UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

PERFORMANCE AUDIT

OF

UNDP ENTEPRISE RISK MANAGEMENT

Report No. 2319
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Report on the Performance Audit of UNDP Enterprise Risk Management
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted a performance audit of UNDP Enterprise Risk Management (ERM) from 8 to 31 March 2021. Performance auditing is an independent examination of an entity to assess whether the entity is achieving economy, efficiency, and effectiveness in the employment of available resources.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. Due to the COVID-19 pandemic, the audit was conducted remotely.

The audit aimed to assess the design and performance of UNDP's ERM Framework, and the extent to which the ERM objectives were likely to be achieved.

This included, but was not limited to the governance, roles and responsibilities, policies and procedures of ERM (including risk identification, assessment, escalation, mitigation and review), as well as the role, composition and functioning of the Risk Committee. The audit also formulated observations on the use of ERM as a management tool for high-risk decisions.

The audit addressed the following performance audit questions:

1. **Is the UNDP ERM Framework effectively established and functioning?**

   1.1 To what extent does the UNDP ERM Framework including policies and procedures align with international risk management standards and frameworks?
   1.2 To what extent is UNDP's governance (roles & responsibilities, organizational structure, committees, etc.) established to enable effective ERM in the organization?

2. **Are UNDP's ERM practices, tools and systems effective in capturing, assessing and managing risks across the organization (at HQ, Regional and Country Office levels, as well as at the project level) in line with the ERM policy objectives?**

   2.1 Are UNDP's ERM practices effective in capturing, assessing and managing risks across the organization?
   2.2 Are UNDP's tools and systems effective in capturing, assessing and managing risks across the organization?
   2.3 Is ERM training and guidance effective in enabling personnel to capture, assess and manage risks across the organization?

Overall audit rating

OAI assessed Enterprise Risk Management within UNDP as **satisfactory/some improvement needed**, which means, "The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area." This rating was mainly due to weaknesses in risk identification practices and updating of risk logs.

Key recommendations: Total = **6**, high priority = **1**

The six recommendations aim to ensure the following: (a) achievement of the organization's strategic objectives (Recommendations 1, 2, 3, 4, and 5); and (b) the effectiveness and efficiency of operations (Recommendation 6).

For the high (critical) priority recommendation, 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. The high (critical) recommendation is presented below:

<u>Weaknesses in risk identification practices and updating of risk logs (issue 4)</u>

The audit reviewed the Corporate Planning System (CPS) risk registers for HQ and Regional bureaus, including the country offices, from 2019 to 2021 and observed that the majority of risks remained unchanged over this period. In particular, the audit noted: (i) risks rolled over to subsequent years; with no change in the validity dates; (ii) there was limited information on steps taken to mitigate or close risks; and (iii) risks with a potential impact in 2016 were appearing in the 2019-2021 risk registers.

The audit team reviewed the Project Risk Dashboard and the CPS risk registers of 23 Country Offices that were audited by OAI from January 2020 to March 2021 and noted that only 2 out of the 20 high risks identified by the auditors were reflected in the offices' risk registers. The majority (73 percent) of the risks identified by the Country Offices in the risk registers were related to external events, such as political instability, security, etc., whereas the risks identified within audit reports were related to internal issues, such as project management, procurement and financial sustainability. The audit noted that of the 4,036 projects listed[1], 596 were without risk entries while another 585 other projects had incomplete risk entries.

Recommendation:

OAI recommends all Regional Bureaux ensure risks are comprehensively identified, recorded and followed up, at the project, country and bureau level.

The issue of incomplete risk registers was also noted in the 2020 audit completed by the UNBOA.

UNBOA's recommendations were as follows:

    (a)   country offices should record project related risks for all projects and ensure that risk entries are complete; and
    (b)   directors of bureaux should fulfil their responsibilities with regard to enterprise risk management ensuring that offices under their supervision include risks relating to internal issues.

OAI subscribes to the audit recommendations raised by UNBOA. In coordination with the UNBOA, and to avoid duplication, OAI agreed with the UNBOA that the implementation of their recommendation by UNDP will address OAI's issue and recommendation.

Management comments and action plan

The Assistant Administrator and Director of BMS and the Assistant Administrators and Directors of the relevant Bureaux accepted the six[2] recommendations and are in the process of implementing them. Comments and/or additional information provided have been incorporated in the report, where appropriate.

Low risk issues (not included in this report) have been discussed directly with management and actions have been initiated to address them.

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Helge S. Osttveiten
Director
Office of Audit and Investigations

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[2] Recommendation 4, 'weaknesses in risk identification practices and updating of risk logs' was included within UNBoA 2020 long form report issued 22 June 2020 and was accepted by UNDP.