United Nations Office for Project Services (UNOPS)
Audit Advisory Committee
Annual report 2017
(DP/OPS/2018/3 – Annex 3)

A. Background ..................................................................................................................................... 2
B. Committee members and meetings in 2017 .................................................................................... 2
C. Reporting to the Executive Board ................................................................................................... 2
D. External audit .................................................................................................................................. 3
E. Internal audit and investigations ..................................................................................................... 3
F. Ethics ............................................................................................................................................... 4
G. Financial matters ............................................................................................................................. 4
H. Risk management systems .............................................................................................................. 5
I. Management information systems .................................................................................................. 6
J. Committee working methods .......................................................................................................... 6
K. Conclusions ..................................................................................................................................... 7
A. Background

1. The Audit Advisory Committee (“Committee”) of the United Nations Office for Project Services was established in 2015 in accordance with Executive Board decisions 2015/4 and 2015/12 on the Committee’s terms of reference laid out in DP/OPS/2015/CRP.1.

2. Pursuant to the Committee’s terms of reference, its purpose is to assist the Executive Director in fulfilling his/her responsibilities regarding oversight, financial management and reporting, internal audit and investigation, external audit, risk management, and systems of internal control and accountability. The primary role of the Committee is to advise the Executive Director, taking into consideration the financial and staff regulations and rules as well as the policies and procedures applicable to UNOPS and its operating environment.1

3. The Committee held its inaugural meeting on 4 March 2015 and operates under the terms of reference laid out in the organizational directive number 5, revision 5 of 1 September 2015.

4. This annual report, covering the period 1 January and 31 December 2017, submitted at the request of the Executive Board (decision 2008/37, DP/2009/2), is pursuant to section 31 of the Committee’s terms of reference.

B. Committee members and meetings in 2017

5. For the period from 1 January to 31 December 2017, the Committee comprised the following members, all of whom confirmed their independence in fulfilling their function:
   a. Anni Haraszuk (Chair)
   b. Robin McPhail
   c. Bente Svensson
   d. Bhaskar Subramanian

6. During 2017, the Committee convened for its eighth to tenth meetings in March, May and November. Meetings were attended by the UNOPS Executive Director, Deputy Executive Director, Director of the Internal Audit and Investigations Group (IAIG), and the Chief Financial Officer. Representatives of the United Nations Board of Auditors (UNBOA) engaged with the Committee on relevant matters. Additionally, throughout the year the Committee invited members of the senior management team and selected technical experts for deliberation on specific topics. Pursuant to section 15 of the Committee’s terms of reference, UNOPS provided secretariat support. The Committee commends the substantive quality and timeliness of the secretariat support.

C. Reporting to the Executive Board

7. Pursuant to section 2 of its terms of reference, the Committee provided independent advice to the Executive Director and UNOPS management on governance reports to the Executive Board.

8. Throughout the year, the Committee reviewed and provided advice on relevant governance reports and followed the outcomes of UNOPS official reporting to the Executive Board, including:
   a. Report of UNOPS on the status of implementation of the recommendations of the Board of Auditors for 2015 (DP/OPS/2017/1)
   b. Annual report of the Executive Director (DP/OPS/2017/2), including annex 3 – financial highlights
   c. Activity report for 2016 of the Internal Audit and Investigations Group (DP/OPS/2017/3)
   d. Activities of the UNOPS Ethics Officer in 2016 (DP/OPS/2017/4)

1 In the period 2007-2014, the UNOPS Strategy and Audit Advisory Committee (SAAC) fulfilled these functions and responsibilities in accordance with its terms of reference.
e. UNOPS strategic plan, 2018-2021 (DP/OPS/2017/5)
f. UNOPS biennial budget estimates, 2018-2019 (DP/OPS/2017/6)
g. Financial report and audited financial statements for the year ended 31 December 2015 and report of the Board of Auditors (A/71/5/Add.11)

D. External audit

9. Pursuant to sections 6.e, 6.f, 6.g, and 6.h of its terms of reference, the Committee reviewed and advised on external audit matters.

10. The Committee was updated on the status of UNBOA recommendations under implementation throughout the year, including the UNBOA performance audit on sustainability in project management and infrastructure services in UNOPS. The Committee noted that the performance audit had been performed on a basis of the UNOPS strategic plan, 2014-2017, and to some extent the UNOPS midterm review conducted in 2016.

11. The Committee discussed the recommendations made by UNBOA in the performance audit and commended the responses provided by UNOPS. The Committee particularly discussed the recommendation related to UNOPS reporting on outcomes of its work in order to further emphasize contributions to sustainability. In its response, UNOPS had highlighted that in the midterm review performed in 2016, a differentiation had been made between, on the one hand, UNOPS creating efficiencies with indirect effect for the outcomes of partners’ projects and, on the other, engagement where the UNOPS technical expertise could have a more direct effect on the outcomes. The Committee advised that UNOPS, in its strategic plan, may consider establishing a clearer position on its role in relation to the Sustainable Development Goals (SDGs).

12. The Committee noted that this was a performance audit, and advised that the recommendations should primarily be considered as suggestions for improvements. It emphasized the importance of ensuring that recommendations are within the remit of the UNOPS mandate. The Committee noted that the interaction and cooperation with the UNBOA team had been constructive and that the team had been complimentary with regard to UNOPS positioning on the sustainability agenda and its advancements in this area. The Committee furthermore commended UNOPS for being on track with addressing UNBOA recommendations.

13. During the year, the Committee Chair engaged with the Joint Inspection Unit (JIU) and UNOPS management in relation with the ongoing JIU review of UNOPS management and administration.

E. Internal audit and investigations

14. Pursuant to sections 6.e, 6.f, 6.h of its terms of reference, the Committee reviewed and advised on internal audit matters.

15. During the year, the Committee reviewed the IAIG ongoing work plan, as well as its 2018 plan and future vision. The Committee noted IAIG enhanced use of data, such as the continuous auditing tool and the oversight recommendations dashboard. It encouraged the vision to further leverage information technology through data analytics, which could enable provision of assurance in a more efficient manner.

16. The Committee discussed organizational risks identified by IAIG, and the importance to focus audit recommendations on key risk and capabilities in need of strategic improvement. The Committee took note of IAIG recommendations to further enhance the strategic and proactive approach of the UNOPS treasury function.

17. The Committee discussed the evolvement and value-added of the enterprise resource planning (ERP) system, oneUNOPS. The Committee advised that, as more processes are built into oneUNOPS, it would, when assigning recommendations, be important to clearly delineate between issues related to
the oneUNOPS system and non-system issues related to data quality, and organizational policies and instructions.

18. During the year, the Committee discussed the role of IAIG, including the external audit compliance assessment. It noted the potential of IAIG to further strengthen its role as a strategic business partner for management. The Committee suggested that, in order to ensure that observations and recommendations are founded on a solid understanding of the organization, it may be helpful to reduce the reliance on external consultancy assessments and reviews.

19. The Committee commended UNOPS continued efforts in enhancing monitoring and implementation of oversight recommendations, including the establishment of a composite key performance indicator to focus efforts on recommendations requiring address during the year. The Committee noted that the key performance indicator was being tracked on a quarterly basis through the corporate performance dashboard. The Committee commended UNOPS for maintaining a high implementation rate of internal audit recommendations.

F. Ethics

20. Pursuant to section 6.b of its terms of reference, the Committee reviewed and advised on Activities of the UNOPS Ethics Office (DP/OPS/2016/4), the UNOPS fraud and corruption prevention policy, the ethics function, including code of ethics, and whistle blower policy.

21. The Committee reviewed the 2016 annual report of the Ethics Officer. It noted the three main components of the work of the Ethics Office that had seen particular activity, including increased number of referrals to the Ethics Office, the launch of a pilot to further focus the UNOPS financial disclosure program, and whistle blower activity. The Committee also discussed the 2016 integrity, fraud and ethics awareness survey.

22. With regard to the financial disclosure programme pilot, the Committee noted that its purpose was to introduce relevant questions in the form that more effectively would identify potential conflict of interest. The Committee also noted that the Ethics Office was working with the UNOPS Legislative Framework Committee to review the organization’s whistle blower policy to align with the Secretary-General’s bulletin “Protection against retaliation for reporting misconduct and for cooperating with duly authorized audits or investigations” (ST/SGB/2017/2).

23. The Committee discussed an increase in the number of UNOPS personnel seeking ethics advice with regard to outside occupation, a matter relevant for all United Nations organizations. The Committee highlighted the importance of ensuring that there would be no conflict of interest among personnel considering the various UNOPS contracting arrangements. The Committee discussed potential of commissioning an external assessment of the Ethics Office. The Committee further highlighted the importance of raising awareness among UNOPS personnel of the Ethics Office and its functions, and suggested that a reference to the Ethics Office could be included in the employment contract of UNOPS personnel.

G. Financial matters

24. Pursuant to sections 6.c and 6.d of its terms of reference, the Committee advised on financial matters and related reporting.

25. During the year, the Committee discussed the 2017 performance against financial targets. It commended UNOPS for the 2016 indicative financial performance, which had indicated a strong financial year for the organization. The Committee also noted that the UNOPS financial statements now are fully compliant with International Public Sector Accounting Standards (IPSAS). It emphasized the possibility to further enhance financial analysis based on the IPSAS-compliant reporting. It discussed the UNOPS operational reserve requirement and level from a business risk perspective. The Committee also discussed the insourcing of treasury services.
26. The Committee discussed the draft main findings of the financial report and audited financial statements for the year ended 31 December 2016 of the Board of Auditors. The Committee noted the change in surplus, mainly driven by UNOPS net financial income and a reduction in administrative costs. It highlighted that the reduction indicates increased efficiency and sophistication in the organization with regard to identifying and attributing direct costs of projects that previously were ascribed to management funding.

27. During the year, the Committee discussed the introduction of the Quarterly Business Review (QBR), initiated for the purpose to establish a more frequent mechanism to review the organization’s delivery and address potential challenges and risks. The Committee noted that this approach could allow for re-assessment of efforts to support achievement of the UNOPS delivery and other key performance indicators, as well as forecasting for the coming quarter, which could develop into a more dynamic mechanism than the annual budget exercise.

28. The Committee reviewed the draft biennial budget estimates for 2018-2021. It noted that the budget estimates would target a positive net revenue, and that part of the UNOPS surplus could be allocated to address risk and strategic investments, in support of the UNOPS mandate and business model. The Committee discussed the possibility of establishing a general percentage for potential contingency/risk/liabilities based on the organization’s overall risk appetite. It suggested that it may be useful to explore examples from both the private and public sector.

29. The Committee was briefed on the UNOPS cost structure and discussed the breakdown of delivery in the UNOPS service lines and service types with regard to where most efficiencies potentially could be achieved based on internal improvements through, inter alia, knowledge management, process innovation and information and communications technology (ICT).

30. The Committee noted the UNOPS cost structures of various project types and discussed the differences in presentation of cost and perception of fees between the development sector and the private sector. The Committee highlighted that the private sector typically would present the total cost of a project based on the value add. The Committee suggested that UNOPS may consider presenting projects in a similar manner. This would allow for a more nuanced discussion of project costs and value. In addition, it could facilitate UNOPS to better demonstrate essential efficiencies.

H. Risk management systems

31. Pursuant to section 6.a of its terms of reference, the Committee reviewed and advised on the development and soundness of UNOPS risk management systems as per UNOPS financial regulations and rules, article 4, rule 104.03.

32. During the year, the Committee was kept abreast on the development of the enterprise risk management system (ERM), including the first qualitative risk review with focus on the UNOPS risk picture at the global level. The Committee discussed risks identified through the review, and how the organization best could balance ownership and openness of the risk review with control and oversight. It was highlighted that it would be important to ensure alignment between authority and responsibility in line with the Governance, Risk Management and Compliance framework. The Committee further suggested to revise the language in the risk review, in order to highlight upside risks.

33. The Committee suggested that it may be useful to highlight that the ERM is a management concept to be embedded within the culture and behaviour of the organization. The Committee further suggested that establishing a separate Risk Committee seemed to be redundant as the ownership of risks could be embedded with senior management via already existing management groups, thus demonstrating that a mechanism for oversight and coordination of risk management between headquarters and regions is in place.
34. The Committee highlighted the importance of quantifying risk exposure in order to enhance monitoring and management of risks. It suggested to more clearly distinguish between engagement risks that would need to be addressed by partners and engagement risks that would need to be addressed by UNOPS.

35. The Committee proposed to assess whether recognition of revenue could include a deferred component linked to the risks quantified in a project, i.e., recognizing a larger per cent of revenue, as the remaining risk in a project is reduced over time. In addition, it proposed UNOPS to explore the aggregate risk of smaller projects, which could increase overall risk exposure as less attention may be paid to individual smaller projects.

I. Management information systems

36. Pursuant to section 6.i of its terms of reference, the Committee reviewed and advised on the development and soundness of UNOPS management information systems.

37. During the year, the Committee discussed the ICT change process, which had been initiated to further develop the ICT function in support of the UNOPS business strategy. It noted that a Chief Information Security Officer position would be established. The Committee also noted the establishment of the ICT Strategic Advisory Panel, the first UNOPS forum for discussing strategic ICT matters. In addition, an Operational Advisory Panel would be established.

38. The Committee discussed the ICT strategy in relation to artificial intelligence, machine learning and external benchmarking. It noted the progress made in addressing recommendations from a cyber security risk assessment, and a fraud risk assessment performed by Deloitte. The Committee highlighted the importance of facilitating multilateral discussions between IAIG, ICT and other functions to ensure strategic framing and develop a joint plan for prioritized address of recommendations.

39. In relation to cyber security and ICT infrastructure stability, the Committee noted that all UNOPS ICT applications recently had been moved into a new application-hosting environment. In addition, UNOPS was evaluating and testing a new artificial intelligence-based threat monitoring and detection solution. In relation to information security, the Committee emphasized the importance of focusing on user behaviour and indicated that this would be an important area for a future Chief Information Security Officer.

40. The Committee noted that oneUNOPS was currently undergoing a realignment with its original vision, i.e., a platform integrating all information and system functions that the UNOPS business units uses and would need. In the context of developing corporate systems and data, and as UNOPS increasingly engages with partners in finding digital solutions, the Committee discussed the importance of securing a balance between preserving organizational agility while maintaining control of internal systems and data. The Committee commended UNOPS for deepening its value proposition and building expertise in the ICT area.

J. Committee working methods

41. The Committee confirmed its commitment as the Audit Advisory Committee to support and advise the Executive Director on critical matters, adding value to UNOPS and meeting mutual expectations.

42. The Committee discussed, in consultation with the Executive Director and Deputy Executive Director, the overarching themes for its advisory discussions based on its terms of reference. It was noted that the UNOPS external and internal audit, including collaboration between the two functions and the Committee, will be an important feature of the continuing advisory discussions of the Committee.

43. The Committee noted that the UNOPS management team – in order to leverage expertise, enhance the organization’s loop-learning, and add strategic value of the audit function to UNOPS operations –
will also constitute a central aspect to the Committee’s advisory discussions moving forward. Additionally, the importance of cross-fertilization between the Committee and the Strategic Advisory Group of Experts was highlighted. During the year, the Committee Chair met separately with members of the UNOPS management team on various occasions to discuss matters rendering Committee advice at future meetings.

44. With a view to enhancing the transparency, efficiency and effectiveness of communication within the Committee and with UNOPS management, the Committee worked to further leverage the UNOPS digital infrastructure and strengthen data security of documentation supporting its proceedings.

45. In 2017, the Committee chair participated in the second meeting of United Nations system oversight committees. It was highlighted that the second meeting had focused on the role of audit committees globally as well as within the United Nations, particularly in relation to enterprise risk management; cyber security and digital information; fraud and corruption; and the overall context of the 2030 Agenda for Sustainable Development.

K. Conclusions

46. Throughout 2017, UNOPS has identified opportunities to further optimize its contributions and value-added to the United Nations system and beyond. At the same time, UNOPS has kept focus on enhancing the management systems, guarding against risks that may affect the long-term sustainability of its unique self-financing business model. In its advisory capacity, the Committee has kept in focus the organization’s alignment with the direction and decisions of the General Assembly and Executive Board.

47. The Committee notes UNOPS continued solid financial performance and improvements in data analytics and efficiency analysis of financial performance, supporting financial projections and focused business planning. The Committee appreciates the overall UNOPS progress regarding financial matters, as evidenced by the 2016 report of the UNBOA. The Committee welcomed the new India team as external auditors for UNOPS.

48. The Committee commends UNOPS for its continued commitment to excellence and transparency in its business – and operational approach. The continued focus on implementation of oversight recommendations and introduction of quarterly benchmarking among the senior leadership demonstrate the extensive coordination and technical support provided to resolve audit issues. These efforts have resulted in a continuously high implementation rate in the past years for internal audit recommendations.

49. The year 2017 was an exceptionally active year for UNOPS in continuing to strengthen the organization’s risk management systems. Actions included conducting the first risk review of UNOPS at a global level, facilitated by, inter alia, data collection from the new ERP system. The Committee supports UNOPS approach to enhance its risk management systems gradually and its ongoing efforts to further enhance organizational efficiency and effectiveness, management and operational performance. Furthermore, the Committee notes the significant potential offered through a combination of these approaches and digital solutions.

50. Throughout the year, the Committee followed the efforts to further strengthen the UNOPS ICT component, including the development of the ICT strategy, increased attention to cyber and information security, and collaboration between ICT and functional practices to address risks related to cyber security and fraud. The continued development of ICT as a strategic tool for partners was highlighted. The Committee look forward to following the UNOPS journey in building further expertise in the ICT area.

51. The Committee notes the enhanced strategic focus of UNOPS mandate as articulated in relevant Executive Board decisions. The Committee also notes the Executive Board endorsement of the UNOPS strategic plan, 2018-2021, including the comparative advantages and technical expertise of the
organization. It notes the contributions UNOPS can make to the 2030 Agenda through: (a) enabling partners through efficient management support services; (b) helping people through effective specialized technical expertise; and (c) supporting countries in expanding the pool and effect of resources.

52. In addition to the areas outlined in the Committee’s terms of reference, areas for specific Committee focus in 2018 may include, inter alia:

a. Capabilities and execution focus for the UNOPS strategic plan, 2018-2021, for example, advancement of the social impact investment initiative, implementation for impact, and operationalization of the UNOPS governance, risk and compliance framework;
b. Value-added of OneUNOPS, including impact on the internal control environment, management reporting, data quality, analytical intelligence and operational efficiencies;
c. Risk management in relation to specific areas of exposure, for example, engagement acceptance, cyber security, digitalization, fraud and corruption;
d. Arrangements for working and partnering with other United Nations organizations, and the public and private sector;
e. Strategic improvements in the area of human resources, for example, the UNOPS gender parity strategy;
f. Engage in the 2018 JIU review of audit/oversight committees in the United Nations system; and
g. Continued development of the Committee’s working methods, including collaboration with key stakeholders: external audit, internal audit and senior management.

Anni Haraszuk
Chair, UNOPS Audit Advisory Committee
Copenhagen, March 2018