



AUDIT

OF

UNDP ENTERPRISE RISK MANAGEMENT

Follow-up of OAI Report No. 1181 dated 4 April 2014

Report No. 1576
Issue Date: 28 January 2016



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**Report on Follow-up Audit of UNDP Enterprise Risk Management
(Previous OAI Report No. 1181, 4 April 2014)
Executive Summary**

From 14 to 18 December 2015, the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP) conducted an on-site follow-up audit of UNDP Enterprise Risk Management (ERM). This on-site follow-up audit was undertaken, in addition to regular desk reviews, in view of the 'unsatisfactory' audit rating assigned by OAI as a result of an audit per Report No. 1181 dated 4 April 2014. The follow-up audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Audit scope and approach

The follow-up audit reviewed the implementation of three audit recommendations. OAI conducted appropriate tests of activities by the Bureau for Management Services (BMS), formerly Bureau of Management, and interviewed management and staff concerned to determine whether the reported corrective actions were indeed implemented, as reported by BMS in the Comprehensive Audit and Recommendation Database System (CARDS).

Audit results

BMS had initiated action on all three recommendations. However, OAI assessed that the full implementation of these recommendations remained in progress.

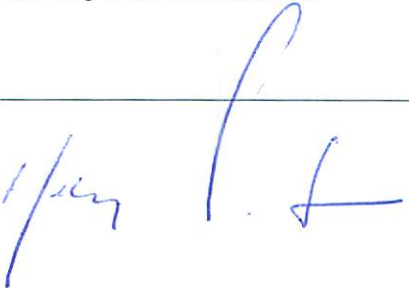
Implementation status	Number of recommendations	Recommendation Nos.
Implemented	0	-
In progress	3	1,2,3
Not implemented	0	-
Withdrawn	0	-
Total	3	

The detailed implementation status of the three recommendations has been updated by OAI in CARDS.

Section I summarizes the three recommendations that have yet to be fully implemented. OAI encourages BMS to continue to take appropriate actions to address these recommendations. OAI will continue to monitor the progress of the implementation of these recommendations as and when updates are provided by the Office in CARDS.

Management comments and action plan

The Director of BMS provided the revised implementation dates for the outstanding recommendations.



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Director
Office of Audit and Investigations

I. Details of recommendations not yet implemented

Rec. No.	Recommendation	Implementation status reported by BMS	OAI assessment of implementation status
1	Follow up on the implementation of, and strengthen the reporting on the five steps of the risk management cycle (identification, assessment, prioritization, taking action, and monitoring and reporting) at all levels of the organization.	<p>In Progress</p> <p>Last update by management as per CARDS: The ERM Committee has been reconstituted with a higher level of representation, reporting lines and clarity of roles. The Committee has convened its first meeting.</p>	<p>In Progress</p> <p>BMS had taken a number of actions towards addressing the recommendation. These included setting up an ERM Committee (that met twice in 2015, although the Committee's Terms of Reference require it to meet on a quarterly basis), and working on developing a new risk log (via UNDP's Corporate Planning System).</p> <p>BMS was also working on other areas across the risk management cycle. These included policies, procedures and guidance on risk identification and assessment, prioritization, as well as monitoring and reporting (through the 'Policy on Enterprise Risk Management' and/or the 'Enterprise Risk Management Manual').</p> <p>Regarding risk identification, the sub-categories presented in the draft Policy (Appendix I of the Policy) were incomplete in their presentation, with some setting out actual risks (e.g. 'human rights violations', 'infrastructure failure', 'political instability') and others just setting out the areas under which risks may be identified (e.g. 'working conditions', 'project management', 'procurement'). BMS explained that most of the categories were derived from programme such as the Social and Environmental Standards.</p> <p>The ERM function was not clearly assigned within BMS, as the staff member who held the role (Management Specialist – Business Continuity and ERM) had been out of the office since 1 November 2015 on an extended assignment, with an expected return date of 1 February 2016. Additionally, there appeared to be a weak knowledge transfer/knowledge management mechanism in place within BMS, as OAI had to reach out to the Management Specialist for information and documentation about actions taken in response to the 2014 audit.</p>

Rec. No.	Recommendation	Implementation status reported by BMS	OAI assessment of implementation status
			<u>Agreed revised implementation date:</u> 30 June 2016
2	Harmonize and better integrate risk management processes and tools at all levels of the organization.	<p><u>Implemented</u></p> <p>Last update by management as per CARDS: A new tool for recording risks has been designed and integrated into the Corporate Planning System. The new risk register has to: (a) change the status of risks (increasing/decreasing/no change) which would depict the dynamic risks; and (b) provide space for recording comments to facilitate formal communication concerning risk as agreed in the management action plan.</p>	<p><u>In Progress</u></p> <p>BMS was developing a new risk management policy and procedures were set out in the draft 'Policy on Enterprise Risk Management'. The Policy was expected to be submitted to the Executive Group in January 2016.</p> <p>At the time of the audit, the 'Enterprise Risk Management Manual' was in draft form, with an expectation that it would be finalized and issued once the relevant tools were ready. There was no expected finalization or issue date for the Manual.</p> <p>BMS, the Executive Office and the Office of Information Management and Technology were in the process of developing a new risk log that would form part of UNDP's Corporate Planning System. At the time of the audit, the corporate risk log tool within the Integrated Work Plan was in development, with an expectation to roll out the first version of the tool in early 2016. Elements of the Policy were reflected in the risk log template being developed, including the risk 'Consequence' categories and scoring. However, the 'Risk Categories', which BMS indicated would be included in the first version of the template that would go live in early 2016, were not included in the template.</p> <p>Other functionalities, such as a process for aggregating project-level and business unit-level risks, or a mechanism for escalating risks, were not included in the template shared with OAI at the time of the audit. BMS indicated that some of these functionalities were expected to be added in 2017.</p> <p>There was no project plan in place that would encompass the design, rollout and key milestones of the risk log.</p> <p><u>Agreed revised implementation date:</u></p>

Rec. No.	Recommendation	Implementation status reported by BMS	OAI assessment of implementation status
			31 December 2016
3	Building on lessons learned from the Enterprise Risk Management implementation since 2007, best practices and standards, as well as the changing business model of UNDP, new Strategic Plan and availability of various technological tools, UNDP should redesign the related policy, tools and practices, as appropriate, and identify the level of resources that would be necessary for a successful organization-wide update and maintenance.	<p><u>Implemented</u></p> <p>Last update by management as per CARDS: The review as agreed in the management actions was completed in November 2014. The BMS Directorate has completed the agreed management action and this recommendation should be closed.</p>	<p><u>In Progress</u></p> <p>In response to the recommendation, BMS hired consultants to conduct a study relating to the 'Risk and Resilience Framework for UNDP'. The report was issued in November 2014 and it included 14 recommendations for UNDP. The consultants also prepared the draft Policy and Manual for UNDP.</p> <p>Of the 14 recommendations in the report, 9 were still in progress, 2 had not been started, 2 had been completed, and 1 was not applicable. Most of the items in progress relate to ERM policies, procedures, tools and training. Of the nine items still in progress (including clarifying roles and responsibilities, revising the criteria model, creating clear manuals/instructions, updating tools and making ERM a continuous process), five relate to the ERM Policy.</p> <p><u>Agreed revised implementation date:</u> 30 September 2016</p>

ANNEX Definitions of audit terms – implementation status, ratings and priorities

A. IMPLEMENTATION STATUS

- **Implemented** The audited office has either implemented the action as recommended in the audit report or has taken an alternative solution that has met the original objective of the audit recommendation.
- **In progress** The audited office initiated some action to implement the recommendation or has implemented some parts of the recommendation.
- **Not implemented** The audited office has not taken any action to implement the recommendation.
- **Withdrawn** Because of changing conditions, OAI considers that the implementation of the recommendation is no longer feasible or warranted or that further monitoring efforts would outweigh the benefits of full implementation. A recommendation may also be withdrawn when senior management has accepted the residual risk of partial or non-implementation of recommendation.

B. AUDIT RATINGS

- **Satisfactory** Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity.
- **Partially Satisfactory** Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity.
- **Unsatisfactory** Internal controls, governance and risk management processes were either not established or not functioning well. The issues were such that the achievement of the overall objectives of the audited entity could be seriously compromised.

C. PRIORITIES OF AUDIT RECOMMENDATIONS

- **High (Critical)** Prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP.
- **Medium (Important)** Action is required to ensure that UNDP is not exposed to risks that are considered moderate. Failure to take action could contribute to negative consequences for UNDP.
- **Low** Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are not included in this report.