UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP ENTERPRISE RISK MANAGEMENT SYSTEM

Report No. 1181

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Report on the audit of UNDP Enterprise Risk Management System
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of the UNDP Enterprise Risk Management (ERM) system from 10 June to 2 August 2013. The audit assessed the adequacy of UNDP's ERM policy and practices at all levels of the organization (Headquarters, Country Office and project levels) as they relate to the quality and usage of risk management tools and reports. The audit did not cover the assessment of the adequacy or reasonableness and impact of management actions in managing various risks at UNDP.

OAI viewed the adequacy of UNDP's ERM policy and practices from two angles: First, OAI assessed the extent of compliance by comparing the ERM practices with existing ERM policies and procedures. Second, OAI identified areas for improvement by comparing these ERM policies and practices against internationally recognized standards on risk management, best practices of other organizations and benchmarking studies.

At the corporate level, OAI assessed the ERM function exercised by the Bureau of Management (as the secretariat of the ERM Committee) and ERM Committee (merged within the Organizational Performance Group since 2011). At the operational level, OAI reviewed a sample of 4 Headquarters bureaux, 5 Country Offices, and 18 development projects, which were all selected based on specific criteria, such as the size of offices, project expenditure level, different risk types as defined in UNDP's risk management policy, geographical range, and experience from past audits.

The audit covered the relevant ERM activities during the period from 1 January 2011 to 30 June 2013. While adequacy of the risk management system is generally covered in all of OAI audits, this was the first audit of the ERM system per se since the ERM policy was approved in 2007.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Overall audit rating

OAI assessed the UNDP ERM system as **unsatisfactory**, which means "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." This rating was mainly due to inadequate implementation of the ERM cycle at various levels of the organization and the breadth of improvements in policy, tools and practices that are needed when compared with internationally recognized standards, good practices of other organizations, and benchmarking studies relating to ERM.

OAI noted that risk management activities take place in UNDP, in different realms, involving different actors and levels of the organization, and oftentimes on an ad-hoc and informal basis. OAI noted, however, that oftentimes risk management activities were not channeled through the ERM structures, procedures and systems.

OAI also recognized that the implementation of ERM can be a challenging and transformative endeavor, particularly given UNDP's decentralized business model and the widespread geographical presence. In such contexts, successful implementation of ERM calls for sustained improvements and adjustments before it could be effectively integrated across all activities of the organization.

In Country Offices and Headquarters bureaux, there was in general, limited appreciation of the existing formal corporate ERM mechanisms as business units generally did not see the value-added/benefit of reporting risks and ERM was not sufficiently integrated in the actual decision-making process of the organization.

OAI recognized that this point was addressed in the Operation Support Group handover note of September 2011 to the Bureau of Management, in which it provided lessons learned on ERM implementation since its introduction in UNDP in 2007. The note states that the main challenge for ERM "rests with its proactive use as it is still perceived as a stand-alone, and not linked to actual decision-making", including resource allocation and support.

Key recommendations: Total = **3,** high priority = **2**

For high priority (critical) recommendations, 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. All high (critical) priority recommendations are presented below:

Weaknesses in the risk management cycle at corporate and operational levels (Issue 1)	At the corporate level, there were infrequent reviews and updates of the corporate risk log. At the operational level, while risk identification was mostly carried out in a systematic manner, there was limited evidence of follow-up and review of initial risk logs, including the implementation of mitigating actions and an assessment of residual risks. Overall, the quality of information recorded in risk logs at the operational level was low. This creates the risk that critical risks are not evaluated, responded to, monitored, and/or escalated to the appropriate levels.

Recommendation: 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. |
| Weaknesses in existing ERM policy and practices (Issue 4) | OAI noted a range of weaknesses in the existing ERM policy and practices when compared to internationally recognized standards of risk management and good practices, particularly on the following principles: (a) definition of roles, responsibilities and resources; (b) integration of ERM with existing management and decision-making processes; (c) usefulness and user-friendliness of systems, tools and guidance; and (d) critical mass of knowledge and understanding of ERM procedures and requirements.

Recommendation: Building on lessons learned from the ERM implementation since 2007, and considering best practices on risk management, redesign the ERM policy, procedures, tools and practices, as appropriate, and identify the level of resources that would be necessary for a successful organization-wide update and sustainability of ERM. |

Management comments and action plan

The Director of the Bureau of Management accepted all the recommendations and is in the process of implementing them. Comments and/or additional information provided have been incorporated in the report, where appropriate.

Issues with less significance (not included in this report) have been discussed directly with management and actions have been initiated to address them.

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