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**Second regular session 2004**

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Item 12 of the provisional agenda

**Internal audit and oversight**

**Proposed framework for resolution of issues  
contained in internal audit reports**

Background

1. UNDP, UNFPA and UNOPS have prepared this joint report in response to Executive Board decision 2004/17, which requested the three organizations to develop a framework for the resolution of the issues contained in the reports on internal audit and oversight (DP/2004/27, DP/FPA/2004/6 and DP/2004/28) and to report to the Board at its second regular session 2004.

2. The joint report outlines current practices in the three organizations for ensuring implementation of audit recommendations and proposes a framework for resolving especially those issues that are of global, organization-wide significance. The proposed framework contains sample entries. It is not intended at this point to present an exhaustive list of the issues identified in the reports submitted to the Executive Board at the annual session in June 2004 or the measures taken to address them. The Board is requested to provide feedback on the proposed framework.

I. CURRENT PRACTICE AT UNFPA FOR FOLLOWING UP ON AUDIT  
RECOMMENDATIONS

3. UNFPA uses a comprehensive audit and recommendation database system (CARDS) to follow up on the audit recommendations issued as a result of the management audit of country offices and headquarters units. When an audit report is issued, the report, the individual recommendations and the comments from management are entered in the database by staff of the Fund's Audit Services Branch. The Audit Services Branch informs the concerned country office of the need to regularly update the status of the implementation of recommendations in CARDS. Starting in 2003, the Geographical Divisions have been provided access to the database and have been entrusted with the responsibility for monitoring the implementation of audit recommendations in their respective regions. The Audit Services Branch is responsible for monitoring the implementation of the audit recommendations in respect of the management audit of headquarters units and headquarters-based operations. It is important to highlight that it is the responsibility of the country offices and concerned divisions to prepare and update an action plan and to ensure implementation of recommendations specific to their unit.

4. With regard to projects executed by Governments and non-governmental organizations (NGOs), country offices and divisions are required to submit together with the audit reports, an assessment of the compliance of the reports with the auditing requirements contained in the UNFPA Financial Manual and a follow-up action plan for the implementation of the recommendations that has been agreed to with the executing agencies. An evaluation of the reports is prepared by the Audit Services Branch. This exercise includes the verification of the status of the implementation of the recommendations of the previous year, as reported by the auditors.

5. The annual performance review of senior managers takes into consideration the overall opinion given during management audits of the organizational units they manage and, where applicable, the performance of the unit in meeting the requirements for audits of projects executed by Governments and NGOs.

## II. CURRENT PRACTICE AT UNDP FOR FOLLOWING UP ON AUDIT RECOMMENDATIONS

6. With regard to the follow-up of internal audit recommendations issued as a result of the management audit of country offices and headquarters units, the UNDP practice is the same as the UNFPA practice. UNDP, like UNFPA, uses CARDS to help ensure satisfactory follow-up of the recommendations

7. With regard to projects executed by Governments and NGOs, the UNDP practice is also the same as the UNFPA practice. Both UNDP and UNFPA require country offices to submit their follow-up action plans for the implementation of the recommendations that have been agreed to with the executing agencies. Presently each UNDP office has its own system for ensuring satisfactory follow-up of audit recommendations. To improve the efficiency of the follow-up UNDP is exploring modifying CARDS and making it available to country offices.

8. UNDP also considers audit results, both of the office and of projects executed by Governments and NGOs, in the performance assessment of senior managers.

## III. CURRENT PRACTICE AT UNOPS FOR FOLLOWING UP ON AUDIT RECOMMENDATIONS

9. UNOPS practice is similar to that of UNFPA and UNDP. All audit recommendations are entered in the CARDS database by the UNDP Office of Audit and Performance Review (OAPR).

10. The main difference is that the follow-up of audit recommendations, by OAPR, takes place outside of CARDS. UNOPS is considering using CARDS to facilitate its monitoring of the implementation of the recommendations and to regularly update the implementation status. It is important to note that each division or unit in UNOPS is responsible for implementing its plan of action to address the audit findings and recommendations.

11. Under the current practice, after the issuance of the final audit report a follow-up by OAPR takes place in the ensuing months to ascertain the status of stated actions and confirm that they have indeed been carried out. Between nine to twelve months after the issuance of an audit report, OAPR issues a final status report to the Executive Director. The final status report indicates the status as to the actions

taken on the recommendations contained in the audit report. The final status report also includes OAPR views and comments, as appropriate, with regard to the progress made and any outstanding matters that may require further management action.

#### IV. THE PROPOSED FRAMEWORK

12. The table below is a schematic presentation of a proposed framework for monitoring progress in addressing the significant issues identified in the internal audit reports and highlighted in the annual report to the Executive Board. This framework is in addition to the existing practices that each organization has for following up: (a) internal audit recommendations issued as a result of management audits; and (b) audit recommendations made by the auditors of projects executed by Governments and NGOs. It delineates the steps taken by UNDP, UNFPA and UNOPS executive heads to date or the measures that are planned to address the concerns and issues. The table includes only a sample of issues drawn from the annual reports on internal audit and oversight activities in 2003 presented to the Executive Board at the annual session in June 2004. The table is not intended to be exhaustive. As per decision 2004/17, it includes concrete objectives, a timeframe and indicators for each issue to be resolved.

<b>Issue identified in annual report on internal audit and oversight</b>	<b>Strategy for addressing issue</b>	<b>Timeframe</b>	<b>Indicator of progress/completion</b>
<b>UNFPA</b>			
Staffing constraints due to delays in recruitment.	Division for Human Resources and Geographical Divisions will ensure that the new country office typology is implemented and all authorized posts are filled in a timely manner.	December 2004.	Decrease in the number of vacancies.
Assessment of the capacity of organizations selected to implement projects.	Technical Support Division will develop guidance to assess organizational capacity. In the meantime, an interim checklist for assessing the capacity of implementing agencies is being finalized and will be used by country offices and divisions.	Ongoing.	Documentation of assessments is available.

<b>Issue identified in annual report on internal audit and oversight</b>	<b>Strategy for addressing issue</b>	<b>Timeframe</b>	<b>Indicator of progress/completion</b>
Country offices' compliance with the organizational procedures regarding procurement.	Emphasize the need to strengthen this area during the Operations Managers training in August 2004. Controls over procurement were also strengthened with the implementation of Atlas, the new software.	September 2004 onwards.	Fewer comments in audit reports on non-compliance with established procedures.
Audit scope coverage of nationally executed projects.	United Nations Development Group inter-agency audit task group has been reviewing the matter and is scheduled to issue technical notes on the terms of reference for the conduct of audits. Audit Services Branch will ensure that the notes are communicated to the country offices.	December 2004.	Fewer comments on inadequate audit scope coverage in the evaluations prepared by the Audit Services Branch in the 2004 project audits.
<b>UNDP</b>			
Various problems with the administration of special service agreements and service contracts, including lack of competitive recruitment.	Office of Human Resources is drafting a new framework for these contract modalities, which will provide better guidance to offices and, therefore, minimize the inconsistencies.	Due to the complexity of issues and the need to coordinate decisions with the rest of the United Nations system, the comprehensive policy is not likely to be finalized until 2005. However, components that do not require coordination with the rest of the United Nations system will be completed in 2004.	Completed framework for the administration of special service agreements and service contracts.

<b>Issue identified in annual report on internal audit and oversight</b>	<b>Strategy for addressing issue</b>	<b>Timeframe</b>	<b>Indicator of progress/completion</b>
In some instances UNDP country offices provide services to United Nations organizations – e.g., recruitment, procurement, contract administration and banking services – in the absence of a clear understanding of UNDP accountabilities.	Most of the issues relate to the contracting of individuals and therefore will be addressed by UNDP as part of the broader review of the policy framework for contracting individuals. UNDP also plans to send improved guidance to country offices regarding their responsibilities.	Mid-2005.	Completed framework for the administration of special service agreements and service contracts. Improved guidance issued.
Monitoring of submissions to the Advisory Committee on Procurement (ACP) needs to be improved.	UNDP plans to introduce a new online ACP submission system. With the new system there will be more pre-reviews and weekly meetings which will help to filter any submissions which have had small problems in the past and which, otherwise, would have been approved outright.	December 2004.	New system implemented.
<b>UNOPS</b>			
Careful monitoring of budget revision and expenditure control of multisectoral rehabilitation, reconstruction and development project in Papua New Guinea, taking into consideration the absence of adequate funding necessary to support planned activities.	Strict expenditure and activity monitoring through Atlas use.	Ongoing.	Only Atlas-recorded and approved budget use taking place.

<b>Issue identified in annual report on internal audit and oversight</b>	<b>Strategy for addressing issue</b>	<b>Timeframe</b>	<b>Indicator of progress/completion</b>
Cluster of projects in Afghanistan: (a) establishment of an annual administrative budget for the UNOPS implementation facility unit on the basis of need, in order to monitor and control the overall administrative cost of running the facility; and (b) compliance with financial regulations and rules to enter into commitments only once both parties have signed the relevant project document and the required funds have been received.	Senior Legal Officer, UNOPS headquarters, to undertake full operating framework and modalities review.	Third quarter 2004, with review completion and new operating framework in place by end of 2004.	Fully satisfactory operating framework adhered to.
IFAD loan administration activities: the loan administration unit should shift its focus towards liaison with the client, oversight of UNOPS services to IFAD, monitoring of loan status, central record keeping, development and standardization of UNOPS internal policies and procedures, and training and provision of ad hoc advice to UNOPS staff in loan administration.	Annual client review meeting; refocusing of unit work as part of overall change management initiative.	First review meeting conducted in April 2004 and refocusing of unit work completed by end of 2004.	Increased client satisfaction demonstrated through maintained business.
Information technology policies: (a) establishment of written policies on firewall and router administration; and (b) designation of an information security officer.	New Chief Information Officer on board as of July 2004.	Policy under preparation.	Policy is applied and information security officer designated.

13. UNDP, UNFPA and UNOPS would like to propose that starting from 2004 the format of the report on internal audit and oversight activities be revised to present findings in the above-given schematic form instead of the narrative format currently used, if the Executive Board considers the schematic form of presentation more useful. The reports of the three organizations would include the major findings that have implications for the overall risk faced by the respective organization, as well as internal control weaknesses identified in different offices. The reports would be used to monitor the implementation of recommendations and would be reviewed periodically by the organizations' oversight committees. The CARDS database would continue to be used for monitoring the implementation of recommendations on a more detailed level.

#### V. RECOMMENDATION

**14. The Executive Board may wish to take note of the present document (DP/2004/CRP.8 – DP/FPA/2004/CRP.5) and welcome the format for future reports.**

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