UNDP management response to the Annual Reports of the Office of Audit and Investigations (DP/2015/22) and the Audit Advisory Committee for 2014

EXECUTIVE BOARD OF UNDP/UNFPA/UNOPS
ANNUAL SESSION, 1-12 JUNE 2015
Introduction

1. This report has two main sections: the first section is the management response to the main recurring risks and matters highlighted in DP/2015/22: the 2014 Annual Report of the Office of Audit and Investigations (OAI), while the second section responds to the advice provided in the 2014 Annual Report of the Audit Advisory Committee (AAC); Annex to DP/2015/22. The OAI annual report includes UNDP, UNCDF and UNV audits. UNDP’s management response to the Annual Report of the Ethics Office is provided separately.

2. Consistent with Executive Board (EB) decision 2013/24 requiring adequate resourcing of OAI, UNDP management is pleased to note that the additional resources provided to OAI contributed to strengthening the internal audit and investigations functions. UNDP management welcomes OAI’s conclusion that it was able to effectively carry out its planned audits as well as necessary investigation activities in 2014 and that it was able to successfully implement its proactive investigation model and provide regular briefings to regional bureau, country offices and other relevant business units.

3. Given UNDP’s commitment to transparency, we are pleased to note the high number of unique (not repeat) visitors accessing the public website where OAI reports are disclosed (2,708 unique visitors in total). UNDP management highly values the work of OAI and notes that the key areas of risk identified in the OAI 2014 Annual Report have been included in the 2014-15 top 8 audit-related management priorities recently endorsed by the EB in its first regular session (January 2015). Progress in addressing the top 8 audit-related management priorities is regularly reviewed by the Executive Group (EG), chaired by the Administrator and the Organizational Performance Group (OPG), chaired by the Associate Administrator. The management of risks related to these priorities is also regularly reviewed by the Risk Management Committee, chaired by the Associate Administrator. The revised internal management accountability framework provides an effective platform to address the issues raised in the report.

4. Implementation of OAI recommendations receives top management support and is a regular agenda item at the OPG. Regional and central bureaus have the accountability to ensure timely implementation of all OAI audit recommendations within established target dates.

I. Management response to key audit risks identified by OAI and response to EB decision 2014/8

5. Pursuant to EB decision 2014/8 requesting UNDP to continue to strengthen internal controls and improve oversight and monitoring of country offices, UNDP is pleased to highlight the actions that have been taken to address key risks identified in the 2014 OAI Annual Report.

6. With regard to programme/project management, a new project quality assurance (QA) system is currently being rolled out in three phases that will embed QA standards at the design and appraisal stage, annually during implementation, and at closure stage. Building on an OAI performance audit of monitoring practices, a new monitoring policy will be developed during 2015 which will provide clarity on monitoring practices. The assessment and management of implementing partners is a key challenge and UNDP management has recently reiterated to all offices the importance of complying with the existing corporate NIM manual. Additionally, the rollout in 2015 of the revised HACT framework and associated operational policies will be closely managed and monitored in conjunction...
with the regional bureaus. For Implementing Partners that receive recurring modified NIM audit opinions, the regional bureaus will closely monitor that Country Office action plans to address the audit recommendations are implemented more rapidly.

7. UNDP management is implementing a range of initiatives to address the key risks identified by OAI in operations, including: continued certification and capacity building of finance and procurement staff; revision of certain key policies to provide better clarity; continuation of focused support teams for high risk projects within the regional and central bureau and within the OPG; continued clustering of transactions within the GSSCs, and focus on implementation of audit recommendations to address the highlighted risks.

(a) Unsatisfactory Audit Ratings

8. OAI issued 159 audit reports in 2014, of which 5 (7%) had an unsatisfactory rating. This is a slight improvement compared to 2013, in which OAI issued 139 reports, of which 4 (8%) had an unsatisfactory rating. It is important to note that UNDP is continuously asked to operate in high risk environments and activities, resulting in a level of inherent risks, hence the audit observations should be considered within this context. Some of the issues are specific and unique to the inherent risks associated with specific operating environments and do not necessarily indicate weaknesses in existing processes and/or policies. The management solution in such instances would be targeted to the specific office and not at the corporate and/or policy level. Following are the actions taken to address issues highlighted in the 5 unsatisfactory audit ratings.

9. Chad CO Audit & Global Fund (GF) Audit: The Chad CO audit report was issued August 2014 and the GF audit report in September 2014. In order to address the outstanding audit recommendations in a comprehensive manner, and importantly to avoid recurrence, the office has received significant and high level support. A team from the Regional Bureau for Africa (RBA), led by the Regional Director, visited the office in order to develop a comprehensive action plan for all outstanding audit recommendations and initiated a change management process to address the structural issues. This work built on earlier support from the Bureau of Management (BoM) to help address weaknesses in the control framework and business processes. Importantly, RBA has strengthened oversight of the country office, through weekly reviews, and established a support mechanism in the regional hub in Addis Ababa, which will be an integral part of critical business processes to ensure compliance with UNDP regulations and rules. All matters highlighted in the report have been or are in the process of being addressed through action plans agreed with OAI and with support from RBA. Some of the key immediate actions already taken include; the office adopting an innovative mobile payment system to avoid the risk of cash disbursements; increased management efforts in the follow up of GF sub-recipient report submission; and quarterly visits organized for each warehouse to check the status and management of stock. At the time of writing this report, 30% of audit recommendations have been assessed as implemented.

10. Kuwait-CO Audit: The audit report was issued in May 2014 and the office is progressing with implementing the audit recommendations. As of March 2015, 38% of the recommendations have been assessed as implemented. All remaining recommendations are being addressed with support from the Regional Bureau for Arab States (RBAS).

11. Afghanistan- Desk Review of UNDP Afghanistan’s oversight of the Monitoring Agent of the Law and Order Trust Funds for Afghanistan (LOTFA): Afghanistan presents significant challenges with
inherent risks in the operating environment. During 2014, BoM conducted a joint strategic management review mission with the Regional Bureau for Asia and the Pacific (RBAP) to help the Afghanistan Country Office better position itself to meet the challenges and opportunities of the ongoing efforts of the UN and the international community in that country. The management review made several recommendations specific to LOTFA and the Monitoring Agent, which have been or are being implemented by the Office. The OAI audit report was issued in October 2014. The new management in Afghanistan CO has initiated a number of actions to address these issues. One of the three recommendations has been implemented, and the office is on track with implementation of the remaining two recommendations in line with agreed timelines.

12. Headquarters audit - UNDP Enterprise Risk Management: A team of consultants was contracted to provide recommendations and a draft proposed enterprise risk management policy paper is currently under review. The UNDP Risk Management Committee has been reconstituted, chaired by the Associate Administrator, and is in the process of developing options for strengthening risk management across the organization. UNDP envisions completion of phase 1 activities by April 2015, with the subsequent phases being implemented over a longer timeframe.

(b) Significant internal audit results

13. Under each of the categories, management takes note that DIM audits had the highest number of audits at 94, followed by CO audits at 35 with 18 global fund audits and 8 HQ audits. Following are UNDP management responses to the issues highlighted under each of the categories:

14. HQ Audits: UNDP management welcomes the recommendations made in the 8 HQ audits pertaining to 2 HQ business units and 6 corporate functions. In some areas, such as the GSSC, all but one audit recommendation has been implemented. The outstanding recommendations are complex in nature or require significant investment of time and resources and will therefore take longer to implement at a global level (e.g. UNCDF structural review, ERM strengthening, and Atlas system enhancements), but nonetheless the relevant HQ units are on track in implementing these recommendations.

15. Country Office (CO) Audits: UNDP management has carefully reviewed the key recurring issues in the areas of procurement, project management, human resources, and finance, identified in the CO audits carried out by OAI in 2014. Detailed actions on these are as follows:

16. On procurement: Reflecting on experience, audit observations and other factors, UNDP is refining the risk-based approach to procurement planning and will only require the preparation of a procurement plan for offices with annual procurement beyond a certain threshold. On non-submission of contracts to Procurement Review Committees (PRCs) further guidance will be shared with COs and monitoring will continue through existing tools. On deficiencies in the use of Individual Contractors (ICs), recognizing the limitations on current guidelines, revised guidelines will be re-issued with extended scope that will meet the needs of the organization, particularly in difficult operating environments. The procurement staff certification programme enhances staff knowledge of policies and procedures, including contracting ICs, thus increasing compliance. At the time of preparing this report, certification level 1 percentage of all “buyers” in UNDP was 81%, with ongoing efforts to ensure the remaining buyers all get the level 1 certification.
17. **On Project Management**: lack of capacity/comparative assessment of implementing partners or responsible parties has been identified as a recurring issue. In 2014, the CFO sent a reminder to all offices emphasizing the importance of complying with UNDP’s existing NIM manual, noting that the manual provides the guidance and procedures to enable UNDP country offices, programme country Governments and other partners at the country level to effectively design and implement NIM programmes and projects; and that the manual is intended to ensure that UNDP standards are maintained in project implementation and forms an important foundation in UNDP’s risk management approach with respect to NIM activities, as well as the coordination of resources for capacity building of national entities, if needed. Additionally, elements of the existing NIM policies were strengthened in 2014. The revised UNDG HACT framework was issued in 2014 and the associated UNDP operational policies and procedures were updated and published effective January 2015. A detailed, targeted and time bound HACT rollout project will be implemented in 2015. Revised NIM policies were also developed in 2014 and will be issued shortly.

18. **On Human Resources**: Identified weaknesses will be addressed through improved compliance monitoring, escalation and training. Refining POPP content to provide better clarity in OHR policies and processes and rollout of system enhancements like the eRecruitment will address issues raised under HR management in the audit reports. Communication will be sent out to learning managers to monitor staff completion of mandatory training courses.

19. **On finance**: 7 out of 35 offices, representing 20% of 2014 Country Office audits, reported weaknesses in the management of advances to Implementing Partners (e.g. long outstanding advances and incorrect recording of advances). As of December 2014, 5 out of the 7 offices cited had no long outstanding advance balances. While oversight of advances to Implementing Partners rests with Country Offices and Regional Bureaux, the Office of Financial Resources Management (OFRM) conducts quarterly reviews of long outstanding advances (greater than 6 months) and incorrect recording of advances (such as correction of credit balances) and follows up with the respective Country Office and Regional Bureau to ensure that corrective action is taken. General performance on advance management is also reported and discussed with Regional Bureaux in periodic financial performance reviews led by the Comptroller and attended by Regional Bureau senior management. The Comptroller has sent out communication to Country Offices as a reminder on the need to comply with the policy requirements on the management of project advances. For staff advance issues highlighted in 2 offices, a revised policy on staff advances is in the final approval stages. Finally, UNDP is committed to improving the capacities of finance staff globally, and as of January 2015, 248 staff had completed Chartered Institute of Public Finance and Accountancy (CIPFA) certification programmes at various levels.

20. **Performance Audits**: UNDP management takes note of the satisfactory ratings issued for the two performance audit reports released in 2014.

21. **Global Fund (GF) Audits**: UNDP management notes that of the 16 Country Office and 2 consolidated audit reports, 67 per cent of the recommendations were in the areas of (a) procurement and supply management, such as weak controls over physical inventory, and the storage and quality assurance of health products; and (b) governance and strategic management, such as staffing of key posts and compliance with contracting policies and procedures. The GF projects are in the most challenging country contexts, many of them crisis countries, and are therefore inherently risky. UNDP has an existing corporate risk management strategy for GF projects.
that is periodically reviewed at the level of the Organizational Performance Group, chaired by the Associate Administrator. There is a dedicated Bureau for Policy and Programme Support (BPPS) team providing support to all countries implementing GF grants. This team includes five Procurement and Supply Chain experts. The team’s primary function is to support Country Offices in enhancing performance of grants, managing risks which includes follow-up on audit recommendations. This dedicated team prioritizes its work based on its monitoring of the Country Offices and, importantly, OAI audit reports and findings. Special task teams are created with the Regional Bureaux to focus on ‘watch list countries’ with problematic audits and other challenges. The team has developed tools and guidelines to address problem areas, e.g. strategic management, asset management, inventory/warehousing. UNDP is rolling out a “Control Self-Assessment” process for Country Offices.

22. In order to benefit from economies of scale and minimize procurement risks, procurement for GF projects is done centrally in partnership with UNICEF, UNFPA and through Long Term Agreements (LTAs). LTAs are also in place with insurance companies and contractors at country level to mitigate the risks in the supply chain. Asset and inventory management is monitored by the BPPS team and is a major element of the risk management strategy.

23. UNDP has recently developed a special audit process for Sub-Recipients (similar to NIM audits), with tailor made terms of reference, risk-based audit planning, regional LTA with audit firms, and robust follow-up monitored by the team. Staffing of key positions remains a challenge especially in high risk and hardship environments, and UNDP is monitoring recruitment timelines and addressing causes of delays on a case by case basis.

24. **Directly Implemented Project Audits:** The OAI report noted that 53 per cent of the recommendations were in the areas of finance, such as inaccurate recording of project expenditures in the combined delivery report and lack of supporting documents, while project and asset management contributed another 30 per cent collectively.

25. On the issue of inaccurate recording of project expenditures in the combined delivery report, UNDP is carrying out analyses to identify root causes and associated management solutions which will be implemented in the course of the year. Specific communication will be sent out to affected Country Offices as a reminder on compliance with UNDP policies on recording of project expenditure.

26. With regard to the lack of supporting documentation, this occurs because some payments are processed at the central Country Office location, while supporting documents may be at project locations, which are geographically dispersed and oftentimes have limited internet access to scan and send supporting documents electronically. The separation of key project staff before all project closure activities are finalized, including the final validation of record completeness, is also a contributing factor that is currently being addressed by a cross functional management task force that has been established to review UNDP project closure practices and review ways of ensuring compliance is enhanced in all offices.

27. **On project management issues,** as previously noted, a new project quality assurance system is currently being rolled out in three phases that will embed Quality Assurance standards at the design and appraisal stage, annually during implementation, and at closure stage. This includes assurance for risk management, including regular review and updating of risks. Building on an OAI performance
audit of monitoring practices, a new monitoring policy will be developed during 2015 which will provide updated policies, procedures and guidance for Country Offices.

28. **On asset management**, UNDP Country Offices record and track assets under UNDP’s use and control either in the ERP system or manually (if assets were pre-2012 development project assets) as UNDP elected to take the transition clause under IPSAS 17 on pre-2012 development project assets. These assets will formally be recorded in UNDP’s books as of 1 January 2015, and significant work has been accomplished in the past two years to identify, value and record these assets in an offline database. As most of the issues raised in the audit report relate to Country Offices identifying where a specific category of assets should be recorded, most of the asset related challenges should be resolved with the uploading of all pre-2012 development project assets into the books in 2015.

29. **Inter-Agency Audits**: UNDP management notes that in 2014 OAI issued four inter-agency reports as a result of joint or coordinated audit work among the internal audit services of several United Nations organizations (FAO, UNESCO, UNFPA, UNICEF and UNIDO). In addressing the issues raised in these reports, UNDP is currently finalizing an NGO engagement policy which will provide guidance to all UNDP offices in this area. The project quality assurance improvements noted above will contribute to improving monitoring and evaluation and the rollout of the new HACT framework will address the issues noted on the inadequate assurance for harmonized approach to cash transfers (i.e., issues with the quality of micro-assessments and spot check reports).

30. On the issue of competing coordination processes for development and humanitarian mechanisms; incomplete implementation of the management and accountability framework that is essential to strengthen the resident coordinator system in the country; quality issues in the monitoring framework for strategic priority areas; and lack of a strategy to harmonize business processes and procedures on the delivering as one audit in Pakistan, it is important to note that the development context in Country Offices is dynamic, hence often there is an acknowledged and accepted departure from initial development plans to address emergency situations, as occurred with the Pakistan floods. On the alignment to strategic priorities, the recently completed IRRF adjustments exercise aligns programme outcomes and outputs to Strategic Plan outcomes and outputs and Country Offices are making the necessary re-alignments, with the regional bureaus monitoring the process. Additionally, the new quality assurance system being rolled out will address the concerns raised with respect to quality management issues.

31. Management notes the satisfactory rating of the operations of the Administrative Agent Function of the Common Humanitarian Fund for Somalia and takes note of the lessons learnt from the inter-agency audits.

(c) **Audits of projects executed by national governments and/or non-governmental organizations**

32. UNDP management recognizes the importance of this implementation modality as a way of ensuring national ownership and sustainability of projects at the country level. It is therefore of utmost importance that mechanisms are in place to ensure the effective and efficient implementation of programmes under this modality. UNDP management is pleased to note a slight improvement in the percentage of countries receiving satisfactory ratings and commensurate decrease in partially satisfactory ratings in the OAI assessment of NGO implementation, while NIM audit reports for the 2013 financial year with unsatisfactory ratings remained constant.
33. Management notes that all offices submitted the NIM/NGO audit reports within the year (with 81% submitting by the prescribed deadline) except for two offices that had valid reasons for non-submission.

34. The net financial impact (NFI) for fiscal year 2013 was $92 million, representing 4.8 percent of the total audited expenditures (2012: $112 million; 5.8 per cent). Eighty six per cent (or $79m) of the NFI pertains to 4 projects that are the subject of an ongoing national Government judicial process resulting from the detection of suspected procurement irregularities during 2013. UNDP immediately followed standard operating procedures when the alleged irregularities were detected and the four projects were immediately suspended. At that time, the Government acknowledged that there was no liability on the side of UNDP, nor any loss of UNDP donor funds, since the projects were almost entirely (99.5 per cent) funded by the national Government concerned. While the FY2013 NIM audits were completed, the auditors issued a ‘disclaimer of opinion’ (with resulting NFI) because the project records were under legal guardianship as part of the judicial process currently underway, which prevented the auditors from examining the supporting documentation. Lessons learnt were instrumental in shaping the revised NIM policies developed in 2014.

35. All projects with modified audit opinions are required to have an action plan in order to address the issues giving rise to the modified opinion. Some of the actions already taken by projects with recurring modified opinions include; changes to cash transfer modalities; and training of project staff on UNDP’s NIM guidelines.

36. The rollout of the revised HACT framework and operational policies in 2015 will also strengthen NIM management. It is important to note that where the Implementing Partners are national agencies designated by the governments, the identification and correction of identified weaknesses has to be handled with the required sensitivity. Strengthening national capacities and being flexible to alternate cash transfer mechanisms and implementation modalities where weaknesses are identified with Implementing Partners are just but a few of the solutions being explored by the relevant bureaus.

37. OAI received 21 HACT audit reports from four country offices. Of the 21 reports, 18 issued an unqualified opinion on the financial statements. Action will be taken on the issues raised in the 3 qualified audit reports and closer monitoring of HACT implementation will be introduced in 2015.

(d) Long outstanding audit recommendations

38. UNDP management monitors implementation of OAI audit recommendations through the OPG chaired by the Associate Administrator. As of 16 March 2015 the number of recommendations older than 18 months has increased to 47 (2014: 30) due to an additional 19 OHR recommendations from an HQ audit crossing the 18 month mark. There was a delay in addressing the audit observations due to changes at the senior management level. Excluding the 19 OHR recommendations, UNDP long outstanding recommendations would have been 28 representing a slight improvement compared to 2013. OHR and other units with long outstanding recommendations are working to close the recommendations, and we expect to report substantial progress in 2015.

(e) Investigations and Complaints received and response to Executive Board decision 2014/21 (requesting disclosure of financial loss recovery)
39. UNDP management notes the increase of 6% in the number of complaints (new cases) received in 2014 by OAI. Of the 319 cases closed during the year 59 cases (18%) were substantiated in 2014 (2013:27% or 49 cases). An increase in complaints therefore does not necessarily correlate with an increase in substantiated cases but reflects the openness and trust that staff have in reporting concerns. The Annual Report on Disciplinary Measures and Other Actions taken in response to fraud, corruption and other wrongdoings shared by UNDP’s Administrator also acts as sensitization on the types of issues that staff should report. The Ethics Office carried out a series of Country Office and webinar trainings to heighten awareness amongst staff on the types of ethical issues that must be reported which may have also contributed to the increase in number of cases.

40. Procurement fraud remains the highest category of reported complaints and management is keenly seeking ways of preventing fraud. UNDP management has recently prepared a Fiduciary Risk Management policy that will be rolled out to sensitize staff and implementing partners on the various responsibilities with regards to proactively managing risks and reporting and investigating irregularities. PSO is also working with OAI to develop a risk-based framework to identify and undertake proactive investigations.

41. Management notes that substantiated losses resulting from 2014 investigations amounted to $6.1m, of which $5.2 million was incurred by another agency and not UNDP. The remaining US$ 900k is the value of substantiated losses incurred by UNDP, of which US$10,800 (1.1%) was recovered. There are a number of challenges in seeking recovery of funds. In cases of proven fraud involving staff members, deductions can be made from their final emoluments to recover the amount defrauded, provided that those final emoluments are sufficient. If not (or if the ex-staff member has already received his/her emoluments), it is difficult to make full recovery without the ex-staff member’s consent. UN Joint Staff Pension Fund entitlements are not automatically available to UNDP to satisfy the amount owing. For fraud involving non-staff and companies, recovery is wholly reliant on the assistance of national governments concerned and UNDP has no means of its own to recover the amounts defrauded.

42. In 2014, OAI also issued 16 management letters to relevant business units to address weaknesses in internal controls, as noted by investigators. This is in line with increased number of investigations carried out by OAI as a result of increase in resourcing of the investigations unit. Management is working with affected units to address the causes of internal control shortcomings in a systematic manner.

II. Management response to strategic advice of the Audit Advisory Committee (AAC)

43. UNDP management appreciates the advice provided by the AAC and has carefully reviewed the 2014 Annual Report of the AAC and strategic advice in the various areas identified in the report. The full written management response in the following sections has been shared with the Chair of the AAC:

(a) Financial Statements

44. UNDP appreciates the review and advice provided by the AAC on the 2013 financial statements and welcomes the positive feedback on their quality. In striving to produce financial statements earlier than prescribed by the Financial Regulations, UNDP continues to apply lessons-learnt and to fine tune working procedures/processes related to the complex inter-related closing processes, many of which
involve parties that are external to UNDP, such as national governments and implementing partners. In this regard, UNDP plans to transition to an earlier financial closing over the next few years, starting with submission of the 2014 financial statements by 13 April 2015, 2 weeks earlier than last year.

(b) Strategic Plan

45. UNDP management notes the AAC’s positive comments that the Strategic Plan changes being implemented are progressing well. The structural changes, combined with enhanced results-based management and a strengthened internal accountability framework, will ensure that UNDP is ‘fit for purpose’ to deliver on the Strategic Plan. The AAC’s advice on ensuring that the new results-based management system has appropriate data quality and control points is appreciated, and UNDP confirms that quality assurance processes have been embedded in the system to enable potential issues to be identified on a timely basis, with suitable follow up required by the relevant bureau.

(c) Structural Review

46. UNDP management appreciates the continuing interest of the AAC in the structural change and specifically the advice on cascading the process to CO level, review of delegation of authority and caution to ensure internal control framework is not diluted due to reduced resource allocations to support areas particularly in the area of procurement.

47. With regard to extending the structural review process to Country Offices, UNDP has completed some preparatory work, including comprehensive financial sustainability reviews in 2013, and in 2014, revisions to the corporate funding methodology to facilitate more effective responses to changes in funding levels. Through the work on the second phase of reforms to the Bureau of Management, we are laying the foundations for regional and global clustering opportunities, which is expected to be a major source of further economies and efficiencies, as well as enhanced risk management, particularly in the Operations area.

48. As part of the continued improvements in UNDP’s management services, UNDP will update its Delegation of Authority to reflect all changes as of 2015.

49. UNDP management is keen on ensuring that the internal control environment is not impacted by the ongoing changes and due care has been taken to ensure that key functions that are critical to the segregation of duties and appropriate internal control levels have been maintained, including in the area of procurement.

(d) UNDP Financial Stability

50. UNDP management notes the AACs concerns over the impact of reductions in core funding on UNDPs 3 month liquidity. UNDP management assures the AAC that it is carefully monitoring its core funding situation and has various scenarios laid out to address potential shortcomings while maintaining its required liquidity levels.
51. UNDP management appreciates the advice by AAC on the development of policy guidelines for the acceptance and management of trust funds to ensure alignment with UNDPs strategic plan and will consider preparing the guidelines within timeframes supported by available resources.

52. Management carefully notes the advice by AAC that UNDP review current modalities in place at other international organizations as well as lessons learned in establishing additional revenue streams, such as digital fundraising and targeting major foundations. UNDP management will take this advice on board as it considers expanding its resource base and taking a more coherent approach to non-core fundraising.

(e) **Procurement**

53. Noting the concern of the AAC that the monitoring and compliance area was previously identified as needing to be strengthened whilst the restructuring exercise is reducing this capacity, UNDP management wants to assure the AAC that the capacity has not been reduced but moved closer to the country offices through presence of procurement specialists performing monitoring and compliance functions at the regional hubs. This has proved to be very effective for those hubs that already have established procurement support functions at the regional hubs like the Asia Pacific region. Other regions are in the process of moving this critical function closer to the country offices through the ongoing re-alignment process.

54. Management appreciates the advice by the AAC to formalize a system to share with the personnel involved in procurement, lessons learned from investigations, audits, etc. Currently such information is shared through the procurement intranet as well as regional SharePoint sites that are managed through the regional hubs.

55. Management has taken note of the advice from the AAC on strengthening procurement capacity in the field. UNDP is pleased to report that in December 2014 an updated UNDP procurement certification was launched and all procurement buyers are required to complete the procurement certification level 1. As of 1 April 2015, 81% active Procurement Buyers had successfully completed Level 1 certification, with many having proceeded to level 2 and level 3 certifications which are internationally recognized. There is ongoing trainings on the various procurement certification levels that are carried out at the regions in a bid to enhance the capacity of procurement staff. In addition, UNDP has leveraged the results of its strategic risk mapping of procurement categories and has put in place procurement support arrangement for UNDP country offices to tap onto the Procurement experts on specialized procurement for Elections, Global Fund related procurement.

56. Management takes note of the advice by AAC to be vigilant and ensure that sanctioned vendors do not re-enter the UN procurement process under different names. Management is pleased to report that as part of the process of approvals by the procurement committees, vendors need to be reviewed against the vendor sanctions list. However, there is currently no foolproof way of knowing whether or not a sanctioned vendor has appeared in the list through a different name. Management will take this advice into consideration together with other agencies and seek to identify a viable solution to address this concern.

(f) **Harmonized Approach to Cash Transfers (HACT)**

57. UNDP is pleased to report that the revised HACT framework issued in 2014 and associated UNDP operational policies and procedures have been fully adopted as of 1 January 2015. Implementation
progress will be monitored on a regular basis with key recent initiatives being the launching of the UNDP HACT project site and HACT Readiness portal.

(g) **Information & Communication Technology (ICT) management**

58. Management appreciates the AAC’s advice on the importance of having robust and appropriate security controls in services rendered by OIST/BoM UNDP, and the need to encompass an organization-wide view of ICT systems and available resources to ensure that operational efficiency is promoted and value for money is obtained in a constrained resource environment. UNDP is pleased to report that the ICT Governance Group mechanism, re-established in late 2012 with active participation of senior managers from key business units, is serving the useful purpose of ensuring a corporate wide view of ICT systems and budgetary resource allocation. The UNDP ICT Governance Group developed and the OPG approved in late 2013 an ICT Medium-term Investment Plan 2014-2017 to steward corporate ICT resources and ensure alignment of corporate systems. In March 2015 the ICT Governance Group provided to the OPG an investment plan update and prioritized 2015 work plan as part of its efforts to manage substantial demand for ICT services against scarce resources and capacity.

(h) **Enterprise Risk Management (ERM)**

59. Management appreciates the AAC advice on better ERM management. UNDP management is pleased to report that it is in the process of implementing the recommendations of the OAI report & has developed an action plan. In implementing the recommendations, risk management will further integrate and embed in UNDP’s work processes. Additionally, the ERM Committee has been reconstituted and is chaired by the Associate Administrator. Phase 1 of the ERM implementation is scheduled for completion in the second quarter of 2015 while phase 2 is estimated to take a longer time to complete.

60. On the recommendation that it consider the appointment of a Corporate Chief Risk Officer in the Executive Office given the size and complexity of the organization. UNDP takes note of this recommendation and will consider the possibility of implementing this suggestion in light of the ongoing structural change process and financial constraints.

(i) **Regional Bureau for Latin America and the Caribbean (RBLAC)**

61. UNDP appreciates the AAC interest in regional bureau programmes and appreciates the advice provided by the AAC on the need to change the national implementation modality (NIM) from 100% government implementation, to one where UNDP provides assistance. National Implementation modality for both, projects which are fully implemented by governments and project whose implementation is supported by country offices - accounts for over two thirds of the programme in RBLAC region and is a key approach to the way UNDP implements its mandate of governments taking National ownership of key development priorities. As UNDP has implemented the Harmonized Approach to Cash Transfer (HACT) effective 1 January 2015, the assessments of implementing partners will direct cash transfer modalities in order to minimize risk to UNDP and in some instances changes in the implementation modalities, whilst taking into account additional findings from spot checks, audits and evaluations findings. Noting the sovereignty of national partners and the sensitivities associated with changes to agreed priorities and projects, UNDP
management will keep on closely monitoring NIM projects that receive negative audit opinions and where there is a heightened level of projected risk work with the country offices to implement agreed action plans.

62. UNDP thanks the AAC for highlighting that the issues arising from NIM projects need to be reviewed at the corporate level. UNDP will seek to address this issue in the coming year as it makes revisions to the relevant NIM policies.

(j) Advice related to the office of Internal Audit

63. Management takes note of the AACs concern about the vulnerability of the internet facing portal. UNDP has initiated a project for 2015 to implement an information security gateway which will dramatically improve and provide uniform security across all of UNDP's Internet-based solutions including the Atlas Internet-facing portal. The security gateway will safeguard key financial transaction processing access and provide better safeguards against hacking attacks. The project has been endorsed by the UNDP ICT Governance Group and prioritized and approved by the Operations & Programme Group (OPG). The project should begin 3Q2015.

Conclusion

In line with the revised internal management accountability framework and the last EB approved accountability and oversight policy (DP/2008/16/Rev. 1), UNDP is fully committed to ensuring management accountability in the use of funds in implementing programmes and managing its offices. In taking a risk based approach to focus on key areas, management has established the top 8 audit-related management priorities for 2014-2015 that are reflective of the issues identified and raised in the 2014 OAI Annual Report. Strong accountability and oversight provide an effective foundation for achieving the results of the 2014-2017 Strategic Plan in an efficient and effective manner, while appropriately managing risks in some of the world’s most challenging operating environments. Management welcomes OAI’s critical role in the achievement of the Strategic Plan.