**United Nations Development Programme**

**Audit and Evaluation Advisory Committee**

**2021 Annual Report**

**(DP/2022/15 - Appendix)**

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# **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 2021.
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 investigations, external audit, risk management, the evaluation and ethics functions, 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 (including United Nations Volunteers) and its operating environment, as well as one its affiliates, United Nations Capital Development Fund (UNCDF).
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.
4. The members of the Committee during calendar year 2021 were as follows:

* Mr. Fayezul Choudhury (Bangladesh/United Kingdom/United States), Chairperson
* Mr. Antoine Antoun (France/Lebanon) up to and including the June meeting
* Mr. S. Ashish Bali (India/United States)
* Ms. Ana Maria Elorrieta (Argentina)
* Mr. Chris Hemus (United States /United Kingdom/South Africa) as of the November meeting
* Mr. Greg Johnson (New Zealand)
* Mr. Rakesh Nangia (USA/India)
* Mr. Hock-Chye Ong (Malaysia) as of the November meeting

# **OVERSIGHT UNDERTAKEN IN 2021 AND OVERALL ASSESSMENT**

1. The strategic direction for UNDP in 2021 was largely shaped by the SDGs, the 2030 Agenda for Sustainable Development. 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.
2. In 2021, the Committee held three virtual meetings (April, July, and November) to fulfill its mandate as specified in the approved Terms of Reference, in addition to separate virtual meetings as needed on specific technical issues.
3. 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. The Committee is discussing with Management potential procedural improvements to ensure that it is systematically involved in policy formulation and policy review matters within the mandate of the AEAC.
4. The Committee 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), the Director of the Bureau for Management Services (BMS) the Chief Finance Officer and the Chief Information Officer, and briefing sessions with functional managers, as relevant.
5. 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 with the UNDP Administrator and Associate Administrator.

# **DETAILS OF AEAC ACTIVITIES AND ADVICE PROVIDED**

# ***C.1 UNDP PROCESSES AND BUSINESS UNITS***

**UNDP and UNCDF financial statements**

1. The Committee reviewed and discussed the 2020 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.
2. The audit of UNDP was completed under difficult circumstances; the audit team faced challenges with conducting site visits and relied on digitally available documentation and remote interviews. The financial statement contained an appropriate adjustment of $71 million relating to unrecorded contribution agreements.
3. The Committee discussed the internal control observations of UNBOA and noted management’s acceptance of the recommendations made.
4. The Committee was pleased to note that both statements received clean opinions from UNBOA.

**UNDS Reform**

1. The Committee received updates on the implementation of UNDS Reform from UNDP senior management. The Committee discussed with senior management its plans, the status of implementation, coordination and monitoring arrangements, and risk mitigation activities.
2. The Committee was impressed with the manner in which the challenges were addressed while the General Assembly had not yet agreed to the special funding for UNDP. It will continue to request that it be regularly updated on the UNDS Reform going forward, particularly as it affects the strategy, funding and work programmes of UNDP.

**Strategic Plan 2022-2025**

1. The Committee discussed with UNDP senior management the Strategic Plan 2022–2025 and looks forward being briefed on the action plan to implement the Strategic Plan.

**Global Environmental Facility (GEF)**

1. The Committee received a detailed briefing on the governance and controls over the use of GEF funds. The Committee noted that there is a number of reviews being undertaken in this area, including by OAI, IEO, Ernst and Young, BDO, and an independent consultant.
2. The Committee noted that management has created a clear focus for coordinating these reviews and integrating the findings; it stressed that it was important to identify the root causes of the issues identified and address them holistically. In addition, recommendations addressing weaknesses should take into account the responsibilities that are to be assigned to staff, ensuring they have both the capacity and the competence to fulfill the required tasks.
3. The Committee strongly encouraged management to take the lessons learned from the GEF set of issues, and to assess the extent to which they might also apply to other modalities involving the use of implementing partners.

**Enterprise risk management**

1. The Committee has observed the gradual implementation of the enterprise risk management system over the last five years. It looks forward to being briefed on how the various units that are charged with management or overseeing various aspects of risk and risk appetite will coordinate and interact to ensure a coherent and overarching approach to risk management and adjust where needed.

**Financial resources management**

1. The Committee noted that performance and delivery were on target. The Committee continued to stress that the rate of expenditure and delivery of project milestones should not compromise quality, and that monitoring of this was critical.
2. The Committee received a briefing on the investment function and was informed that returns were low, reflecting market conditions. The Committee advised that the variability of After Service Health Insurance returns be closely monitored to ensure that benchmarks are being met.

**Bureau for Management Services (BMS)**

1. The Committee received regular briefings on the broad range of BMS activities. Topics discussed included planned arrangements for return to the office, the current developments in the Treasury and low market returns on investments, procurement related issues, the new International Personnel Services agreement (I-PSA), clustering, the Vendor Review Committee, and cybersecurity.

**Enterprise resource planning (ERP)**

1. The Committee received regular briefings on the implementation of the ERP system. The Committee acknowledged the challenges in the timely delivery, while staying on budget, of a highly technical system. Delays and financial overruns need to be monitored carefully and require a strong management presence and the sustained involvement of users.

**Presentations by bureaux and offices**

1. The Committee meets with a number of bureaux and offices on a rotational basis to better understand operational issues on the ground to provide broader background and context to its work. In 2021, the Committee received briefings from the Regional Bureau for Asia and the Pacific and the Regional Bureau for Latin America and the Caribbean.

# **INTERNAL AND EXTERNAL OVERSIGHT OFFICES**

**Office of Audit and Investigations (OAI)**

1. 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.
2. The Committee discussed OAI’s overall rating of UNDP as ‘partially satisfactory/some improvement needed’ in the annual report of OAI on audit and investigations activities in 2020. The Committee also reviewed and discussed the status of long-outstanding recommendations.
3. 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.
4. 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.
5. Overall, the Committee was satisfied with the scope, coverage and implementation of the 2021 work plan. Management’s responses to audit findings have generally been timely, with appropriate mechanisms to monitor the status of implementation of findings.
6. The Committee also reviewed OAI’s 2022 annual work plan prior to its submission to the Administrator. OAI will conduct audits, provide advisory services and continue investigating all credible allegations of misconduct.

**Independent Evaluation Office (IEO)**

1. The Committee was briefed at each meeting on the implementation of the 2021 work plan of the IEO. 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.
2. The Committee received information on the work plan for 2022 and noted the status of the 2021 Independent Country Programme Evaluations and those planned for 2022, thematic audits, as well as capacity development activities.
3. The Committee was pleased to note the developments in using automated tooling to extract evaluation data.
4. The Committee also discussed existing mechanisms for the monitoring and evaluation of recommendations and welcomes further discussions on this topic.
5. Overall, the Committee was satisfied with the scope, coverage and implementation of the 2021 work plan. Management’s responses to evaluation findings have generally been timely, with appropriate mechanisms to monitor the status of implementation of findings.

**Ethics Office (EO)**

1. The Committee was briefed on the activities of the EO at each of its meetings during 2021, and also met in private sessions with the Director of the EO at each meeting. The work programme delivery, resource constraints and the manner in which they were being addressed were discussed. The Committee welcomed the reaffirmation by the Associate Administrator that the organization values the work of the EO.
2. Overall, the Committee was satisfied with the scope, coverage and implementation of the 2019 work plan, in particular given the limited resources available.
3. The Committee thanked Mr. Liria for having maintained an excellent relationship with the Committee and wished him well in his future endeavors. The Committee noted that the selection of a successor should be carefully monitored to ensure a smooth transition.

**UN Board of Auditors (UNBOA)**

1. 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 2020 financial statements, and observations on internal controls were discussed.
2. The Committee was pleased with the professionalism and constructive engagement of the external auditors.

# **WORK PLAN FOR 2022**

1. The Committee will continue its work in consultation with the Administrator, the Associate Administrator, and UNDP senior management. In 2022, it will continue to review the progress of UN Reform implementation and its impact on UNDP, and the implementation of the Strategic Plan 2022–2025. 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 2022.
2. The annual self-evaluation of the committee supported the independence and professionalism, the committee identified the challenging timelines in receiving and reviewing reports.

# **COMPOSITION AND OPERATION OF THE AEAC**

1. The Committee thanked Mr. Antoine Antoun for his membership on the AEAC, as his tenure ended in 2021; his input on the issues presented to the Committee was valuable, thought provoking, and very much appreciated.
2. The Administrator has exceptionally extended Mr. Fayezul Choudhury’s tenure as Chairperson of the AEAC to early 2023 to provide continuity, and to contribute to the recruitment process for the new Director of OAI.