Executive Board of Undp/unfpa/unops

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**UNDP management response to the:**

1. **Annual report of the Office of Audit and Investigations on internal audit and investigation activities in 2019 (DP/2020/16);**
2. **Activities of the UNDP Ethics Office in 2019 (DP/2020/17); and**
3. **2019 Annual Report of the Audit and Evaluation Advisory Committee (Annex to DP/2020/16)**

**Introduction**

1. This report is UNDP’s management response to the main recurring risks and matters highlighted in the 2019 Annual Reports of the Office of Audit and Investigations (OAI) DP/2020/16, Ethics Office – DP/2020/17, and the Audit and Evaluation Advisory Committee (AEAC) - Annex to DP/2020/16.
2. The Administrator and the acting Associate Administrator of UNDP give the highest priority to recommendations of the independent oversight offices, Ethics Office and the AEAC; and the implementation of all recommendations is closely monitored by Senior Management. There are many factors, including our disclosures on organizational planning and commitments, finance and budgets, project attributes, joining-up development data and disclosure of audit reports, which contributed to UNDP’s “very good” rating in all four Publish What You Fund Aid Transparency Indices published since 2013. The Index is an independent ranking, which assesses the timeliness, accuracy and comprehensiveness of data published by 45 of the largest aid organizations using the standard established by the International Aid Transparency Initiative.
3. **Annual report of the Office of Audit and Investigations (OAI) on internal audit and investigation activities in 2019 (DP/2020/16)**
4. **General comments on audit performance and OAI’s overall audit opinion**
5. Pursuant to Executive Board (EB) decision 2019/14, Management is pleased to comment on the general audit performance, as highlighted by OAI. Management would also like to highlight the actions taken to address key recurring risks identified in the 2019 OAI Annual Report and the impact of such measures.
6. For a country-based organization such as UNDP, 2019 has been a difficult year of transition. UNDP successfully completed its immediate responsibility of handing over the Resident Coordinators (RCs) to the United Nations Secretariat on time by 1 January 2019, with the delinking of 127 RCs from the Resident Representative function, and the secondment of 63 of its own staff as Resident Coordinators. Despite the extraordinary efforts made by the organization in conducting a rapid recruitment drive for its Resident Representatives and Deputy Resident Representatives, the delinking resulted in an unprecedented vacuum in key leadership positions at country level for a large portion of 2019.
7. UNDP also facilitated the rapid transition to the new Resident Coordination System by providing operational support in our role as the principal service provider to help ensure RCs and their offices can seamlessly carry out their critical coordination functions. Additionally, during the year, UNDP actively participated in several key reform streams, such as the development of the new UN Sustainable Development Cooperation Framework Guidance, the elaboration of the Management and Accountability Framework, co-chairing with UNEP the interagency work on the Multi Country Office Review, the interagency Business Innovations Group, and on the regional review. These activities have had an impact on all UNDP Country Office operations, and to some extent affected UNDP’s focus on audit matters in this period.
8. UNDP successfully managed to recruit, in record time and within the year, 127 Resident Representatives and 144 Deputy Resident Representatives, achieving a gender and geographically balanced new cadre of professionals. Significant efforts were made to ensure business continuity and programme delivery, particularly in the most high-risk, challenging and crisis ridden countries, while playing a key role in supporting the UN development system reform. In this highly challenging context, UNDP has received an audit rating of “partially satisfactory with some improvements.” Learning from this rating and the underlying audit recommendations remains essential.Working with the new UNDP Senior Management Team in Country Offices, Management will continue to improve its audit performance through several means, such as, (a) SURGE teams to assist those Country Offices that need additional assistance or support, (b) regional bureaus to conduct quality assurance missions to Country Offices to address issues noted in the audit recommendations, (c) dedicated teams in regional bureaus to help solve complex audit issues noted in Country Offices; and (d) new digital and software tools for monitoring progress and Country Office issues. Additionally, UNDP is significantly improving the quality and efficiency of its operations through business service clustering, with 57 processes currently performed by Country Offices soon being moved to the global shared service centers. Once complete, business service clustering will significantly reduce our audit recommendations at the Country Office level. Other ongoing reform initiatives, including the work on UNDP’s business operations strategy and the UNDP digital strategy are also expected to improve audit ratings.
9. **Country Office Audits and Directly Implemented (DIM) Project Audits**
10. Management continues to adopt a risk-based approach in addressing, where possible, recurring audit matters. Based on the reports issued by the United Nations Board of Auditors, OAI and the AEAC, and the decisions of the Executive Board, the Executive Group (EG) and the Organizational Performance Group (OPG), Management has continued to establish audit-related management priorities on a biennial basis since 2006, which are set out in DP/2019/2 for the biennium 2019-2020. As reported to the Executive Board in January 2020 (“UNDP: Report on the implementation of the recommendations of the United Nations Board of Auditors, 2018”; DP/2020/3), as endorsed by the EB in decision 2020/1 there is general agreement that encouraging progress has been made on all top seven audit-related priorities for the 2019-2020 period, although more work needs to be done.
11. Below is a detailed summary of actions taken to address recurring audit issues noted by OAI for Country Office audits.
12. **Programme/ Project Management (PPM):** Management notes the recurring issues on programme and project management and recognizes that a comprehensive approach is needed to build capacities in all programme/project management areas and develop more integrated tools to help staff at all levels more effectively manage their programmes and projects. To address some of the underlying programming issues, a PPM workshop was conducted to focus on enhancing the quality of programming, oversight and accountability. The workshop included dedicated sessions on recurring issues noted in audit recommendations, i.e., responsibilities of implementing partners, role of the Project Boards, project document formulation and timeline. In addition, specific sessions were devoted to Programme and Project Management oversight, monitoring and accountability regarding fulfilling all the requirements as specified in the POPP in the Deputy Resident Representatives Bootcamp. UNDP will closely monitor the impact of these initiatives and looks forward to positive results.
13. UNDP is implementing a customized certification course “Managing Successful Programmes” to build capacities in all areas of programme management, drawing on the Cooperation Framework as the key framework from which UNDP’s programmes are derived. 1200 staff will be trained by mid-2021, including staff from UNCDF and UNV. An investment plan focused on improving capacities for risk management in programming is also being rolled out in 2020. This includes a focus on deepening skills on UNDP’s social and environmental standards. Following the launch of revised Evaluations Guidelines in 2019, UNDP and the Independent Evaluation Office (IEO) jointly conducted three regional workshops to strengthen the capacity of monitoring and evaluation focal points for the best use of the revised guidelines.
14. To help provide insight to managers on what action needs to be taken in their programmes and projects, UNDP has started to develop a collaborative digital workspace for programming. This workspace will help managers see where their programming stands across the full life cycle to better monitor performance and highlight what needs to be done so it can be addressed before becoming an audit issue. Additional measures on digitalizing of operations include the launching of the new Combined Delivery Report (CDR) digital platform in 2020 called CDR Bridge. Where adopted by implementing partners, CDR Bridge will enhance the CDR certification process into a seamless digital process with minimal manual intervention. These measures build on previous enhancements, including the end-to-end re-write of programming policies and procedures, the introduction of new quality standards for programming, a new monitoring policy and improvements introduced through the new United Nations Sustainable Development Cooperation Framework.

1. **Financial Management:** Management notes the recurring issues on financial management. It is important to highlight that DIM audits are mostly purely financial audits and therefore, it is expected that most of their recommendations will be related to the financial management area. The issues identified by DIM audits are addressed by the respective Country Offices, and mainly include issues with their responsible parties. As reported in DP/2020/3, following the successful implementation of clustering of financial services in one region, in 2019 the EG approved a business case for the clustering of financial, procurement and human resource services for all regions. The rollout began in October 2019, with gradual phasing of activities and offices over 12-24 months, subject to a potential impact of COVID-19. This initiative is expected to have a significant positive impact towards improving the quality and control over many activities that are the subject of repeat audit reports. In addition, Management has continued its efforts to promote financial training and certifications among UNDP’s employees and to promote self-assertion to certify the performance of key controls in UNDP’s decentralized offices.
2. **Procurement:** Management notes the recurring issues on procurement and continues to undertake several important steps to improve performance through the establishment of regional procurement specialists in regional hubs as well as by investing in procurement planning, vendor management, the contract management module in Atlas and procurement training. UNDP recorded about $1.5 billion in planning procurement volume for 2019, an increase of $0.3 billion from 2018, in the procurement planning tool, called PROMPT, which is an integral tool that provides visibility on annual demand projections across all Country Offices and allows proactive procurement support through establishment of local, regional, and global long term agreements. In 2019, priority has been placed on digitizing and integrating the procurement function and systems, including the further roll-out of eTendering, which was made mandatory in 2019 for all procurement transactions above $150,000 for enhanced transparency, integrating ACP online with eTendering, and improvements in vendor and data management. In 2020, Management is considering further investment in greater centralization and consolidation, end-to-end automation of the management of individual contractors, and integration with the procure-to-pay process, to increase levels of transparency, integrity and accountability.
3. **Human Resources Management*:*** Management notes the recurring issues in human resources management. A new People Strategy 2030 was developed in 2019, with a focus on organizational development, redesign of the human resources function, and a talent management strategy and system. This strategy also includes improvement in the recruitment policy and process and an investment in a new recruitment IT system to be implemented in 2020. UNDP Management continues to monitor compliance with completing mandatory trainings annually and reminders are sent to offices with low completion rates. In 2019, the OPG approved the creation of a new governance framework for the management of corporate learning and development activities. This People Development Governance Group has prepared a People Development Strategy for 2020, which has also been approved by the OPG. A key focus area in this strategy is a review of the mandatory courses to ensure their relevance and completion. The average completion rate for mandatory courses was 84% as of March 2020, compared to 71% at the end of 2018.
4. **Governance:** Management notes issues identified by OAI related to risk management, resource mobilization and organizational structures. Regarding risk management, Management has rolled out a new and updated Enterprise Risk Management (ERM) policy in 2019 and has formulated an action plan to support its implementation. Most of the implementation plan’s activities of the updated ERM Policy have been completed. One of the key activities was the launch of the ERM Toolkit available to all staff and to the public, to find the latest information on UNDP’s risk management approach, risk governance mechanisms, relevant guidance and tools, training opportunities and materials, and communication products. A new tool featured in the space is the ERM Dashboard, which presents an aggregate view of risks (a risk heat map) allowing information to be filtered at the regional or programme levels. This aims to enable managers and risk owners to map risks for enhanced monitoring and risk-informed decision making. The remaining activities, including the development of a Risk Appetite Statement, Training of Trainers program, and project risks dashboard, will be concluded in 2020. UNDP is also part of the HLCM cross-functional task force on Risk Management which aims to develop tools and guidelines to help harmonize system-wide Risk Management practices and knowledge sharing.
5. As reported in DP/2020/3, Management continues to work on expanding and strengthening its catalogue of financial instruments to help programme countries access development finance opportunities and to provide partners with different modalities for investing in the 2030 Agenda for Sustainable Development. Some of the key areas of focus in 2019 have been the enhancement of UNDP’s performance-based payment modalities to deliver measurable and sustainable results, and the strengthening of operational guidance on existing modalities based on leading practices.
6. Unsatisfactory Country Office Audits and DIM Audits: Of the 36 Country Office audits undertaken, OAI rated one audit as unsatisfactory in 2019. On DIM project audits, Management acknowledges the qualifications as reported in 2019, noting that they relate to one project in one Country Office. The issues related to these two audits are in the process of being resolved and have received the highest management attention in UNDP.
7. **Global Fund Audits**
8. UNDP is an important partner of the Global Fund in its efforts to work in highly challenging operating environments and as the partner of last resort. UNDP is the Principal Recipient in 19 countries and implements three regional programmes that cover another 29 countries, of which eight are under the Global Fund’s Additional Safeguards Policy (ASP).[[1]](#footnote-1)
9. 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’s audit findings and recommendations and are reviewed periodically by UNDP’s Senior Management.
10. Of the seven Global Fund audits undertaken in 2019, OAI rated one audit as unsatisfactory. Management is pleased to report that all ten recommendations noted in that report have been addressed and assessed as implemented by OAI.
11. Management notes that issues in procurement and supply chain management and weaknesses in sub-recipient management, are recurring risks under Global Fund projects. These risks are managed through developing 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 the weak capacity of sub-recipients and the operational realities, there will, however, be some residual risk.
12. **Headquarters (HQ) Audits and interagency audits**
13. Management welcomes the recommendations made in the ten HQ audits issued in 2019, of which four were performance-based, thus focusing on efficiency and effectiveness of systems and procedures. Management is pleased with the ‘satisfactory’ ratings received for the organization’s engagement with the audit of Crisis Bureau, the Management of outsourced information and communications technology (ICT) services, the Management of ICT services to the International Computing Centre (ICC), and the Resident Representative/Resident Coordinator delinking processes. Management also notes the ‘partially satisfactory/ some improvement required’ ratings received for the audit of ICT governance, UNDP information security, SDG data management and UNDP travel management. While no ‘unsatisfactory’ reports were issued for HQ in 2019, the ‘partially satisfactory/ major improvement required’ ratings were noted in the audits of the Early Recovery Project and UNDP treasury management. Management is pleased to report that on UNDP treasury management audit, all recommendations noted by OAI have been addressed and assessed as implemented by OAI. The rating received on the early recovery project points to continued capacity challenges at the implementing partner level and in implementing partner oversight. Management is working on implementing the recommendations noted in the early recovery project, and half of these recommendations have been implemented.
14. **Audits of projects executed by Non-Governmental Organizations (NGO) and/or Programme Country Governments**
15. 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 notes the continuing high share of Country Offices’ receiving satisfactory review ratings from OAI (assessment of the quality of the management of the NGO/NIM audit process and of the qualifications in the report).
16. Management is pleased to note the decrease in the net financial misstatement for the fiscal year and is carefully monitoring the level of misstatement to ensure that it does not pose a financial risk to the organization.
17. As reported to the Executive Board in DP/2020/3, UNDP has undertaken several steps in 2019 to enhance the oversight and management of implementing partners and to step up training efforts. As these initiatives bear fruit over time, it is expected that issues related to implementing partners will become less of a common audit issue over time than they currently are.
18. Implementing the 2014 revised Harmonized Approach to Cash Transfer (HACT) framework 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. The number of reported micro assessments, which determines each partner’s risk rating continues to improve. The number of partner micro assessments increased from 1,236 in October 2018 to 1,407 micro assessments as of October 2019. HACT compliance continues to improve as Country Offices enter new programme cycles, which provides them an opportunity to fully embed HACT activities in programme and project planning.
19. **Follow up on long outstanding audit recommendations**
20. Management regularly monitors the implementation of OAI audit recommendations through two levels of management meetings. Management is pleased to note the 90% implementation rate of recommendations issued over the past three years in line with corporate targets. All offices and HQ units with long outstanding recommendations are working to close the recommendations, and Senior Management is monitoring implementation regularly.

1. As of this report, of the ten long outstanding audit recommendations noted by OAI, eight of these recommendations have now been assessed as implemented by OAI. Management will continue to provide focused attention to the long outstanding recommendations with a view to bringing them to zero in 2020. An analysis of the long outstanding recommendations indicates unique contextual factors that have contributed to the delays. These recommendations require a different approach to resolution compared to other OAI recommendations, thus dialogue and flexibility in addressing residual risks may be required from both OAI and Management.
2. **Investigations and complaints received and response to Executive Board decision 2014/21, 2015/13 and 2017/17 (requesting disclosure of financial loss recovery)**
3. The Annual Report on Disciplinary Measures and Other Actions taken in response to fraud, corruption and other wrongdoings shared by UNDP’s Administrator, and the ethics trainings carried out regularly to sensitize staff on the issues that should be reported, may cause an increase in the number of reported cases. In support of the priority given by the Secretary-General as a system-wide issue, Management facilitated reporting on sexual harassment, exploitation and abuse since 2018. This was done through a strengthened policy and by enabling anonymous reporting through a third-party vendor. Management would like to refer to DP/2019/21 “Independent review of UNDP, UNFPA and UNOPS policies and processes on tackling sexual exploitation and abuse and sexual harassment” for the further discussion of this topic.
4. Management notes that procurement fraud remains the highest category of newly reported cases in 2019 (38.1%) and substantiated cases in 2019 (37 cases; 42%). UNDP’s action plan continues to be one of ensuring increased ethical awareness through a mandatory training course on fraud, special training courses to procurement staff, sharing of lessons learned, an updated anti-fraud policy, and timely response and adaptation when fraud is substantiated. This improved advocacy and enhanced awareness on fraud has resulted in an increase in the number of cases reported and substantiated. To provide context, Management would like to highlight that a large proportion of the procurement fraud cases pertain to vendors reported by Country Offices which indicate that UNDP compliance and other oversight measures are effective at the process level to identify instances of fraud when it occurs.  In addition, a surge in the number of cases in the past few years is concentrated in countries coming out of conflict with poor commercial and government structures and where UNDP has large recovery programmes. Many of the “fraud” cases involving vendors in these areas involve misrepresentation and fake documents and not financial fraud against UNDP.
5. Anti-fraud clauses have also been included in all agreements with implementing partners and responsible parties. Many of the current and planned initiatives, as mentioned above under the procurement section, have the potential to mitigate the risk of fraud. In addition, UNDP is putting together an anti-fraud strategy to prevent fraud and corruption, whilst delivering its development agenda to eradicate poverty and protect the planet.
6. As shared with individual EB Members in January, Management is pleased to provide a comprehensive analysis on recoveries in line with Executive Board decision 2017/17. The following losses, recoverable amounts and recoveries were noted in recent years:



1. As seen from the above table, UNDP recovered approximately 43.5% of the estimated losses and 50.1% of the recoverable amounts between 2013 and 2019.
2. Management would like to re-emphasize that while it remains a challenge, UNDP pursues full recovery of funds lost to fraud based on the actions proposed by an inter-bureau standing board established to provide transparency on the collection process, ensuring rigorous follow up on the substantiated losses.
3. As mentioned previously, UNDP has to rely mostly on the national judicial systems to pursue recovery of funds for cases of substantiated fraud 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, recoveries continue to be made in 2019 for losses that had occurred in prior years.
4. **Conclusion**
5. While Management continues to be committed to the ongoing, excellent working relationship with OAI and will continue to implement audit recommendations to improve UNDP’s governance, risk and control processes, it is important to acknowledge that COVID-19 will have a multifaceted effect on Country Offices and audit services in 2020, most notably it could impact UNDP’s timeliness to implement recommendations and conclude audits.
6. **Activities of the UNDP Ethics Office in 2019 (DP/2020/17)**
7. **Management response to matters highlighted in the 2019 Annual Report of the Ethics Office**
8. UNDP Management notes the 2019 achievements of the Ethics Office, and note the two recommendations made on UNDP recruitment of government personnel who wish to maintain their governmental employment status for government pension purposes, and on UNDP staff members seeking to take Special Leave Without Pay (SLWOP) to pursue outside employment activities.
9. Regarding UNDP recruitment of government personnel who wish to maintain their governmental employment status for government pension purposes, the Recruitment Framework of UNDP is being reviewed to clarify the maximum period a candidate recruited by UNDP from government service can maintain governmental employment status. This update is expected to be completed in 2020.
10. Regarding UNDP staff members seeking to take Special Leave Without Pay (SLWOP) to pursue outside employment activities, UNDP is strengthening its Special Leave policy with regards to the purpose and maximum length of the SLWOP. This policy update is expected to be completed in 2020.
11. Management would like to thank the Ethics Office for its continued advocacy of a strong organizational culture of ethics and accountability. As stated in the Ethics Report, the continuously increasing number of matters addressed to, and by the Ethics Office 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 faced with potentially ethically questionable decisions. Management is pleased to note that the increased caseload was met by a modest increase in the capacity and budget of the Ethics Office in 2019.
12. Out of all the important work the Ethics Office carries out, Management would like to particularly note two areas where we believe the Ethics Office has excelled: (a) the Office’s advocacy related to the prevention of sexual harassment, exploitation and abuse, which continues to be a topic of concern throughout the United Nations System; and (b) the Office’s valuable work at raising ethics awareness in all aspects of UNDP’s operations, and most notably in the area of protection of whistleblowers.
13. Management is committed to continue building the already excellent working relationship with the Ethics Office.
14. **2019 Annual Report of the Audit and Evaluation Advisory Committee (Annex to DP/2020/16)**
15. **Management response to matters highlighted in the 2019 Annual report of the Audit and Evaluations Advisory Committee (AEAC).**
16. UNDP Management notes the overall positive report from the AEAC, particularly regarding the progress acknowledged by the AEAC. The Committee’s concerns and recommendations for improvement, particularly in the area of risk management, are well noted.
17. Management wishes to express its gratitude to the AEAC for its strategic advice on administrative, audit, evaluations, ethics and management issues. The implementation of the AEAC’s advice and recommendations are monitored and tracked by UNDP’s Senior Management for implementation.
18. Management is committed to continue cooperating with the AEAC at senior management level and will continue to embrace the AEAC’s advice and recommendations.
19. Management would like to congratulate Mr. Fayezul Choudhury on his appointment as the Chairperson of the AEAC for 2020 and 2021. We look forward to Mr. Choudhury’s continuous contributions in building an enhanced audit, evaluation and other oversight mechanisms at UNDP.
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/](https://emea01.safelinks.protection.outlook.com/?url=http%3A%2F%2Fundphealthimplementation.org%2F&data=02%7C01%7Cdominik.brinkmann%40undp.org%7Cb42756c3bf92472dd8ab08d69dbe0ea3%7Cb3e5db5e2944483799f57488ace54319%7C0%7C0%7C636869836943801029&sdata=r4Muva49QFyDJImsnbtJJBHGwBx%2F5%2F5tjWTRnByuOZU%3D&reserved=0) [↑](#footnote-ref-2)