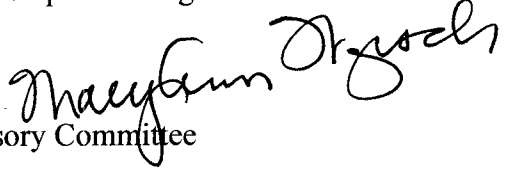


Memorandum for: Ad Melkert, Associate Administrator
United Nations Development Program

From: Mary Ann Wyrsh 
UNDP Audit Advisory Committee

Date: March 30, 2007

Subject: Annual Report of the Audit Advisory Committee for 2006

This memorandum transmits to you and to the Administrator of the United Nations Development Program, (UNDP), the first annual report of the UNDP Audit Advisory Committee, (AAC). The Terms of Reference (TOR) for the AAC call for this report to be prepared by March 31st of every year, covering the activities of the AAC for the previous calendar year.

As this is the first report, it covers only six months of activity. In this time, the AAC focused its efforts on certain key elements of its mandate. The AAC trusts that its report on these areas is of assistance to you and to the Administrator. The Committee anticipates that it will turn its attention to other elements of its mandate in calendar year 2007. At this time, the Committee has no recommendations with respect to changes to its mandate.

The Committee looks forward to any discussions you may want to have regarding this report, and the processes for sharing it with the Executive Board. We very much appreciate your personal support for our work.



**United Nations Development Programme
Audit Advisory Committee**

**Annual Report
for the Calendar Year 2006**

I. Introduction

1. The Audit Advisory Committee (AAC) of the United Nations Development Programme (UNDP) was appointed by Administrator Kemal Dervis in May of 2006. The Committee replaced the previous oversight committee, the Management Review and Oversight Committee. The AAC is composed entirely of members who are external to UNDP. The Terms of Reference (TOR) of the Committee are attached as Annex 1. The list of the members of the Committee is attached as Annex 2.
2. The AAC's Terms of Reference require the AAC to prepare a report on its work for the previous year for presentation to the Administrator by March 31 of every year. This document constitutes the Annual Report of the UNDP Audit Advisory Committee for the Calendar Year 2006.
3. A summary of the activities undertaken by the Committee, in terms of official and unofficial meetings, briefings sessions, contacts with UNDP officers and the UN Board of Auditors (UNBoA), as well as a discussion of its administrative support arrangements is found in Annex 3.

II. AAC Activities/Fulfillment of Mandate 2006

4. As the Committee was formed and began its work at mid-year 2006, it focused its efforts on three key areas of its mandate:
 - Review of and advice on the Internal Audit Function, its Strategies and Operations
 - Consideration of the Reports and Management Letters of External Auditors
 - Monitor and advise on risk management arrangements /review and advise on the effectiveness of UNDP's systems of internal control and accountability.

These areas are discussed in detail below, with a summary of the AAC's views in terms of advice to the Administrator and Associate Administrator.

Review of and Advice on Internal Audit Function, Its Strategies and Operations

5. At its first meeting the AAC reviewed the Annual Report of the Office of Audit and Performance Review (OAPR) for 2005. The Committee was provided a briefing on the OAPR strategy for 2006-2008, as well as its annual work plan for 2006. The Committee noted this information and recommended approval of these documents by the Administrator. At its second meeting, the Committee reviewed the format of a quarterly



**United Nations Development Programme
Audit Advisory Committee**

**Annual Report
for the Calendar Year 2006**

progress report for OAPR, and requested that such a report be provided for the most recent quarter at each of its formal meetings.

6. The Committee also reviewed a risk assessment model for country offices developed by OAPR to serve as a guide to focusing its work for these programmes. The Committee has requested that OAPR expand its risk assessment approaches to the conduct of NEX audits, and to the conduct of offices at headquarters. The Committee anticipates delving further into the risk and control implications of internal audit reports, and commends the OAPR for its summaries of key audit findings.

7. As part of its initial deliberations, the Committee requested information on the most recent Quality Assurance (QA) review for the office. A QA review was performed for the office in the last quarter of 2006, and the Chair of the AAC was interviewed during this process. The Committee looks forward to reviewing the results of this review.

8. The Committee also reviewed and discussed with OAPR staff the materials provided to the General Assembly under the Comprehensive Review of Governance and Oversight with the United Nations, and particularly Volume IV, on current practices, gap analysis and recommendations, as background for the Committee's work.

Consideration of Reports and Management Letters of External Auditors

9. Between its first and second meetings, the AAC was provided copies of the Report of the Board of Auditors for the Biennium ending December 2005. It reviewed this report and prepared a summary Memorandum for the Associate Administrator on four areas of concern to the Committee.

The issues raised by the Committee were further discussed in its second meeting, and additional information was provided on UNDP's approaches to addressing them. The four key issues as they are currently viewed by the AAC are outlined below:

a. Nationally Executed (NEX) Audits:

10. The report of the UNBoA noted the need for improvement in the conduct of and follow-up on NEX audits. The AAC supported the recommendations of the BoA regarding improvements in the terms of reference for NEX project auditors as an approach to consistency and capacity building. The AAC further noted the need to consider improvements in the entire NEX audit process as a corporate concern that involved country offices, Regional Bureaux, and headquarters units (OAPR and Bureau of Management (BOM) units).



**United Nations Development Programme
Audit Advisory Committee**

**Annual Report
for the Calendar Year 2006**

11. The AAC took note of the UNDP response to this concern, and the indications that tools such as the harmonized Approach to Cash Transfer (HACT) and its related assurance features would be emphasized in country offices. The AAC also supports efforts noted by UNDP that increased focus on NEX audits would be included in BOM regional training.

12. The Committee believes that the increase of NEX projects and the issues raised to date call for continued attention to management of these audits, and their findings. The Committee encourages consideration of risk assessment frameworks for NEX audits, as well as prioritization of country offices, and possibly changing the periodicity of audits depending on risk factors. The Committee also supports the concept of increased regionalization of OAPR capacity for review of these audits.

b. ATLAS Implementation:

13. The report of the UNBoA dealt extensively with the implementation of ATLAS and three independent reviews of various aspects of implementation. The AAC made inquiries regarding and received information on the status of implementation of the audits. The AAC then reviewed these audits in detail and submitted a list of questions regarding various aspects of implementation of Wave 1 as well as plans for implementation of Wave 2 of ATLAS.

14. The Committee commends UNDP for addressing in such a comprehensive way the recommendations for development of an Internal Control Framework, the roll-out of a security management system, for addressing system governance issues, and for development of data management tools that allow managers to chart program expenditures and activities. The Committee is most appreciative of the time spent to respond to its inquiries on ATLAS.

15. There remain a number of issues regarding ATLAS that to the Committee has drawn to the attention of UNDP management. These are addressed below. A key concern relates to the overall Information Management (IM) strategy for the next biennium. Briefings for the Committee have referenced this document in draft, but the Committee is waiting for the opportunity to review it. The Committee believes that its usefulness to UNDP can be enhanced if it has access to draft documents at appropriate stages, so as to be able to provide comments on approaches before they are finalized.

16. The Committee has focused on certain ATLAS issues largely due to the need to manage the risks to the organization in this basic management system which now underpins financial reporting, resource management, human resources management, and



**United Nations Development Programme
Audit Advisory Committee**

**Annual Report
for the Calendar Year 2006**

base information about operations of UNDP programmes. The issues noted for management are:

(1) that appropriate levels of training in the system be made available to users to ensure optimal use of ATLAS. The AAC suggests that training for systems of this kind should relate not only to the technical uses of the software, but also to the changes in processes, and development of capacity.

(2) the development of life cycle cost information for ATLAS, which would provide UNDP with a comprehensive picture of the total costs of this project over its useful life. Total life cycle costs include change management, training, software, hardware, personnel costs, and any other costs related to system wide implementation. UNDP is encouraged to develop and implement such a tool so as to mitigate the risk that the full resources and support needed for ATLAS will not be understood in their entirety and that all parts of the system will not be presented for consideration and effective decision making.

(3) the Committee noted that in its briefings on ATLAS, it did not see a comprehensive approach to the convergence of two major events and their related change management issues which have an impact on information technology. These are: (1) the requirements to adopt the International Public Sector accounting Standards (IPSAS), and (2) the need to accommodate the current ATLAS system to more recent versions of the PeopleSoft/Oracle software on which ATLAS is built.

The Committee has seen the paper on IPSAS submitted to the Executive Board for its January 2007 meeting. While this paper is informative and complete as to the challenges to be faced, it does not address how the change management issues would be addressed, nor does it outline costs of implementation.

The Committee noted that the time frame for implementation of IPSAS is within the next two to three years. This time frame coincides with the need to upgrade to a new version of PeopleSoft/Oracle, and to introduce new modules for managing international staff resources. To avoid a significant risk exposure to the organization, the AAC suggests that UNDP manages these coinciding changes in such a way that makes the best use of systems investment dollars, and ensures that the new accounting and information management systems are understood and used in an optimum way by all relevant UNDP personnel.



**United Nations Development Programme
Audit Advisory Committee**

**Annual Report
for the Calendar Year 2006**

c. Bank Account Reconciliation

17. The Committee noted the UNBoA findings on the lack of monthly bank reconciliations for both headquarters and country level offices and the potential for undetected fraud and error in these lapses. The Committee requested information on the dual issues underlying this problem, which were systems deficiencies, (ATLAS capacity for reconciliations not operable in a timely manner), and the human resources issue of the tenure, level and capacity of staff assigned to reconciliation functions in Headquarters and country offices.

18. The Committee appreciates the responses received on this issue from the Associate Administrator and the extensive briefings from the Office of Finance and the Centre for Business Solutions on the approaches that are being taken to further automate processes, to lessen the time required to reconcile the ATLAS subsystems to the General Ledger, and to address staff capacity issues.

19. The Committee believes that continued attention needs to be paid to how to improve the reconciliation processes. It encourages a corporate approach to this effort, in looking at how new versions of ATLAS modules may help the process, in follow through on the suggestions made in the Associate Administrator's response on addressing staff capacity issues in different ways, such as outsourcing, and in having all responsible offices understand their role in managing this risk.

d. Trust Fund Deficits

20. The Committee sought from UNDP additional information on the root causes of the deficits in the Trust Funds outlined in the UNBoA report. The Committee is concerned that the level of deficits has been increasing, and that the issue may be exacerbated by UNDP's corporate positioning of itself as manager of trust funds for it and other funds and programs.

21. The Committee appreciates the responses of the Associate Administrator on this issue, and the distinctions made between deficits related to approval of expenditures prior to the deposit of funds, and deficits related to foreign exchange losses, principally related to conversion of Euro denominated contributions to USD budgets.

22. The Committee will be interested in the UNDP efforts to limit the use of the override functions in ATLAS, and the assignment of responsibility and accountability for solvency of Trust Funds, and management of exceptions to solvency requirements, among Trust Fund managers, Resident Representatives, Regional Bureaux, and the Bureau of Management. The Committee will also be interested in updates on measures taken to



**United Nations Development Programme
Audit Advisory Committee**

**Annual Report
for the Calendar Year 2006**

manage the currency related deficit issues, including enhanced reports, and possible creation of a non-core reserve to cover such losses.

Review of UNDP's System of Internal Control and Accountability

23. In reviewing the findings of the UNBoA, in receiving information in its formal meetings, in briefing sessions, and in responses to inquiries, the Committee has noted that a key element that is missing from the overall approach to managing the risk inherent in these issues is an Accountability Framework for UNDP.

24. The Committee has been provided general information on several efforts that might contribute to such a Framework. While discussions of the conceptual approach to a Framework had been introduced at the global meeting in January 2006, communications from the Associate Administrator indicate that work continues on this document. We encourage its timely completion, and the incorporation of other risk related efforts under its overall umbrella. The Committee also feels that it would be useful for it to review a draft of the overall Framework and an implementation roadmap before it is finalized.

25. Among the several efforts which should be incorporated under the umbrella framework is the enterprise risk management (ERM) work now being done under the purview of the Operations Support Group. The Committee would like to emphasize that the Risk Management effort if considered outside a larger accountability framework might not yield the desired outcome, and encourages its refocus to be part of a unified whole.

26. The Committee has also received documentation of the Associate Administrator's efforts in prioritizing risks in the form of the designation of fifteen key audit areas and the use of a "who, what, and how" framework for these fifteen issues, and notes these as a good beginning on an overall framework.

27. An Accountability Framework, and an accompanying set of value driven corporate policies which shows what issues in the organization create inherent risk to its resources, who is responsible for managing the risk, or issue, and how UNDP staff must behave and operate to accept responsibility for and manage these risks would provide the beginnings of an overall culture of accountability within the organization. This kind of framework provides the overall umbrella under which all identified risks would be managed.

III. Summary/Future Concerns

28. The Committee takes very seriously its charge to provide the Administrator and the Associate Administrator with strategic advice on audit issues as contemplated in the



**United Nations Development Programme
Audit Advisory Committee**

**Annual Report
for the Calendar Year 2006**

Terms of Reference. It believes that its comments on issues reflect realistic assessments of areas of risk to UNDP, and that its advice and suggestions are based on best practice.

29. The AAC also is aware that it provides advice for programmes run in a development context, and that implementation has to be viewed within constraints on funding, and on staff capacity.

30. The AAC, as an audit committee composed totally of external members, is a new entity for UNDP. The Committee appreciates the cooperation of all offices with whom we have interacted. It hopes that as it continues to operate, its usefulness to the organization will be enhanced.

31. The Committee will continue to work with the Administrator and the Associate Administrator to identify those issues for which they would like focus. In addition, the Committee will continue to emphasize the need for, and to advice on overall Accountability Framework, and the development of a culture of accountability. To this end, it would be very interested in reviewing efforts to develop a Code of Conduct, and other values driven tools to support accountability.

32. The Committee will remain attentive to the development of policies and implementation plans for carrying out the decision of the General Assembly to adopt the International Public Sector Accounting Standards (IPSAS) to replace the current UN System Accounting Standards. Of particular concern to the Committee will be how UNDP addresses the change management issues to make sure that all relevant staff understand and utilize the system in an optimum way.

33. The Committee will continue to interact with OAPR, and to review its activities, and priorities, so as to make recommendations to the Administrator regarding the conduct of the Audit function.



**United Nations Development Programme
Audit Advisory Committee**

**Annual Report
for the Calendar Year 2006**

ANNEX 1: Terms of Reference of the Audit Advisory Committee

Purpose and Context

The purpose of the Audit Advisory Committee (hereafter referred to as the "Committee") is to assist the Administrator in fulfilling his/her responsibilities regarding financial management and reporting; internal and external audit matters; risk management arrangements 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.

The United Nations Board of Auditors performs the external audit of UNDP operations and the Office of Audit and Performance Review (OAPR) provides internal audit services.

Mandate

The Committee shall:

- a) Advise the Administrator on all issues arising from its activities under these terms of reference and make appropriate recommendations to him/her
- b) Review and advise the Administrator on policies significantly impacting financial management and reporting; the internal audit function and; the effectiveness of UNDP's systems of internal control and accountability
- c) Review and advise the Administrator on UNDP's financial statements and reports.
- d) Promote the understanding and effectiveness of the audit and investigation functions within UNDP, and provide a forum to discuss internal control and matters raised by internal and external audits.
- e) Monitor and advise on risk management arrangements
- f) Review and provide comments on the OAPR strategy and annual work plans.
- g) Discuss external audit work plans.



**United Nations Development Programme
Audit Advisory Committee**

**Annual Report
for the Calendar Year 2006**

- h) Consider all relevant reports and management letters by the internal and external auditors, including reports on UNDP's financial statements.
- i) Consider the risk and control implications of audit reports and highlight, as necessary, audit issues that may need further investigation with due considerations to confidentiality and due process..
- j) Monitor the implementation by management of the internal and external audit recommendations.
- k) Advise on UNDP's fraud prevention policy, code of ethics and whistleblower policy.
- l) Prepare and submit an annual report on its activities to the Administrator that is also presented to the Executive Board for information.

Authority

The Committee has the authority and the responsibility to review any activity relevant to these terms of reference. This includes, but is not necessarily limited to:

- 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.
- c. Obtain legal or other independent professional advice if it is considered necessary.

The Chairperson will meet with the Director of OAPR at least annually in a private session.

The Chairperson and the members of the Committee will meet with the external auditor at least annually in a private session.

Membership and Quorum

The Administrator shall appoint five members of the Committee; all members will be external to UNDP and among the five members a Chairperson will be designated by the Administrator. An alternate cannot represent a member. Any three members shall constitute a quorum.



**United Nations Development Programme
Audit Advisory Committee**

**Annual Report
for the Calendar Year 2006**

If the Chairperson designated by the Administrator is not present at a meeting, the members will elect an acting Chairperson from among the members present.

Terms of office for members will be two years renewable once. For the initial year changes in membership will be staggered so as to provide continuity of oversight.

Attendance

All meetings of the Committee will be attended by the Associate Administrator or his/her representative and by the Director of OAPR or his/her representative. Other UNDP staff may attend on the invitation of the Chairperson.

Number of Meetings

The Committee shall normally meet at least four times a year. The Chairperson, any member, the Director of OAPR, and/or the external auditor may request additional meetings.

Convocation of Meetings

The Associate Administrator will provide the Secretariat to the Committee. The meetings of the Committee shall be convened by the Secretariat on the request of the Chairperson. The members of the Committee shall normally be given at least ten working days' notice of meetings.

The Chairperson, in consultation with members and the Director of OAPR, will prepare a provisional agenda for the meetings, which should be circulated together with the notice of meetings.

Members' Participation Other Than In Person

It is expected that members will be present for meetings in person. However, it is possible for a member to attend by videoconference or telephone, under exceptional circumstances, and such participation will be taken into account for the purpose of establishing a quorum.

Confidentiality and Disclosure of Interest

All members of the Committee shall sign a statement of confidentiality and disclosure of interest. A register of interests will be maintained by the Secretariat to record members'



**United Nations Development Programme
Audit Advisory Committee**

**Annual Report
for the Calendar Year 2006**

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 either be excused from the discussion or abstain from voting on the matter. In such an event, a quorum will be required from the remaining members.

Voting

The Committee's decisions will be made by the members present by voting and on the basis of a simple majority. Should the votes be equally divided, the Chairperson shall have the casting vote. The Committee should, however, strive to achieve decisions on a consensus basis of all members present as the desired option.

Responsibility and Liability of Members

Members shall act in an independent, non-executive capacity while performing their advisory role on the Committee. As such, members shall not be held personally liable for decisions taken by the Committee acting as a whole.

Documents

On the request of the Chairperson, documents will be prepared and/or circulated by the Secretariat.

Minutes of meetings will be prepared and kept by the Secretariat. The Committee shall approve the minutes by correspondence within a month of each meeting.

Documents may also be submitted by the External Auditor.

Confidentiality of Meetings and Minutes

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.

Reporting

The Committee shall prepare a report on its work for the previous year for presentation to the Administrator by 31 March of every year. The report will include recommendations with respect to changes to its mandate. The Committee will also prepare a report for the annual session of the Executive Board. Upon request, the Chairperson shall present these reports.



**United Nations Development Programme
Audit Advisory Committee**

**Annual Report
for the Calendar Year 2006**

The Chairperson will interact regularly with the Administrator on the results of the Committee deliberations as well as on forthcoming issues relevant to its business.

Indemnity of Members

The Committee members will be indemnified from actions taken against them as a result of activities performed in the course of business of the Committee, as long as such activities are performed in good faith and with due diligence.

Remuneration

Members will not be remunerated by UNDP for activities undertaken with respect to their membership of the Committee.

UNDP will reimburse all committee members for any travel and subsistence costs that are necessarily incurred in relation to participation in Committee meetings.



**United Nations Development Programme
Audit Advisory Committee**

**Annual Report
for the Calendar Year 2006**

ANNEX 2: List of Audit Advisory Committee Members

1. Inga-Britt Ahlenius

Under Secretary General, Office of Internal Oversight Services
United Nations

2. Stephen Hume, Vancouver, British Columbia, Canada

Retired partner Deloitte and Touche - Canada

3. Patience Bongiwe Kunene, Johannesburg, South Africa

Office of the Vice President, Government of South Africa

4. Verasak Liengsrirawat, Vienna, Austria

Special Assistant to the Director General for Management, International Atomic
Energy Agency

5. Mary Ann Wyrsh, Washington, D.C. United States -- Chair

Executive Director, Bush-Clinton Katrina Fund 2005-2006
Deputy High Commissioner, United Nations High Commissioner for Refugees
2001-2003



**United Nations Development Programme
Audit Advisory Committee**

**Annual Report
for the Calendar Year 2006**

ANNEX 3: Information on AAC Meetings/Deliberations/Consultations in 2006

1. Official Meetings: The AAC met in official session twice in Calendar year 2006. Its first meeting was held on 6 June 2006. Its second meeting was held on 29 September 2006. The AAC very much appreciates the attendance of the Associate Administrator at each of our meetings, as well as the participation of the Bureau of Management, including the Office of Finance, and representatives of the Office of the Administrator.
2. Official minutes of the AAC meetings, including decisions taken, and actions resulting from the meetings have been prepared and submitted to the Associate Administrator's office. In addition, the Committee prepared a summary memo for the Associate Administrator reflecting a list of its concerns following review of the United Nations Board of Auditors Report for the Biennium ending December 2005. The Committee has determined that in addition to the official minutes of its proceedings, it will prepare a summary memorandum for the Associate Administrator at the conclusion of each meeting.
3. Briefing Sessions: Both official meetings in Calendar 2006 were preceded by a day of briefings and informal discussions on issues of concern to the Committee. The Committee would like to express its appreciation to the Bureau of Management, the Office of Finance, the Center for Business Solutions, the Office of Information Systems and Technology, the Office of Human Resources, the Bureaux for Africa and, for Latin America and the Caribbean, the Evaluation Office, the Office of Legal and Procurement Support, and the Operations Support Group for excellent briefings. It appreciates the extensive work of the Office of Finance and the Center for Business Solutions for materials and presentations made in response to follow up questions and inquiries. A complete list of all interactions follows this section (see Annex 4).
4. Other Communications/Deliberations: In addition to its formal meetings, and briefing sessions, the Committee continued its internal consultations, and deliberations via conference calls, and e-mail. The Committee members have reviewed audit materials between meetings, and have submitted comments, summary memos, and requests for information to offices in UNDP in addition to formal minutes of its proceedings, in order to gain further understanding of and to share its views on key audit and risk management issues.
5. External Auditor Coordination and Communication: Representatives of the United Nations Board of Auditors (UNBoA) provided information and presentations to the Committee in each of its briefing sessions. In addition, the Committee held a private



**United Nations Development Programme
Audit Advisory Committee**

**Annual Report
for the Calendar Year 2006**

meeting with the UNBOA representatives in September of 2006, as is contemplated in its TOR.

III. Administrative Support

6. The AAC receives administrative support from the UNDP Office of Audit and Performance Review, and the Secretariat for the Committee is housed in this office. We are grateful for this support, which is especially crucial to the effectiveness of a Committee whose members are dispersed across the globe. Through the good offices of OAPR, we have been able to arrange teleconferences to review issues. We have also been provided access to the UNDP Intranet, to allow us to follow issues, to track audit information, and program “dashboards”. We have also been provided a UNDP e-mail account, which allows for ease of communication with UNDP offices.



**United Nations Development Programme
Audit Advisory Committee**

**Annual Report
for the Calendar Year 2006**

Annex 4: List of UNDP Offices That Interacted With The Committee

June Meeting and Briefing Session

- Office of the Administrator
- Operations Support Group
- Evaluation Office
- Bureau for Resources and Strategic Partnerships
- Bureau of Management (BOM)
- Office of Finance, BOM
- Centre for Business Solutions, BOM
- Office of Human Resources, BOM
- Office of Legal and Procurement Support, BOM
- Regional Bureau for Africa
- Regional Bureau for Latin America and the Caribbean

September Meeting and Briefing Session

- Office of the Administrator
- Operations Support Group
- Evaluation Office
- Bureau of Management (BOM)
- Office of Finance, BOM
- Centre for Business Solutions, BOM
- Office of Information Systems and Technology, BOM

NOTE:

1. The Associate Administrator and the Director of Office of Audit and Performance Review are required to attend the AAC Meetings. The above list includes the other UNDP offices invited by the AAC Chair.
2. UNDP's external auditors (UNBoA) were also represented during the June and September 2006 meetings