



**United Nations Development Programme  
Audit Advisory Committee**

**Annual Report  
for the Calendar Year 2007**

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**I. Introduction**

1. This Report covers the work of the Audit Advisory Committee (AAC) of the United Nations Development Programme for the Calendar Year 2007, the first full year of its deliberations.
2. The AAC was appointed by Administrator Kemal Dervis in May of 2006. The AAC is composed entirely of members who are external to UNDP, and are therefore independent from UNDP and its administration and management. The Terms of Reference (TOR) of the Committee are attached as Annex 1. The current TOR reflect certain clarifying changes in the AAC role that resulted from an external Quality Assurance review of the Internal Audit function.
3. The list of current members of the Committee is attached as Annex 2. It should be noted that the AAC membership changed during 2007, with the resignation of Inga-Britt Ahlenius in April 2007, and the appointment of Fernando Fernandez in July 2007 to replace her.
4. A detailed listing of the AAC meetings and other sessions in 2007 is found in Annex 3. The AAC is most appreciative of the support and cooperation it has received from UNDP offices during this past year. The presentations and briefings to the Committee have been of the highest quality, reflecting a great deal of thought and attention. We have also appreciated the dialogue on key issues that occurs in briefing sessions and in formal meetings. The Committee believes that this level of interaction represents a strong commitment on the part of UNDP management to use the independent AAC mechanism to the fullest extent, as it focuses on enhancing the overall control environment.
5. This report is divided into two parts. The first addresses the overall areas of strategic advice which has been provided by the AAC to UNDP via the Administrator and Associate Administrator during 2007. The second addresses the activities related to the internal audit function and particularly, the Office of Audit and Investigation (formerly the Office of Audit and Performance Review).

**II. AAC Strategic Advice: 2007**

6. In 2007 the UNDP was engaged in a great deal of change as regards its management systems. This change is focused on increasing accountability and efficiency within the highly decentralized UNDP programme, and is consistent with efforts to meet the requirements of overall reform in the UN system. Among the change initiatives the



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Committee was briefed on during this year were: the development of the Strategic Plan; the Oversight Policy; the Accountability Framework; the Enterprise Risk Management System; the Results Based Budgeting System; the upgrades to the ATLAS system; and plans for implementation of the International Public Sector Accounting Standards (IPSAS), as well as the Information Management Strategy.

7. In addition, the AAC received briefings on UNDP efforts to comply with system wide initiatives in the United Nations system focused on staff accountability, including financial disclosure, whistleblower policy, codes of conduct, and related management training.

8. The Committee applauds UNDP for undertaking these efforts. However, the Committee has informed UNDP and notes again here its concerns regarding the pace and mode of implementation of these changes. The following paragraphs will outline some of the Committee's concerns that have been shared in AAC meetings, and with the senior management of UNDP.

Lack of Critical Path Approach to Management Changes

9. UNDP's launching of many of its management initiatives are related to the overall development of the Strategic Plan, but do not seem to have been subjected to critical path methodology, which assumes the use of an analytic framework: to prioritize the efforts; to note which should be completed first and which could come later; to indicate dependencies among efforts; and to determine the overall sufficiency of resources to address the changes. Instead, UNDP has embarked upon the development and implementation of a number of systems at the same time.

10. The AAC was encouraged by the work on the Accountability Framework, which has provided an overall organizational structure for these efforts, but it is not clear that the individual efforts have been considered in terms of the effect on the organization, and the true requirements for successful implementation.

11. As a result, UNDP is in danger of creating system fatigue and in straining its limited resources as it works to make these improvements. UNDP also needs to rationalize what management systems, reports, and other efforts could be abandoned or modified as new requirements are implemented.

12. An important dependency for all management systems is the reliance on information technology which in turn requires its own levels of planning, resource allocation, and management. The Committee has noted to UNDP its concern that a robust system for



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making decisions and resourcing information technology does not exist in UNDP, and that this will affect the overall success of these management systems.

Corporate Governance

13. The AAC has also noted for UNDP management its sense that the need for rationalization among management initiatives stems in part from how the management reforms are decided upon, and implemented. It appears to the AAC that the highly decentralized nature of the UNDP has created historical management structures in which responsibility for various initiatives is dispersed among offices, and that decision making processes on central systems to support these initiatives are thus diffused, and lack clarity.

14. The AAC notes as an example that the Enterprise Risk Management system is championed by one office, while the Results Based Budgeting system, as well as the Accountability Framework are the responsibility of another office. It also appears that decisions on these projects are taken by varying groups of managers.

15. Again, the AAC uses as an example the development of an Information Management strategy which would outline the overall plans for information technology tools to support management initiatives, or the development of life cycle costing plans for the information technology which underpins all of UNDP's management systems. (Note that the Committee raised the need for life cycle costing in its 2006 Report). The Committee notes that no firm corporate decisions seem to be made on this Strategy, or its related systems, but that instead a series of ad hoc decisions are made on various components outlined in the Strategy, within no fixed corporate time line. Without tying this Strategy to specific time periods or to resource allocations, it does not become a meaningful management tool.

16. The AAC recognizes the challenges of implementing central systems in an environment of extensive decentralized decision making, and an environment characterized by reduced core funding, and the increase in non-core or trust fund resources focused on operations. However, it encourages UNDP to consider how to better structure its decision making and corporate governance mechanisms to take into account the need to support its central systems, and its overall corporate goals.

Human Capital

17. The Committee notes that UNDP has an overall issue of internal capacity of its staff to operate in an environment of increased technology, and to run management systems which rely on rigor and inter-relationships among various aspects of program



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management. A consistent theme among issues reported in both internal and external audits is the lack of capacity of staff to utilize the systems or to perform underlying management and fiscal tasks.

18. To address this in part, UNDP has adopted a system of certification, which allows for credentialing of staff in a variety of management support activities. It has also invested in training courses, workshops, and on-line training. These are good tools for assuring some level of capacity. At the same time, however, it is clear that new approaches to assuring baseline capacity to perform critical management tasks is needed.

19. As capacity development is a cornerstone of UNDP's efforts, the AAC encourages the consideration of how development of basic management capacity can be factored into local office programs, so that a base level of expertise is created in these offices. As an interim measure, the AAC applauds the use of support from service centers which provide technical assistance or backstopping for certain management processes and issues.

20. Similarly, the AAC encourages UNDP to consider how it might fund basic levels of capacity in central offices, to perform key functions, which are now under-resourced, and do not have dedicated personnel. An example of this is the lack of staff with bank reconciliation expertise in field offices and in Headquarters.

**III. Advice Related to Office of Audit and Investigations.**

21. During the calendar year, the Committee reviewed the results of the external Quality Assurance (QA) review which was done of the Internal Audit function, including the proposals by the Office of Audit and Investigation (formerly the Office of Audit and Performance Review) for an action plan to address the elements of the Report. The QA Report contained two recommendations for the AAC. These were that the AAC's TOR explicitly state its role with regard to: (1) the selection of the Chief Audit Executive in UNDP, and (2) its role in advising on resource levels for the Internal Audit Function. Recommendations on both of these issues represent best practice, and have resulted in a change to the AAC's Terms of Reference, and to the Charter of OAI.

22. In 2007, the head of OAI left the position, and an interim OAI head was appointed. The AAC greatly appreciates the cooperation and professional contributions of Mr. Salleppan Kandasamy, the OAI head a.i., who provided strong leadership to the office for six months while recruitment for the Office Director took place. The AAC notes UNDP management's commitment to a strong audit function in appointing a person of Mr. Kandasamy's qualifications.



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23. The AAC was involved in the entire process of selection of the OAI Director. Participation occurred in the review of position description, design of the steps of the recruitment process, development of interview questions, review of long listed candidates, and membership on the interview panel for the short listed candidates.

24. During its first meeting of the calendar year, the AAC reviewed and approved the OAI Strategy for 2007-2009, and its related work plan. In subsequent meetings the Committee was briefed on quarterly progress against the annual plan, including information regarding trends in audit findings. The Committee has also been apprised of the key elements of the investigation workload of the Office.

25. Key comments from the Committee regarding OAI's progress against plan, and some of its findings are as follows: (1) that OAI should work on a risk based tool to target UNDP HQ units for audits, and (2) should work to develop a risk based tool for doing NEX audits, and (3) should lessen the time frame between completion of the audits and the issuance of reports.

26. Although not explicitly mandated in its TOR, the Committee asked for and received an extensive briefing on the functions of the UNDP Evaluation office. As this Office is a part of the independent oversight mechanism utilized by UNDP, it was most beneficial to understand its priorities and activities, and the various uses of its reports and findings. The Committee will continue to inform itself of the areas of focus and the activities of this office, and how its recommendations are utilized.

27. The Committee looks forward to continued interaction with OAI (former OAPR), and its new director in the process of providing advice on the discharge its responsibility

#### **IV. Summary/Future Concerns**

28. In the coming year, the Committee would like to focus on the role UNDP plays in the UN system, and on such issues as multi-donor trust funds, and mechanisms for oversight of projects with multiple fund sources.



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**ANNEX 1: Terms of Reference of the Audit Advisory Committee**

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**Purpose and Context**

1. 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.

2. The United Nations Board of Auditors (BOA) performs the external audit of UNDP operations and the Office of Audit and Investigations (OAI) provides internal audit services.

**Mandate**

3. 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 OAI strategy and annual work plans;
  - g) Review and advise the Administrator on the budget of OAI;



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- h) Review and provide comments on the OAI annual report to the Executive Board;
- i) Review and advise the Administrator on the appointment, performance evaluation, and dismissal of the Director of OAI;
- j) Discuss BOA audit work plans;
- k) Consider all relevant reports and management letters by OAI and BOA, including reports on UNDP's financial statements;
- l) 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;
- m) Monitor the implementation by management of OAI and BOA audit recommendations;
- n) Advise on UNDP's fraud prevention policy, code of ethics and whistleblower policy; and
- o) Prepare and submit an annual report on its activities to the Administrator that is also presented to the Executive Board for information.

**Authority**

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

5 The Chairperson and the members of the Committee will meet with the Director of OAI at least annually in a private session.



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6. The Chairperson and the members of the Committee will meet with the representatives of BOA at least annually in a private session.

**Membership and Quorum**

7. 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.

8. 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.

9. The 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**

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

**Number of Meetings**

11. The Committee shall normally meet at least four times a year. The Chairperson, any member, the Director of OAI, and/or the BOA may request additional meetings, some of which may be virtual meetings.

**Convocation of Meetings**

12. 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.

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





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**Members' Participation Other Than In Person**

14. It is expected that the 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**

15. 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' 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**

16. 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**

17. 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**

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

19. 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.

20. Documents may also be submitted by the BOA.



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**Confidentiality of Meetings and Minutes**

21. 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**

22. 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 this report.

23. 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**

24. 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**

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

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

Approved by the Administrator  
8 February 2008



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**ANNEX 2: List of Audit Advisory Committee Members**

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1. Mary Ann Wyrsh (USA) -- Chairperson

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

2. Stephen Hume (Canada)

Retired partner, Deloitte and Touche, Canada

3. Patience Bongiwe Kunene (South Africa)

Deputy Chief Economist for Policy Analysis and Coordination  
Office of the President, Government of South Africa

4. Verasak Liengsrirawat (Thailand)

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

5. Fernando Fernandez (Argentina)

Principal Advisor – Risk Management, Development Effectiveness and Strategic  
Planning Department  
Inter-American Development Bank, Washington, D.C.



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**ANNEX 3: Information on AAC Meetings/Deliberations/Consultations in 2007**

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1. Official Meetings: The AAC met in official session four times in Calendar Year 2007, as follows: 3<sup>rd</sup> meeting on 16 January, 4<sup>th</sup> meeting on 13 April, 5<sup>th</sup> meeting on 17 July, and 6<sup>th</sup> meeting on 3 October.
2. Official minutes of the AAC meetings, including decisions taken, and actions resulting from the meetings were prepared and submitted to the Associate Administrator. In addition, the Committee prepared a summary memo for the Associate Administrator reflecting its strategic advice related to issues addressed in the most recent meeting.
3. Briefing Sessions: The official meetings in Calendar Year 2007 were preceded by a day of briefings and informal discussions on issues of concern to the Committee. Starting with the 6<sup>th</sup> meeting, the pre-meeting briefing session has been extended to two days to allow for more in-depth discussion of issues. A complete list of all interactions with various UNDP management and staff is in 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 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 (BOA) provided information and presentations to the Committee in its briefing sessions in January and July. In addition, the Committee held a private meeting with the BOA representatives in July, as contemplated in its TOR.
6. Administrative Support: The AAC receives administrative support from the UNDP Office of Audit and Investigations, and the Secretariat for the Committee is housed in this office.

The Committee is grateful for this support, which is especially crucial to the effectiveness of a Committee whose members are dispersed across the globe. The Committee has been provided access to the UNDP Intranet, to allow it to follow issues, to track audit information, and program “dashboards”. The AAC has also been provided a UNDP e-mail account, which allows for ease of communication with UNDP offices.



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**Annex 4: List of UNDP Offices That Interacted With the Committee**

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As stipulated in the AAC Terms of Reference, all meetings of the Committee during the Calendar Year 2007 were attended by the Associate Administrator and the Director of OAI or his/her representative. Other UNDP staff attended upon the invitation of the Chairperson, and these were from the following UNDP offices:

3rd Meeting and Briefing Session – 15 to 16 January 2007

- Office of the Administrator
- Bureau of Management (BOM)
- Office of Finance and Administration, BOM
- Centre for Business Solutions, BOM

4<sup>th</sup> Meeting and Briefing Session – 12 to 13 April 2007

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

5<sup>th</sup> Meeting and Briefing Session – 16 to 17 July 2007

- Operations Support Group
- Bureau of Management
- Office of Finance and Administration, BOM
- Centre for Business Solutions, BOM
- Office of Human Resources, BOM
- Regional Bureau for Asia and the Pacific

6<sup>th</sup> Meeting and Briefing Session – 1 to 3 October 2007

- Operations Support Group
- Evaluation Office
- Bureau of Management
- Office of Finance and Administration, BOM
- Office of Planning and Budgeting, BOM
- Centre for Business Solutions, BOM
- Office of Human Resources, BOM
- Legal Support Office, BOM