



**Audit and Evaluation Advisory Committee
2019 Annual Report
(DP/2020/16 - Appendix)**

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A. INTRODUCTION

1. In reference to Executive Board Decision (DP/2008/16/Rev.1), this annual report is prepared covering the activities of the Audit and Evaluation Advisory Committee (AEAC or the Committee) from 1 January to 31 December 2019.
2. The Committee operates under the expanded Terms of Reference approved by the Administrator in 2016. The approved Terms of Reference mandated the Committee to assist the UNDP Administrator in fulfilling his/her responsibilities regarding oversight, financial management and reporting, internal audit and investigation, external audit, risk management, the evaluation and ethics functions, and systems of internal control and accountability.
3. The Committee is composed of members with relevant skills and backgrounds who are external to UNDP and are therefore independent from UNDP, including its administration and management. All of the members of the AEAC individually declared that they had no conflicts of interest at the start of each pre-meeting briefing session.

The members of the Committee during calendar year 2019 were as follows:

- Mr. Fayezul Choudhury (Bangladesh/United Kingdom/United States), Acting Chairperson
- Mr. Antoine Antoun (France/Lebanon)
- Mr. S. Ashish Bali (India/United States)
- Ms. Ana Maria Elorrieta (Argentina)
- Mr. Ryokichi Hirono (Japan) up to and including the June meeting
- Ms. Mallika Samaranayake (Sri Lanka) up to and including the June meeting

B. OVERSIGHT UNDERTAKEN IN 2019 AND OVERALL ASSESSMENT

4. The strategic direction for UNDP in 2019 was largely shaped by the SDGs, the 2030 Agenda for Sustainable Development and the related UN Development System (UNDS) Reform initiated by the Secretary-General. The organization supported UNDS Reform, with a significant element being the facilitation of the transfer of the Resident Coordinator System (RCS), previously managed by UNDP, to the UN Secretariat. Since prior to 1 January 2019, the Resident Coordinator (RC) function was carried by the UNDP Resident Representative. One consequence of this transfer was that, in order to minimize disruptions to the functioning of the RCS decoupling, UNDP had to recruit new Resident Representatives in most countries. The recruitment of these positions, as well as doubling of the direct financial contribution required by all UN agencies towards covering the costs of the RCS, created operational and financial challenges. These challenges were being addressed while at the same time delivering on an already ambitious work programme and internal initiatives to improve the efficiency and effectiveness of the organization. Against this background of a significant change agenda, the Committee focused its activities and discussions with management on their understanding of the risks to be managed, and plans to ensure the continuity of operations, delivery of work programmes and the accomplishment of initiatives to improve efficiency and effectiveness.
5. In 2019, the Committee held three meetings (April, June, and November) in New York to fulfill its mandate as specified in the approved Terms of Reference, in addition to teleconference calls as needed on specific technical issues.
6. The Committee confirms that it was able to carry out its mandate of providing oversight and advice to UNDP senior management in accordance with its Terms of Reference. It held meetings with the UNDP Administrator and Associate Administrator a.i. It also held regular private sessions with the Directors of the Office of Audit and Investigations (OAI), the Independent Evaluation Office (IEO), the Ethics Office (EO), the UN Board of Auditors (UNBOA), and the Assistant Administrator and Director of the Bureau for Management Services and the Chief Finance Officer, and briefing sessions with functional managers, as relevant.
7. The Committee was very appreciative of the support and cooperation it received from the UNDP Executive Office, senior management and staff during this past year. The presentations and briefings to the Committee

were of high quality, reflecting a great deal of thought and attention. The Committee also appreciated the candid and constructive dialogue on key issues during briefing sessions and in formal meetings.

C. DETAILS OF AEAC ACTIVITIES AND ADVICE PROVIDED

C.1 UNDP PROCESSES AND BUSINESS UNITS

UNDP and UNCDF financial statements

8. The Committee reviewed and discussed the 2018 financial statements of UNCDF and UNDP and was pleased to note their timely preparation and good quality. In order to underscore that UNDP and UNCDF were separate organizational entities, the Committee noted that the financial statements of each were reviewed separately by the management of each organization, and that representatives of UNDP and UNCDF would each separately present their respective financial statements.
9. The Committee was informed about changes in the interpretation of IPSAS 23 as discussed between UNDP and UNBOA. As these changes involved complex issues regarding the interpretation of accounting standards, and had the potential to lead to important changes in the presentation of financial statements, the Committee closely examined the analyses presented and the conclusions reached, and concurred with the approach eventually agreed upon.
10. The Committee discussed the internal control observations of UNBOA, and noted management's acceptance of the recommendations made.
11. *The Committee was pleased to note that both statements received clean opinions from UNBOA.*

UNDS Reform

12. The Committee received updates at the beginning of each of its meetings on the implementation of UNDS Reform from UNDP senior management. It also received a briefing from the UN Development Coordination Office on the risks faced by the UN. The facilitation of the transfer of the RCS (previously undertaken by UNDP) to the UN Secretariat, and as previously the RC function was carried by the UNDP Resident Representative, the associated requirement to recruit new UNDP RRs was a significant challenge. The Committee discussed with senior management its plans, the status of implementation, coordination and monitoring arrangements, and risk mitigation activities at each meeting.
13. *The Committee was impressed with the manner in which these challenges were addressed while at the same time delivering on an already ambitious work programme and internal initiatives to improve the efficiency and effectiveness of the organization. It requested that it be regularly updated on the status of implementation of UNDS Reform going forward, particularly as it affects the strategy, funding and work programmes of UNDP.*

Strategic Plan 2018–2021

14. The Committee discussed with UNDP senior management overall progress on the achievement of the Strategic Plan 2018–2021, as well as particular initiatives launched by UNDP to improve performance and support innovation, for example, on the digital strategy and leveraging financing from the private sector to promote the SDGs. While welcoming a focus on innovation, the Committee cautioned that innovation often brought unfamiliar risks, and that it would continue to monitor the adoption and implementation of innovative projects on an ongoing basis.
15. The Committee also received briefings on the progress of the clustering initiative, which it deemed important to achieve greater efficiency, effectiveness, internal control and risk management.

Vendor management

16. The Committee continued to pay close attention to the disposition of cases before the Vendor Review Committee. While progress has been made as a result of a new focus in this area, the Committee will continue to closely monitor this area, with the target to close all cases pending prior to 2019 in 2020.

Financial resources management

17. The Committee was pleased to note that the Chief Finance Officer would henceforth have a dual reporting line, both to the Executive Office as well as the Assistant Administrator and Director of the Bureau for Management Services. This was in line with earlier recommendations of the Committee.
18. The Committee received regular updates regarding the financial position of UNDP in terms of revenue, status of collection of voluntary contributions and expenditure trends, as well as updates on Treasury activities.
19. The Committee was pleased with the increase in core contributions; however, it noted that the uncertainty of the initial funding of the delinking and future financial support for the RCS impacted the availability of funds.
20. The Committee received an update on cost recovery and was pleased to note the progress made in cost recovery terminology, rate harmonization, cost classification and harmonization between agencies.
21. The Committee was informed about the transfer of the Accounts Unit to Kuala Lumpur. The transfer took place while this unit was undertaking an extensive data gathering exercise to inform the manner of implementation of issues relating to the application of the provisions of the IPSAS 23 accounting standard.

Risk management

22. The Committee was briefed at each meeting on the progress in developing and implementing an enterprise risk management system, and reviewed and discussed key risks and associated mitigating actions identified at the corporate level.
23. The Committee welcomed the designation of the Associate Administrator as Chief Risk Officer, as it had advised that vesting this responsibility in a very senior position was a crucial element of an effective risk management system.
24. *The Committee welcomes progress on the establishment of an enterprise risk management system, and looks forward to regular briefings on this topic as the process matures. It noted that a sustained management focus on risk management was key to embedding a consistent and appropriately directed risk culture across the organization.*

Human resource matters

25. The Committee received updates on developments in the human resources area. It was impressed with the manner in which the selection of the new RR cohort and associated arrangements for training and onboarding had been developed and implemented. It was also impressed with the plans for strengthening and streamlining the HR function under the new Director.
26. The Committee also reviewed with great interest the results of the 2018 Global Staff Survey. As the survey was undertaken at a time of considerable change as a result of UN Reform and various internal initiatives, the Committee was pleased to note the generally positive results.
27. The Committee welcomed the recruitment of a Chief Digital Officer and Chief Technology Officer, as it has in the past emphasized the need to strengthen the leadership of information technology-related functions.

Bureau for Management Services

28. The Committee discussed with the Assistant Administrator and Director a.i., and at its November meeting the newly appointed Assistant Administrator and Director and staff of the Bureau for Management Services the ongoing review of UNDP's management services and business processes, as well as the Bureau's activities relating to the implementation of UN Reform. The Committee was pleased to note progress on improvement initiatives in the areas of payroll and benefit administration, automation of fleet management, enhancements to the travel system and the launch of the e-tendering module. The Committee noted that implementation of UN Reform, overlaying an already ambitious and extensive change agenda, will involve careful and detailed planning, design, implementation and monitoring. Resource implications will likely also be significant, and careful prioritization will be required.
29. *The Committee will continue to monitor progress on the various business process initiatives underway.*
30. The EU's General Data Protection Regulation (GDPR) was discussed. The Committee was aware that compliance with the requirements of this regulation had been a complex undertaking in many organizations, but was informed that this regulation for the most part was not applicable to UNDP in view of its privileges and immunities. However, it could have a business impact with partners or vendors not covered by UNDP's privileges and immunities, and the implications of this will continue to be analysed.

Joint Inspection Unit Review of Audit and Oversight Committees

31. The Committee discussed the report by the Joint Inspection Unit (JIU) on its review of audit and oversight committees in the United Nations system. UNDP has already adopted the practices set out in the report prior to this JIU review, except for the reporting lines of the audit and oversight committee. In UNDP's current practice, the AEAC is an independent advisory body appointed by and reporting to the Administrator in line with UNDP's Accountability Framework, as approved by the Executive Board. The AEAC provides its independent annual report to the Executive Board at its annual session with an AEAC member present at the meeting, during which the member is available to respond to any questions.
32. *The Committee will be kept updated on management responses to the Joint Inspection Unit review.*

Presentations by bureaux and offices

33. The Committee meets with a number of bureaux and offices on a rotational basis to better understand operational issues on the ground to provide a broader background and context to its work. During 2019, the Committee received briefings from the Office of South-South Cooperation, and from the Regional Bureau for Europe and the Commonwealth of Independent States.

C.2 INTERNAL AND EXTERNAL OVERSIGHT OFFICES

Office of Audit and Investigations (OAI)

34. The Committee was briefed at each meeting on the implementation of OAI's work plan, and discussed progress against key performance indicators. The Committee also met, in private sessions, with the Director of OAI at each meeting.
35. The Committee discussed OAI's overall rating of UNDP as 'partially satisfactory/some improvement needed' in the annual report of OAI on audit and investigation activities in 2018. The Committee also reviewed and discussed the status of long-outstanding recommendations and noted that after a significant reduction in previous years, the number increased slightly.
36. The Committee received briefings on the number, nature and status of investigations. Financial irregularities and/or fraudulent conduct remained the largest group, and within this group procurement fraud represented the highest number of cases.

37. The Committee also received a briefing on the compliance reviews of social and environmental standards, a relatively new area of focus, and one which had been identified as a key corporate risk.
38. The Committee reviewed OAI's 2020 annual work plan prior to its submission to the Administrator. OAI planned to conduct approximately 94 audits and to continue investigating all credible allegations of misconduct.
39. *Overall, the Committee was impressed with the professionalism of OAI leadership and staff and satisfied with the scope, coverage and implementation of the 2019 work plan. Management's responses to audit findings has generally been timely, with appropriate mechanisms to monitor the status of implementation of findings.*

Independent Evaluation Office (IEO)

40. The Committee was briefed at each meeting on the implementation of the 2019 work plan of the IEO and progress against key performance indicators, making a number of suggestions on how the key performance indicator framework could be further developed. The Committee also met, in private sessions, with the Director of IEO at each meeting. In addition, the Committee received detailed briefings on two evaluation reports, to gain a better understanding of the operational context in which projects and subsequent evaluations were undertaken.
41. The Committee received information on the work plan for 2020 and noted the planned corporate evaluations, the status of the 2019 Independent Country Programme Evaluations and those planned for 2020, as well as capacity development activities.
42. The Committee was pleased to note efficiency gains in the time to produce Independent Country Programme Evaluations, and the number of visits needed to complete these, and savings arising from using national consultant evaluators. The Committee also discussed IEO plans to further decentralize and proposals that a substantial part of the staff be located in the regions and the costs and benefits of this approach.
43. The Committee also discussed existing mechanisms for independent expert assessments of the evaluation function and was informed that the International Evaluation Advisory Panel fulfilled this role. The Committee will further discuss this issue in future meetings.
44. The Committee discussed the findings of the Review of the Evaluation Policy. Of particular interest was the observation that oversight over evaluation should not be vested in the AEAC, a view not supported by the AEAC. The Director of IEO confirmed that he did not support the proposed change of the responsibilities of the AEAC in the Review, and that he believed the current structure of oversight of the IEO should remain for now.
45. *Overall, the Committee was satisfied with the scope, coverage and implementation of the 2019 work plan and welcomed the focus on increasing efficiency. Management's responses to evaluation findings has generally been timely, with appropriate mechanisms to monitor the status of implementation of findings.*

Ethics Office (EO)

46. The Committee was briefed on the activities of the EO at each of its meetings during 2019, and also met in private sessions with the Director of the EO at each meeting. In addition to work programme delivery, resource constraints and the manner in which they were being addressed, the Committee also discussed tools for assessing the effectiveness of the office. The Committee welcomed the reaffirmation by the Associate Administrator that the organization values the work of the EO, and assurances of continued support.
47. The Committee welcomed the preparation of a Code of Conduct, which integrated various policies and guidance into one comprehensive and coherent document.
48. The Committee noted that service contract holders could not access the Learning Management System and as such could not complete various online training modules, including ethics-related modules, which were

mandatory for staff. As service contract holders are subject in most cases to the same policies, rules, procedures and standards as staff, their inability to access relevant training is a weakness that management has undertaken to address.

49. *Overall, the Committee was impressed by the professionalism of the EO leadership and staff and satisfied with the scope, coverage and implementation of the 2019 work plan, in particular given the limited resources available.*

UN Board of Auditors (UNBOA)

50. The Committee met the new lead auditors from UNBOA. Over the course of the year, the risk-based audit plan, the accounting policies adopted by UNDP and UNCDF, the 2018 financial statements, and observations on internal controls were discussed.
51. *The Committee was pleased with the professionalism and constructive engagement of the external auditors.*

D. SELF-EVALUATION AND MANAGEMENT SURVEY

52. The AEAC conducted a self-evaluation survey and a management survey for 2019. The results of the self-evaluation showed that the members overall assessed the functioning of the Committee as positive, but noted that the Committee collectively required skills and experience covering the range of functions under its purview, as well as senior level management experience within a UN organization or international development agency.
53. The results of the management survey showed broad support for the work of the Committee but with one respondent expressing concerns about the expertise within the Committee to provide effective oversight over specific functions. The Committee took note of the survey results and will discuss them with senior management.

E. WORK PLAN FOR 2020

54. The Committee will continue its work in consultation with the Administrator, the Associate Administrator, and UNDP senior management. In 2020, it will continue to review the progress of UN Reform implementation and its impact on UNDP, and the implementation of the Strategic Plan 2018–2021. The Committee will also continue to provide advice to the Administrator on financial resources management and the oversight functions of internal audit and investigations, evaluation, ethics, and UNBOA. Lastly, the Committee will continue to provide advice to promote proper governance, including high ethical standards, risk management and control systems and accountability in UNDP in 2020.

F. COMPOSITION AND OPERATION OF THE AEAC

55. The Committee thanked Mr. Ryokichi Hirono and Ms. Mallika Samaranayake for their collegial membership on the AEAC for their tenure ending in 2019; their input on the issues presented to the Committee was valuable, thought provoking, and very much appreciated.
56. In response to the departure of the previous Chairperson, Ms. Sheila Fraser, the Administrator appointed Mr. Fayezul Choudhury as Chairperson of the AEAC.
57. The Committee has provided advice on the profile for new members of the Committee, in particular on the need to attract individuals with senior level management experience in a UN or international development organization.
58. The Committee has adopted the practice of conducting a brainstorming session to improve efficiency and increase the relevancy of the Committee for the stakeholder.