Executive Board of Undp/unfpa/unops

Annual session, 4 - 8 JUNE 2018

**UNDP management response to the:**

1. **2017 Annual Report of the Office of Audit and Investigations (DP/2018/15);**
2. **2017 Annual Report of the Ethics Office (DP/2018/16);**
3. **2017 Annual Report of the Audit and Evaluation Advisory Committee (Annex to DP/2018/15); and**
4. **Introduction**
5. This report is UNDP’s management response to the main recurring risks and matters highlighted in the 2017 Annual Reports of the Office of Audit and Investigations (OAI) DP/2018/15, Ethics Office – DP/2018/16, and the Audit and Evaluation Advisory Committee (AEAC) - Annex to DP/2018/15. The 2017 OAI Annual Report includes UNDP, UNCDF and UNV audits.
6. The Administrator and the Associate Administrator of UNDP give the highest priority to recommendations of the AEAC and independent oversight offices; and the implementation of all recommendations is closely monitored by senior management. There are many factors, including the disclosure of audit reports, which contributed to UNDP being rated the most transparent development organization two years in a row according to the Publish What You Fund Aid Transparency Index. The Index is an independent ranking, which assesses the timeliness, accuracy and comprehensiveness of data published by 46 of the largest aid organizations using the standard established by the International Aid Transparency Initiative. UNDP maintained this top ranking between 2014 and 2016 and was the only organization to score above 90% in the 2016 assessment. The next update to the Index will be published in 2018.
7. **2017 Annual Report of the Office of Audit and Investigations (DP/2018/15)**
8. **Management response to key audit risks identified by OAI in the 2017 Annual Report and response to Executive Board (EB) decision 2017/17**
9. Pursuant to EB decision 2017/17 in which the EB *recalls decision 2016/13, in which the Board expressed concern about recurring weaknesses for both UNDP and UNFPA related to programme management, procurement, governance and financial management*, and *notes that similar challenges have been identified in the 2016 reports, and underscores the urgent need to intensify efforts to address these issues*, Management is pleased to highlight the actions that have been taken to address key recurring risks identified in the 2017 OAI Annual Report and the impact of such measures.
10. In response to the EB decisions, Management continues to adopt a risk-based approach in addressing, where possible, recurring audit matters. Based on the observations and risks raised in reports issued by the United Nations Board of Auditors (UNBOA), OAI and the AEAC, as well as the decisions of the EB, the Executive Group and the Organizational Performance Group (OPG), Management has continued to establish audit-related management priorities on a biennial basis since 2006. Progress is monitored against baseline indicators through regular meetings chaired by the Administrator and Associate Administrator and is reported annually to the EB at its first regular session. Most of the recurring issues highlighted in the 2016 and 2017 OAI Annual Report are captured in the 2016-17 top 7 audit-related management priorities that were presented to the EB in January 2017 (DP/2017/11). As reported to the EB in January 2018 (DP/2018/7), there is general agreement that encouraging progress has been made on all top seven audit-related priorities for the 2016-2017 period, although progress on aspects of each audit priority indicates that more work needs to be done.
11. **Country Office (CO) Audits and Directly Implemented (DIM) Project Audits**
12. **Programme/ Project Management (PPM)-(*26% of Country Office and 8% of DIM project recommendations*):** Management takes note of the recurring issues on PPM. Sound programme and project management is at the heart of how UNDP delivers results with partners. For several years, there have been persistent recurring audit issues relating to programme and project management that require new approaches to break old patterns. To address this, Management is taking a two-pronged approach:

First, UNDP incorporated the requirements for effective project management into one consolidated set of clear standards for quality programming, along with a tool to help managers rate individual projects to assess if the standards are being met. These elements were included in the standards in direct response to audit recommendations. A recent evaluation on the quality standards found that the system has led to a shift in awareness of the requirements necessary for quality project management, as 76% of quality assessors have used the tool for learning in its first year. The data from the system enables managers to identify project weaknesses and track their improvement over time. Management has reviewed an analysis of project performance, and is committed to holding programming staff accountable and closely monitoring performance over the next four years.

Second, effective contributions to sustainable development require flexible delivery instruments rather than a one-size-fits-all approach. The standard development project and all its requirements is not always suitable for everything UNDP does, including small-scale upstream advisory work. To help enable UNDP to effectively respond to the changing needs of partners, Management is reviewing the prescriptive content on programming and project management from end to end to reduce unnecessary burden and provide more flexible options to deliver results that are fit for the purpose intended. This will provide clarity on requirements and updated procedures. It will also enable requirements to be streamlined for projects contributing to shared results, so that risk management, monitoring and project governance can be done for several projects together in one portfolio. The re-write of UNDP’s prescriptive content on programme and project management will be completed in 2018 and is anticipated to improve performance in adhering to these core requirements.

1. **Financial Management (*18% of Country Office and 56% of DIM project recommendations*):** Management takes note of the recurring issues on financial management. It is important to highlight that DIM audits are often purely financial audits and therefore, it is expected that most of the recommendations will be related to the financial management area. The issues identified within the audits are being addressed by the respective Country Offices. In addition, Management has strengthened its monitoring of project cash advances and issued a dashboard to support oversight. Management continues to support its financial certification programme, to enhance capacities in financial management across the organization, and provides guidance and training on priority issues. Management has also taken a series of steps to improve the recovery of full costs in project budgets, through training and the issuance of further guidance. The benchmarks established for the recovery of these costs have improved in 2017, and further improvements are anticipated in 2018. Despite this, the recovery of full project costs continues to be a challenging topic with donors and programme governments alike.
2. **Procurement (*17% of Country Office and 14% of DIM project recommendations*):**

Management takes note of the recurring issues on procurement. As reported in DP/2018/7, UNDP has undertaken several important steps to improve performance in procurement planning,
vendor management and others. These tools will be rolled out further in 2018. Management has also strengthened the technical capacity to support procurement through additional procurement expertise outposted to the regional hubs to support country operations. These initiatives will help to reduce and address audit findings in the procurement area.

1. **Governance and Strategic Management (*15% of Country Office and 2% of DIM project recommendations*):** Management takes note of the recurring issues on governance and strategic management. Management established government contributions to local office costs (GLOC) targets earlier in the year to facilitate GLOC inclusion in national legislative budgets and is encouraging multi-year planning. GLOC collections are also monitored corporately on a quarterly basis.

Further actions to improve risk management are being taken with the guidance and leadership of the risk committee, which is chaired by the Associate Administrator. The policy on enterprise risk management is being reviewed to further enhance risk-informed decision-making to address emerging development and organizational challenges. Better project risk management is also addressed as part of UNDP’s re-write of the prescriptive content on programme and project management.

On reporting lines, UNDP has ensured that the reporting lines of positions are included in Atlas, so that this information is officially replicated to all systems, including for performance management. UNDP has further embarked on a review of the corporate functions held by Central Bureaux to renew and reinforce organizational structures. A new people strategy will help to ensure that there is clarity on roles of responsibilities of staff and managers with regards to the management of people.

1. **United Nations leadership and coordination (*9% of Country Office recommendations*):** Management takes note of the recurring issues on the Harmonized Approach to Cash Transfers (HACT). HACT is further discussed under (d)
2. **Unsatisfactory CO and DIM Audits:** Management takes note of the further decrease in the number of unsatisfactory Country Office and DIM audits, which declined from 7 in 2015 to 1 in 2016 to 0 in 2017.
3. **Global Fund (GF) Audits**
4. UNDP is an important partner of the GF in its efforts to work in highly challenging operating environments. UNDP is the Principal Recipient in 18 countries and implements 3 regional programmes that cover another 29 countries, of which 9 are under the GF’s Additional Safeguards Policy (ASP).[[1]](#footnote-1)
5. Management continues to make substantial investments to continuously and systematically refine risk mitigation and prevention measures that address the operational realities that arise from working in capacity-constrained environments. These interventions specifically respond to OAI audit findings and recommendations and are reviewed periodically by UNDP’s senior management.
6. After two years without unsatisfactory audit ratings, the GF audit in Chad resulted in an unsatisfactory rating in 2017. Issues identified in this audit included the lack of capacity in the programme management unit, weak oversight over direct payments, inadequate quality control and weaknesses in inventory, distribution and warehousing of pharmaceutical products. Management took immediate corrective actions and all recommendations given have been implemented. 5 other reports on Global Fund activities were rated ‘satisfactory’, 3 were rated ‘partially satisfactory/some improvement needed’, and 1 was rated ‘partially satisfactory/major improvement needed’.
7. In general, Management notes that issues in project management, monitoring and evaluation, weaknesses in sub-recipient management and weaknesses in procurement and supply chain management, are recurring risks under GF projects. These risks are being addressed through the development of tailored tools and guidance available through a web-based Implementation Manual,[[2]](#footnote-2) trainings, global monitoring, deployment of vetted experts for targeted support and a centralized advisory team. Noting weak capacity of sub-recipients, there will, however be some residual risk.
8. **Headquarters (HQ) Audits and interagency audits**
9. Management welcomes the recommendations made in the 13 HQ audits issued in 2017, of which 5 were performance-based, thus focusing on efficiency and effectiveness of systems and procedures. Management is pleased with the satisfactory ratings for two of its largest Bureaux, the Bureau for Programme and Policy Support and the Regional Bureau for Asia and the Pacific and is working on addressing the issues identified in all HQ audits. Management would like to highlight OAI’s acknowledgement of progress made in addressing issues, as reflected in two follow-up audits; one of vendor management and the other one of the United Nations Office for South-South Cooperation. Management recognizes the importance of these audits in enhancing monitoring and oversight and will strive for further improvements.
10. The interagency audit of the governance arrangements of the Sustainable Development Goals Fund revealed important issues in governance, programme management and resource mobilization and resulted in an unsatisfactory rating. Management is working on rectifying the issues.
11. **Audits of projects executed by Non-Governmental Organizations (NGO) and/or National Governments**
12. Management recognizes the role and importance of the national implementation modality (NIM) as a way of ensuring national ownership and sustainability of projects at the country level. Management takes note of the increase from 72% to 78% in the share of countries receiving satisfactory review ratings from 2015 to 2016 by OAI (assessment of quality of NGO/NIM audit reports), which came after a drop from 82% to 72% from 2014 to 2015.
13. Management is pleased to note that the net financial misstatement for the year 2016 remained at a low 0.4% over the total audited expenditure after 0.3% in 2014 and 0.5% in 2015. The qualifications resulting in net financial misstatements were mainly due to unsupported or ineligible expenses (30 projects) or unrecorded expenses and incorrect recording of advances or expenses (12 projects), all of which are related to capacity challenges at the implementing partner level. Many issues included in these audits are also not unique to NGO/ NIM implementation, but relate to improvements required in compliance and project management.
14. The implementation of HACT continues to be among the top priorities for UNDP to assist in the risk management of implementing partners and responsible parties by selecting and updating the implementation and cash transfer modality based on the results of micro assessments and assurance activities. HACT can also be used for the coordination of required capacity-building among the implementing agents. The 2014 revised HACT framework was rolled out mid-cycle for many offices and, as they come to an end of their current programme cycles and enter new cycles, the compliance with HACT guidelines is expected to improve. This provides an opportunity for HACT to be embedded in the project planning phase and the full cost of HACT activities to be factored into project budgets. Cooperation from programme governments, who 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.
15. UNDP has taken the following steps to enhance the oversight and management of implementation partners: i) an on-going initiative to re-write the prescriptive content on programme and project management for better clarity and consistency on managing risk of implementing partners in the wider context of project implementation which will be accompanied by a visual tool to help staff more easily see requirements and clarity on accountabilities; ii) a new HACT monitoring platform that links project details in Atlas to HACT micro assessments has been developed and is being rolled out to help provide greater transparency on partners implementing UNDP projects and on the extent to which HACT activities have been completed, iii) inclusion of HACT in the mandatory year-end assertion process which requires sign-off from the Head of Office helps to escalate issues relating to the management of implementation partners; iv) ensuring that offices that reported non-compliance with the full elements of the HACT framework continue to perform project financial audits.
16. **Follow up on long outstanding audit recommendations**
17. Management frequently monitors implementation of OAI audit recommendations through the OPG chaired by the Associate Administrator. This is evidenced by (i) the further improvement in the implementation rate of recommendations issued over the past 3 years, which increased to 92%, after 87% in 2016 and 85% in 2015; (ii) the significant improvement from 50 long outstanding audit recommendations at the end of 2015 to 17 at the end of 2016 and 6 at the end of 2017. Since 2016, the Associate Administrator has been closely following up on the implementation of audit recommendations and sending corresponding messages to all Bureaux to ensure that the process is expedited.
18. **Investigations and complaints received and response to Executive Board decision 2014/21, 2015/13 and 2017/17 (requesting disclosure of financial loss recovery)**
19. The Annual Report on Disciplinary Measures and Other Actions taken in response to fraud, corruption and other wrongdoings shared by UNDP’s Administrator and ethics trainings carried out on a regular basis to sensitize staff on the types of issues that should be reported, with a resulting increase in the number of reported cases.
20. Management notes that procurement fraud remains the highest category of newly reported (22%) as well as substantiated cases (19 cases; 30%). UNDP’s action plan continues to be one of ensuring increased ethical awareness through training courses to procurement staff, sharing of lessons learnt, as well as timely response and adaptation when fraud is substantiated. Furthermore, use of the e-tendering platform for high-value procurement processes, along with oversight and management of duplicate bank accounts through the vendor management workbench, are expected to mitigate instances of possible fraud occurring.
21. Management would like to re-emphasize that where frauds are substantiated, UNDP pursues full recovery of lost funds based on the actions proposed by an inter-bureau standing board established to improve provide transparency on the collection process. The board will follow up on the monitoring of the substantiated losses.
22. As mentioned last year, UNDP mostly has to rely on the national judicial systems to pursue recovery of funds for cases of substantiated frauds within the country. Effective partnership and collaboration with the national authorities and Member States are critical to the success of management actions. Most of the fraud recoveries take place in future years, as opposed to the year in which the case was closed, as recovery efforts can only commence after the fraud is substantiated and the case is finalized. As such, management notes that the recoveries for losses that occurred in prior years continued in 2017.
23. **OAIs overall audit opinion**
24. Management is pleased to receive a “satisfactory” rating on governance, risk and control (GRC) mechanisms for the first time in 2017. After having received 12 consecutive unqualified audit opinions from the United Nations Board of Auditors, this year’s GRC rating from OAI completes UNDP’s positive audit assessments. The challenge for 2018 will be to retain this good rating. Management is fully committed to continuing the excellent working relation with OAI and will further improve its governance, risk and control processes as well as its follow-up on OAI’s recommendations.
25. **2017 Annual Report of the Ethics Office (DP/2018/16)**
26. **Management response to matters highlighted in the 2017 Annual Report of the Ethics Office**
27. UNDP Management takes note of the 2017 achievements of the Ethics Office, and notes that, as in 2016, there is no management recommendation, a testament to the importance that management has placed in dealing with the issues raised by the ethics office during the year.
28. Management would like to thank the Ethics Office for its continued advocacy for a strong organizational culture of ethics and accountability. The record number of matters addressed by the Ethics Office in 2017 serves as evidence that the services from the Ethics Office are more important than ever and that staff members actively seek the advice from the Ethics Office when they are faced with potentially ethically questionable decisions.
29. Out of all the important work the Ethics Office carries out, Management would like to particularly note the Office’s advocacy related to the whistleblower protection and to the prevention of sexual harassment, exploitation and abuse, which continue to be topics of concern throughout the United Nations System.
30. Management also looks forward to Policy on Gifts, Honours, Decoration, Favours, Hospitality, or Remuneration from Governmental and Non-governmental Sources to be developed by the Ethics Office in 2018.
31. Management is fully committed to continue to build the already excellent working relation with the Ethics Office.
32. **2017 Annual Report of the Audit and Evaluation Advisory Committee (Annex to DP/2018/15)**
33. **Management response to matters highlighted in the 2017 Annual report of the Audit and Evaluations Advisory Committee (AEAC).**
34. UNDP Management notes the overall positive report from the AEAC, particularly with regards to progress acknowledged by the AEAC in the areas of procurement, financial resources management and human resources management.
35. Management wishes to express its gratitude to the AEAC for its strategic advice on administrative, audit and management issues to the Administrator. The implementation of the AEAC’s advice and recommendations are ensured and tracked by UNDP’s senior management.
36. Management shares the AEAC’s concern regarding the resources available for external communication and legal. The current/ upcoming reviews of the Bureau for Management Services and the Bureau for External Relations and Advocacy will be an opportunity to better align UNDP’s communications and legal resources with the needs of the new Strategic Plan, and to complement other anticipated changes to the organization’s policy, programming and operations functions.
37. UNDP is committed to continue cooperating with the AEAC at the highest management level and will continue to embrace the AEAC’s advice and recommendations.
1. ASP countries are those where the existing systems to ensure accountable use of GF monies are not strong and require additional measures to mitigate risk. [↑](#footnote-ref-1)
2. <http://undphealthimplementation.org/> [↑](#footnote-ref-2)