Statement by

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UNDP Report on the Implementation of the recommendations of the Board of Auditors
(DP/2014/7)

Executive Board of UNDP, UNFPA and UNOPS
Mr. President, Distinguished Members of the Executive Board, Ladies and Gentlemen

**Introduction**

- I am pleased to deliver this statement in support of UNDP’s Report on the Implementation of the Recommendations of the Board of Auditors, for 2012 (DP/2014/7). Pursuant to Executive Board decision 2010/9, the full citation of all audit recommendations of the Board of Auditors has been included as a separate Annex to this report. It provides information on audit action plans, responsible units and target completion dates. These documents are posted on the website of the EB Secretariat.

- Let me first thank the UN Board of Auditor and specifically Mr. Fransis Kitauli, Director of External Audit (Tanzania) of the Board of Auditors and his team for their professional work and willingness in engaging with UNDP as we go through the teething issues in the first full year of the implementation of the International Public Sector Accounting Standards (IPSAS) in 2012. Again my thanks to Mr. Kitauli for being here today to respond to questions that the Board may have on the Audit Report of the Board of Auditor for the period ended 31 December 212.

- I wish to reaffirm that UNDP accepts all the 20 recommendations of the Board of Auditors which are contained in its report to the General Assembly (A/68/5/Add.1). Their document has also been posted on the website of the Executive Board Secretariat.

- UNDP is pleased that the UN Board of Auditors has awarded UNDP with a clean audit opinion for its first year of IPSAS implementation in 2012. This is a significant milestone for UNDP. The organization does not take the achievement for granted. The Administrator continues to set the tone while the Associate Administrator spearheads the work of the Organizational Performance Group in monitoring progress made in addressing audit priorities and mitigating relevant enterprise risks.

- Given that Board already has had a fruitful informal consultation on the report on 16 January 2014. I will, with your permission, therefore briefly introduce the paper and highlight key aspects of the UNDP report which I know are of specific interest to the Members of the Executive Board.

**Update on Top 9 audit priorities in UNDP for 2012-2013**

Mr. President, Distinguished Members of the Executive Board,

- As endorsed by EB decision 2013/7, UNDP has identified Top 9 audit priorities for 2012-2013 based on key audit findings of the Board of Auditor and Office of Audit and Investigations as well as input from the Independent Audit Advisory Committee.

- For the benefit of new Members of the Board, the current top 9 audit priority for 2012-2013 was based on improvements made and noted by UN Board of Auditors from the original Top 15 list (for 2006-2007) which was reduced to Top 11 (for 2008-2009) to Top 10 (for 2010-2011).
The current list of top 9 audit priorities which are described in Annex I to the paper are (1) Audit follow up for Nationally Implemented Projects (NIM) and the implementation monitoring/support of the Harmonized Approach to Cash Transfers framework; (2) Programme/project design, monitoring and evaluation (3) Management of high risk programme portfolios; (4) Atlas and Change Controls (5) Leave records and recruitment management; (6) Procurement management in UNDP offices; (7) Asset and Inventory management (arising from IPSAS implementation); (8) IPAS implementation and (9) Long outstanding audit recommendations more than 18 months since these were issued.

Current assessment is that there has been encouraging progress made on all the top 9 audit-related management priorities, though progress within each audit priority areas has been quite uneven and there are specific challenges/risks that should be addressed. More specific concerted attention are needed at HQ and field level to address challenges in 3 key priority areas:

1. Timely submission of audit reports for Nationally Implemented projects (NIM), and NIM projects with significant Net Financial Impact associated with qualified audit opinions & NIM projects with consecutive years of modified audit opinions;
2. Project/programme management specifically in project monitoring to address significant implementation delays, financial closure for operationally closed projects and,
3. Asset accounting, recording and disposal of unusable assets owned by UNDP offices to meet the more stringent IPSAS policy requirements

On NIM, it is important to understand that under IPSAS, Country offices are now required to submit their NIM audit reports by end April (instead of end May). UNDP offices continue to work closely with the Supreme Audit Institutions in the host countries and/or with professional audit firms appointed by the project. Subject to extra ordinary circumstances including safety and security concerns on the ground that could prevent audits to be conducted as planned, UNDP expects to improve on its timeliness of the submission of these NIM audit reports.

On the specific issues related to NIM projects with recurring modified audit opinions for 2 or more consecutive years with the same Implementing Partners, I am requiring that the Country Offices concerned to critically review the current Cash Transfer arrangement modality with their Implementing Partner including a stoppage of further advances as needed. We anticipate that the revised HACT framework which will be rolled out in 2014 will help UNDP and its Implementing Partners better deal with fiduciary risks associated with cash transfers while balancing national capacity building objectives in programme countries.

On project and programme management, there has been significant efforts in the past 2 years in closing out inactive projects and/or operationally closed projects. With improvements in the project milestone monitoring features in Atlas, we anticipate that this will enable project managers and Regional Bureaus in their monitoring roles and thus manage this risk to an acceptable levels in 2014.
On asset accounting, these have been actively monitored. The residual unusable assets is currently being discussed with the Board. Initial assessment is that the current level is less than 10% which is within the materiality threshold to be discussed with the Board of Auditors.

Implementation status of recommendations of Board of Auditors

Let me next discuss the implementation status of audit recommendations by the Board of Auditors for 2012 and prior audit period.

For the 20 recommendations issued by the Board of Auditors for 2012, responsible units, specific audit action plan and UNDP target completion dates for all audit recommendations have been agreed with UN Board of Auditors (per past practice). Numerous recommendations are tied to the closure of the financial accounts in second quarter of 2014 and the finalization of the financial statements in the third quarter of 2014.

UNDP anticipated that the full implementation of all 20 recommendations will be in 2014. However work has already started for these recommendations since the audit report was issued by the UNBOA in July 2013. As at Dec 2013, responsible units have reported that 6 of the audit recommendations have been implemented. These are pending validation and/or further discussion with the Board of Auditors. These included (1) IPSAS reporting for approved budget (2) planned audit for a programme country DIM project (3) Use of FACE forms monitoring (4) Direct contracting monitoring (5) Asset record management (6) Inventory accounting.

For the 33 audit recommendations issued by the Board of Auditors in 2010-2011, a total of 29 recommendations have been reported as implemented by the responsible units. These included 10 already validated and another 19 more recommendations to be validated by the Board of Auditors.

UNDP anticipated that (subject to agreement by the Board of Auditors) that the implementation rate for 2010-2011 will be up to around 88%. The remaining 12% comprised 4 recommendations which are taking longer than anticipated. These are:

(a) Achieving 80% certification rate for procurement buyers in UNDP. Target date is end 2014
(b) Implementation of the revised HACT Framework. Target date is end 2014
(c) Improving project data quality with the enhancement of our Executive Snapshot and monitoring capabilities in our Atlas project module. A status review is expected in mid-2014
(d) Improving project monitoring visits including closure of inactive projects etc. A status review is planned for mid-2014

Conclusion

In conclusion, I would like to thank the Executive Board for your continuing interest and guidance on audit and oversight matters. My colleagues and I are ready to respond to any questions. Thank you very much.