Memorandum

To: Ms. Mary Ann Wyrsch, Chair UNDP Audit Advisory Committee
From: Ad Melkert
Subject: Response to 2007 Report of the Audit Advisory Committee

Date: 3 June 2008

Thank you for the 2007 Annual Report of the Audit Advisory Committee (AAC). I greatly appreciated the thoughtful and constructive recommendations contained in this report as well as the productive dialogue with the Committee throughout 2007. By way of a management response to observations and recommendations identified in the report, please find below some remarks that I would like to share with you:

1. UNDP management acknowledges concerns raised by the AAC about potential “system fatigue” of several key management initiatives happening concurrently. It is important to point out that the Operations Group (OG) that I chair, is the corporate decision-making system in place to ensure appropriate coordination of policy and operational matters. The need to put in place a comprehensive Strategic Plan, including a number of supportive management instruments, has coincided with requirements to bring different management systems to the level of increased demand for UNDP services. Also, the need for higher responsiveness to questions from the Board had to be taken into account1. To an extent, a culmination of (sometimes complementary) initiatives has been inevitable. However, with the improved opportunity for planning that the Strategic Plan now offers (better sequencing as well as a reduction of fragmented initiatives) we expect that a more consolidated approach will be possible which will result in a lessening of the burden of work for offices and units. Some more specific concerns about potential change fatigue and the challenge of staff’s capacity to deal with the demands of new systems and

1. In response to requests by the Executive Board and the General Assembly in the context of the Triennial Comprehensive Policy Review (TCPR), UNDP launched a number of key initiatives to enhance overall organizational effectiveness. These are the Enterprise Risk Management (ERM) system, Results Based Budgeting (RBB), the Enhanced Results Based Management (ERBM) system, the adoption of International Public Sector Accounting Standards (IPSAS), Financial Disclosure Policy (FDP) and mandatory Ethics/Code of Conduct training, and the Accountability Framework and Oversight Policy and the UNDP Programme and Operational Policy and Procedures (POPP). These initiatives underpin UNDP’s commitments articulated in the Strategic Plan 2008-2011.
policy changes have been addressed recently. In November 2007, management decided not to pursue a phased approach to the implementation of IPSAS, but rather to undertake its full implementation in 2010. In doing so, the OG recognized the impact on staff and the organization as well as the experiences of other UN agencies to take on this task. Similarly, during the first year of the implementation of the Financial Disclosure Policy (2007), UNDP focused on staff at the D1 level and above, Chairpersons of the Procurement Committee at the Country Offices and at Headquarters, and those staff whose principal occupational duties relate to the procurement of goods and services as well as those relating to investments of assets in UNDP.

2. As regards the recommendation of the AAC to use industry best-practice Life Cycle Costing methodology in projecting future capital investment requirements, UNDP is working to revise its Information Management (IM) Strategy for 2008-2011 in line with the Strategic Plan and to take into account the need for secure funding. We are cognizant that extra-budgetary funds play a significant role in the funding of life cycle costs. We plan to draw on the best practices of other UN agencies as well as on the advice of external experts to formulate an appropriate policy.

3. The creation of a capital investment fund is not only an internal UNDP decision but requires technical discussion with the Advisory Committee on Administrative and Budgetary Questions (ACABQ) and the approval of the Executive Board given its implications in regard to UNDP’s core resources.

4. UNDP management noted the recommendation of the AAC to consider how “to better structure its decision making and corporate governance mechanisms taking into account the need to support central systems and its corporate goals”. In this respect, I would like to point out that, for the first time in UNDP’s history, the Strategic Plan offers the framework for assessing the comprehensiveness and coherence of management support systems. We need, however, to be mindful of striking the right balance between reporting requirements for corporate accountability (which should be enhanced) and delegated authority (which should be maintained) in order to be responsive to national situations. We would like to interpret this valid recommendation in a way that ensures the availability of corporate level quantitative and qualitative management data that is relevant to managerial decisions and therefore allows work units to be supported and ultimately deliver on the Strategic Plan results framework. The structure of UNDP is such that the level of centralization of systems and data should sufficiently take into account the different types of activities and products that contribute to results in different areas of operation.
5. This is also an important notion in as far the baseline capacity in our offices is concerned. UNDP agrees with AAC’s recommendations to continue to strengthen baseline capacity of UNDP offices. Management also believes, however, that not only do different areas require different basic skill sets, but also the contexts within which offices operate requires recognition of various typologies of capacity and resources needed to adequately perform. Management intends to systematically strengthen the understanding and strategic direction of the organization in this vein, while continuing to build on past efforts. UNDP management has been actively addressing the need to build internal staff capacity. Our corporate Human Resource Strategy (2005-2007) included a review of the recruitment standards and educational requirements for professional posts, the formalization of the UNDP Succession Plan and Talent Management initiative and the preparation of a Competency Framework. Additional examples of how UNDP helped develop the baseline for staff capacity are the appointment of a Chief Learning Officer, the formalization of learning managers in our offices to champion learning needs, and the establishment of Community of Practice Networks for knowledge sharing and experience exchange across UNDP functional and practice areas.

6. Staff certification plays an important role in enhancing capacity and staff profile. Prior to the introduction of Atlas, UNDP implemented the International Computer Drivers License (ICDL) programme. In 2006 UNDP launched staff professional certification programmes in the core business areas of project management, financial management, procurement management and human resource management. Staff response to the programme has been very encouraging. Beginning in 2008, the staff certification status of the UNDP offices will be included as a key performance indicator for assessing managerial responses to building baseline capacity in their offices.

7. Tangible improvements resulting from these efforts can be evaluated by the number of country offices which have moved gradually from the Comptroller’s Watch List toward the Concern and/or the Acclaim List. UNDP believes that in most country offices, there is a certain baseline capacity for core functions. Where there is temporary or limited scope for further professionalization, UNDP has moved towards the implementation of the Regional Accounting Shared Services Centers (RASSC) to address such capacity issues. Currently, this is being piloted in our regional center in Bangkok, Thailand whereas the Regional Bureaux for Africa and Latin America are finalizing the funding arrangements to make this implementation a reality. However, as highlighted by the AAC, there is a need to fund basic levels of capacity in the regional and HQ units in key areas such as bank reconciliation functions.
8. Following the review and guidance provided by AAC, the Office of Audit and Investigations (OAI) has rolled out its risk-based approach for NEX audits beginning 2008. Under the leadership of its newly appointed Director, OAI is currently refining its risk-based audit methodology for HQ units leveraging the experience gained from the implementation of the UNDP Country Office Audit Risk Assessment in 2007. To enable more timely remedial management actions and at the recommendation of the AAC, OAI’s target is to achieve a three-month interval between the completion of audit field work and the issuance of its audit reports. In this connection, we are grateful for the contribution and advice of the AAC in the selection and final appointment of the current Director of OAI and specifically their independent review and comments on the OAI Strategy and related work plan for the period ending in 2009.

I would like to reaffirm UNDP’s appreciation of the work of the AAC. I look forward to your contribution and continued dialogue with management in 2008 and beyond.