concern that reports may be subject to disclosure, whilst their concern is understandable, and will most likely be heightened when the full disclosure policy is implemented, the AAC encourages OAI to continue with its present approach of extensive consultations with management and that this be supported through OAI continued involvement in regional meetings.

#### Audit Follow Up

30. The AAC was provided with information on audit recommendation follow up about which the AAC raised concerns during the year about the number of recommendations that had remained open after 18 months particularly those that are of a critical nature, such as those pointing to a lack of internal controls. However, the AAC was

pleased to see that by the end of the year action had been taken and that, as a result of additional follow up efforts, the number has been significantly reduced. As for the NIM/NGO audit process, the AAC commended all parties concerned for the progress made in finalization, receipt and review of these audits in a timely manner.

#### Disclosure of Internal Audit Reports

31. The AAC has been kept apprised of the number and nature of requests from Member States for disclosure of internal audits. The AAC has no immediate concerns about the operations of the disclosure process, except to note the rise in the number of such requests.

32. The AAC was briefed on plans to move to full disclosure of internal audit reports and the technology solution to support this. The AAC considers that despite the effective use of technology, full disclosure will impact significantly on the work of OAI as a higher standard of review and quality control will be necessary. The AAC has been briefed on plans to address this, but will monitor the effect on the overall capacity of OAI to meet its assurance responsibilities.

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

33. As required under its TOR, the AAC met privately with the Director of External Audit during 2011. The main areas of discussions were the IPSAS implementation and the related review of IPSAS financial policies, and the arrangements for the outgoing lead auditors to hand over their successors.

34. The AAC urged the outgoing member of the Board to work closely with the incoming member with the aim of making the transition as smooth as possible. The BOA outlined their plans, which gave the AAC good assurance that a high level of attention was being paid to ensure the handover should be as smooth as possible.

#### **VII. Ethics Office**

35. The AAC reviewed the UNDP Code of Conduct, Ethics Office strategy, work plan and operation of the financial disclosure policy.

36. The AAC welcomed the focus on establishing universal work place values, and encouraged the office to continue its extensive programme of out reach to support this.

37. The AAC gave advice on the management of the financial disclosure policy, noting that it is currently a very heavy burden, particularly as the AAC was advised that there is little evidence of conflicts of interest that require attention. The AAC also suggested some approaches that might be taken in those few cases where staff do not respond to advice given by the Ethics Office.

#### **VIII. Conclusion and 2012 Work Plan**

38. The AAC has developed a work plan for 2012 to guide it in its work in the coming year. The AAC will continue to take a keen interest on the progress of AOC and its effects on efficiency and internal controls. It will closely follow the effects of budgetary constraints on UNDP, and will continue to engage UNDP in discussions on how to resource the extraordinary requirements for audit that present themselves to OAI. As 2012 is the first year following IPSAS implementation, the AAC will closely follow the progress being made to fully assimilate the new policies into UNDP, and will monitor the review and audit of 2012 IPSAS compliant opening balances and preparations for the interim 2012 IPSAS compliant financial statements as a trial run for review and comments by the new lead auditors. Other areas of focus will include gaining a further understanding of how assurance can be provided in multi-agency mechanisms such as HACT and continued interest in 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  
Helen Clark, Administrator

Date: 8/3/11