

**UNOPS Audit Advisory Committee**  
**Annual Report 2019**  
**(DP/OPS/2020/2 – Annex 3)**

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## A. Introduction

1. The UNOPS Audit Advisory Committee (the Committee) was established in 2015 in accordance with Executive Board decisions 2015/4 and 2015/12.<sup>1</sup>
2. This annual report covers the Committee's activities in 2019. It is submitted at the request of the Executive Board (decisions 2008/37 and 2015/4), and in accordance with section 37 of the Committee's terms of reference.
3. The Committee is composed of members who are external to UNOPS. In 2019, all members confirmed their independence in fulfilling their function. The members are:
  - a) Bente Svensson (Chair)
  - b) S. Bhaskar
  - c) Sheila Khama
  - d) Pablo Sanchez-Lozano
  - e) Paivi Rekonen
  - f) James H. Cottrell
4. During 2019, the Executive Director completed the revision of the Committee's terms of reference, announced to the Executive Board at the first regular session in 2019. The terms of reference is laid out in Executive Office Instruction "Audit Advisory Committee" ([EOI.ED.2019.02](#)).
5. Pursuant to the terms of reference, the purpose of the Committee 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, systems of internal control and accountability, and application of best practices and industry standards for strategy implementation.
6. 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.
7. During 2019, the Committee held four meetings (March, May, September and December). Through these meetings the Committee was able to carry out its mandate of providing advice to the UNOPS Executive Director in mandated areas.
8. In December 2019, the Chair participated in the fourth meeting of the United Nations system oversight committees.
9. Throughout the year the Executive Director provided secretariat for the Committee. The Committee commended the substantive quality, effectiveness and timeliness of support provided by the executive secretariat.

## B. External governance by the Executive Board

10. 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) Annual report of the Executive Director ([DP/OPS/2019/2](#))
  - b) UNOPS annual report on the recommendations of the Joint Inspection Unit ([DP/OPS/2019/2 – Annex 4](#))
  - c) Proposal to establish a UNOPS Client Board to replace the Policy Advisory Committee ([DP/OPS/209/CRP.1](#))
  - d) Activities of the UNOPS Ethics Office in 2018 ([DP/OPS/2019/3](#))
  - e) UNOPS: Annual report of the Internal Audit and Investigations Group on internal audit and investigations activities in 2018 ([DP/OPS/2019/4](#))

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<sup>1</sup> In the period 2007-2014, the UNOPS Strategy and Audit Advisory Committee (SAAC) fulfilled the functions of the Committee.

- f) UNOPS budget estimates for the biennium 2020-2021 ([DP/OPS/2019/5](#))
- g) Report of the Advisory Committee on Administrative and Budgetary Questions on the UNOPS budget estimates for the biennium 2020-2021 ([DP/OPS/2019/6](#))
- h) Financial report and audited financial statements for the year ended 31 December 2018 and Report of the Board of Auditors ([A/74/5/Add.11](#))
- i) Report of UNOPS on the status of implementation of the recommendations of the Board of Auditors for 2018 ([DP/OPS/2020/1](#))

11. In overall reflection on the mandated governance reports, the Committee noted the organization's diligence in ensuring compliance therewith, and to the extent possible enabling the Committee's engagement while the reports are still in draft. At the same time the Committee noted that the reporting requirements, when compared to experience from other sectors, seemed very elaborate and at times of a highly technical nature.

### **C. Strategy implementation**

12. 2019 was the second year of the four-year UNOPS strategic plan, 2018-2021. Throughout the year the Executive Director kept the Committee abreast of the progress in strategy implementation, including on special initiatives and focus areas. The Committee noted that the organization's overall activities had been very well aligned with the value proposition and contribution goals in the strategic plan, with a clear focus on efficiency, effectiveness and expanding the pool of resources.

#### *Partnerships*

13. Briefed on the continued development of collaborative strategic partnerships, the Committee noted that the partnership with the World Bank had been expanded beyond the Middle East, and that partnerships where UNOPS works directly with national governments had developed particularly in Latin America. The latter particularly in the area of sustainable public procurement. The Committee commended the added emphasis on the organization's ability to help governments fight fraud and corruption.

14. In relation to collaborative partnerships with sister agencies in the UN the Committee noted that as the overall UNOPS portfolio has grown the UN share of activities had remained relatively stable.

#### *Strategic goals and initiatives*

15. During the year, the Committee was kept abreast of the continued progress of the social impact investment initiative (S3I). The Committee noted that 2018 had been a breakthrough year for the initiative, with the engagement in a renewable energy initiative in Mexico, and in social housing initiatives sponsored at the highest levels of government in Ghana and Kenya. In relation to the latter, it noted that UNOPS following a rigorous due diligence process had formed a strategic partnership with Sustainable Housing Solutions Holding (SHS). During 2019, the Committee continued to be kept abreast of the initiative as it expanded into India, Pakistan and the Caribbean, bringing the number of planned housing units to 860,000, and thus making the initiative the biggest of its kind.

16. The Committee noted that the S3I concept after having been shared with UN entities, had received strong endorsement and positive feedback by the Secretary-General and Deputy Secretary-General. By the end of 2019, the initiative had reached a level of maturity justifying that it be established as a separate business unit under the auspices of UNOPS.

17. The Committee noted the significant progress in the implementation of the UNOPS social impact investment initiative. It noted that the initiative is spearheading progress towards the UNOPS goal – to support countries in expanding the pool and effect of resources available for the 2030 agenda. Seconded by efforts in relation to sustainable public procurement and quality infrastructure, the initiative is already making tangible contribution to the capacity of the domestic enabling environments and is a novel initiative not only within UNOPS, but within the wider UN system.

18. The Committee noted that, due to the clear UNOPS mandate and technical capacity, quality infrastructure was increasingly being recognized by its partners as an area for collaboration. At the same

time, it noted that the significant upfront investments typically associated with quality infrastructure created hesitation among government partners, thereby exacerbating the need for clear messaging and high-level engagement.

19. Briefed on the progress on the implementation of corporate priorities the Committee commended the ambitious targets and unwavering commitment to establish gender balance, as well as driving gender mainstreaming in implementation projects. It commended the strong commitment to gender parity which was aligned with the Secretary-General's focus and attention. In relation to the organization's strategic drive for strengthening knowledge management across the organization, it noted the particular attention to leverage digital platforms to support deployment and linkages across the organization.

20. Briefed on the budget estimates for 2020-2021, the Committee noted the efforts to focus and simplify to organization's key performance indicators. In the budget estimates the organization had reduced the number of indicators of management results from 47 to 13. Similarly it had initiated a process to identify a discrete set of indicators to gauge the effect of the sustainable implementation approaches applied in implementation projects. The Committee noted that the envisaged scope of the indicators to capture economic, social and environmental aspects (E2S) would establish a basis to more systematically capture contributions to the UNOPS goal – to help people through effective specialized technical expertise based on international norms and standards.

#### *Midterm review*

21. The Committee was briefed on the scope and approach of the midterm review of the strategic plan, scheduled for presentation to the Executive Board in the second half of 2020. It noted that the review would be a self-evaluation, and that it was an opportunity to do a comprehensive stock take of the first two years of the planning period. It further noted that the strategic framework was anticipated to remain unchanged, i.e. rather than set a new overall direction, the review would take stock of progress.

22. The Committee noted the significance and considerable scope of the review. It commended the envisaged approach and emphasized the importance of the opportunity to take stock of progress against the strategic plan, beyond day-to-day activities and projects, and in context of global needs and developments.

23. Further, the Committee noted that UNOPS had used its global management meeting in 2019 as an opportunity to consult middle management on the implementation of its strategic plan. The assessment and conversations had been framed based on the organization's strategic contribution and management goals. The Committee noted that the outcome of the meetings had been a strong commitment to strategic continuity and vigilance in implementation.

24. In relation the significant growth experienced by UNOPS the Committee cautioned that such growth levels should be actively managed so as not to become a source of risks. In this context, the Committee noted that the challenge was not just in relation to the quantity of delivery, but also to expectations on quality of the same, i.e. on how UNOPS delivers, be it through implementing partners or by the organization itself. Examples included measures around gender mainstreaming, health and safety, and consideration of environmental and social impact.

25. The Committee noted that in 2020-2021 it was foreseen that the quality of UNOPS delivery as described by these themes would have particular attention. The midterm review was as such an opportunity to strengthen and streamline the organizational narrative and focused attention to these themes, which are managed through its sustainable implementation approaches.

#### *UN Reform*

26. The Committee was kept abreast of and discussed the UNOPS engagement in the UN reform. In relation to the reform of the Resident Coordinator system, the Committee noted that, also in 2019, UNOPS had taken steps to ensure timely payment of the doubled agency cost sharing, and was duly considering, and consulting with the UNBOA to seek guidance on, the appropriate application of the one per cent levy in relation to exchange transaction services.

27. The Committee noted the UNOPS attention to meeting the requirements for structuring its business data in accordance with the standards of the UN Data Cube. It noted that this over time could help strengthen business intelligence and comparative portfolio analysis within and beyond UNOPS, and across countries, sectors, SDGs, partners, and associated UN pillars and financing instruments.

28. The Committee commended the Executive Director's personal attention to the Business Innovation Group. Established as one of four working groups under the UN Sustainable Development Group, the group was tasked with identifying options for cost-savings through efficiencies of various management support functions. It noted that, in full alignment with the UNOPS goal – to enable partners through efficient management support services, UNOPS stands ready to support the efforts to further leverage non-location dependent support services, e.g. in the area of procurement supported by e-commerce solutions.

29. Upon the Secretary-General's appointment of the Executive Director as Chair of the High-level Committee on Management, the Committee noted that a focused work programme would be a prerequisite for impact and contributions to the reform's underlying ambitions for efficiency gains.

#### **D. External audit and review**

##### *The United Nations Board of Auditors*

30. The Committee was updated on the findings of the UNBOA long form report for the period ended 31 December 2018. It noted that the UNBOA had identified asset inventory and gender as main focus areas.

31. In relation to implementation of UNBOA recommendations, the Committee note that UNOPS in 2019 managed to reverse the downward trend and achieve an implementation rate of 61 per cent, compared to 27 per cent the year before. It noted that the success could be ascribed to their inclusion in corporate target agreements and recurrent monitoring thereof.

32. Briefed on the UNBOA audit plan for 2020, the Committee noted that there in 2020 would be some overlap of external and internal audit. Furthermore, it reiterated its readiness to engage with the UNBOA at the right level.

##### *The Joint Inspection Unit*

33. In relation to recommendations of the Joint Inspection Unit (JIU), the Committee commended UNOPS for its high level of responsiveness, as demonstrated by the rate of acceptance and implementation of recommendations. At the same time, the Committee urged due consideration to the unique UNOPS business model, taking into account the relevance and cost-benefit of implementing specific system-wide recommendations.

34. The Committee took note of the JIU review of audit and oversight committees in the United Nations system (JIU/REP/2019/6). It observed that the report had been reviewed at the 4<sup>th</sup> meeting of the United Nations oversight committees in 2019, and noted that the Committee's terms of reference and working methods already conformed to the majority of the recommendations in the review.

#### **E. Internal audit and investigations**

35. During the year, the Committee followed the implementation of the IAIG 2019 work plan. The Committee noted the continued focus on enhanced use of data, such as the continuous auditing tool and the efforts to complete the enhancement the organization's oversight recommendations dashboard. It encouraged the vision to further leverage IT for data analytics and monitoring of recommendations, which could enable provision of assurance in a more efficient and timely manner.

36. In discussing performance indicators for the functions of IAIG the Committee suggested to supplement current operationally focused indicators with indicators of strategic effect. These could in turn be used to gauge and substantiate the IAIG value proposition as a strategic business partner.

37. Having reviewed the draft annual report of IAIG for 2018 the Committee noted that all audits planned for the year had been completed. It noted that IAIG had further detailed the methodology forming the basis for its opinion, and based on the samples drawn through the audits conducted, rated the adequacy and effectiveness of UNOPS governance, risk management and control partially satisfactory (some improvement needed). In this context the Committee noted with appreciation the focused management attention to implementation of recommendations from audits with an unsatisfactory opinion.

38. The Committee noted that by the end of 2018 the overall implementation rate for internal audit recommendations stood at 96 per cent, maintaining the high levels of prior years. At the same time, it noted that by the end of the year twelve recommendations older than eighteen months were open and encouraged management to strengthen focus on these recommendations.

39. The Committee reviewed and advised on the IAIG work plan for 2020. It noted that the focus and location of internal audits of field office operations had been determined based on a risk assessment; underlined the important role internal audit has in helping to identify strategic organization-wide issues and risks; and expressed appreciation for the attention to continued advancement of the sophistication of the continuous auditing tool and approach.

40. The Committee noted that IAIG as recommended by the Joint Inspection Unit would seek formal recognition of its Charter in the context of the Executive Boards annual session in 2019.

#### **F. Ethics and compliance**

41. The Committee reviewed the 2018 Annual Report of the Ethics Officer. It noted that the Ethics Office in 2018 had received more than 1,000 requests of different types. This represented a slight increase compared to 2017.

42. The Committee noted with appreciation that also in 2018 the financial disclosure programme focused on conflict of interest had achieved a 100 per cent completion rate. In relation to gifts and hospitality it noted that UNOPS is applying a zero tolerance approach, while it is awaiting the outcome of the development of a UN system wide standard.

43. The Committee noted that only few cases of protections against retaliation had been received by the Ethics Office, and that most in reality had been human resources disputes. A UNOPS policy update was pending an update of the Secretary-General Bulletin on the matter.

44. In the Second half of 2019 the Committee welcomed the newly appointed Director of Ethics and Compliance. In reviewing the work plan for 2020 the Committee noted the scope and ambition, and encouraged the strong emphasis on culture.

#### **G. Internal governance and risk management**

##### *Streamlining of policy framework and global structure*

45. In 2019, UNOPS completed the implementation of the comprehensive overhaul of the overarching framework for its risk management systems - the governance, risk and compliance framework. The process was completed by the review and update of the Committee's terms of reference, pursuant to [JIU/REP/2018/3](#), [DP/OPS/2018/6](#) and [JIU/REP/2019/6](#). The Committee's engagement in this process comprised a significant part of its self-assessment activities in 2019.

46. Later in the year, the Committee was briefed on the establishment of a new global structure for the organization. The new global structure included a Senior Leadership Team comprising the directors of the four newly established functional pillars: Regional portfolios, Implementation Practices and Standards, General Counsel, and Finance and Administration. The Committee noted that the new structure was clear and simple, easy to explain and understand, and that it was envisaged that it would enable quicker decision-making.

47. In 2019, UNOPS also completed the development of a new project management manual, comprising prescriptive content for project management in UNOPS, as well as a wealth of guidance on sustainable implementation approaches. The manual was in turn supported by the introduction of a new enterprise portfolio and project management system “OneUNOPS Projects”. The Committee commended the efforts, noting that the new manual and systems support the drive for accountability, consistency and quality of implementation.

48. The Committee noted that the Executive Board had taken note of the Secretary-General’s decision to establish a UNOPS Client Board, and abolish the Policy Advisory Committee, which had been inactive for a number of years. It was emphasized, that the Client Board would not be part of the UNOPS governance structure. It would strictly be advisory to the Executive Director; it would comprise a general and a UN segment; and its agenda could, inter alia, be informed by the UNOPS partner survey.

49. The Committee welcomed the Secretary-General’s initiative, emphasizing the added opportunity for qualitative strategic engagement with partners through the new mechanism. It further noted that the decision to abolish the Policy Advisory Committee would reinstate full consistency of the external and internal UNOPS governance structure.

#### *Risk management*

50. Throughout the year, all meetings of the Committee involved consideration of risk, be it from a strategic, financial and/or audit perspective; and the monitoring of risk factors and mitigation activities ongoing throughout the year.

51. The breadth of expertise of the members enabled the Committee to fulfil its advisory role and responsibilities. It enabled the Committee to provide a priori and foresight advice on potential risk areas – both upside and downside. Through this, it could advise on mitigating thinking and action in order to increase value and impact potential, and reduce cost and adverse consequences.

52. Discussions of risks were initiated both ways. The dialogue was open and transparent, and mitigating thinking and actions were reached through dialogue and monitoring. The tone was one of looking for potential risks and opportunities to improve, and exploring items in depth. The long term focus was on culture of risk consciousness, appropriate mitigation, and the building of capacity and capability to handle and thrive in the adverse and ever changing risk environment.

53. Based on its engagement the Committee found that the UNOPS leadership has a strong commitment to actively managing risks, including through fostering and reinforcing a culture of accountability, enabled through clear policies and IT tools. Areas that may be considered for focus and continuous improvement include:

- a) Increased integration with the results-based management and monitoring driving strategy implementation.
- b) Enhanced integration of ERM and ICF frameworks, and the associated compliance monitoring.
- c) Continued development of quantitative risk management models, including predictive modelling based on machine learning/Artificial Intelligence.
- d) An ever stronger and more visible integration with culture, leadership and people development practice.

#### *Information and cyber security*

54. The Committee welcomed the new Chief Information Security Officer (CISO) who had been embedded in IAIG.

55. The Committee noted that the initial focus of the CISO had been to compile a baseline assessment of the status of cyber security in UNOPS. It further noted that ISO 27001 was envisaged to be the preferred standard reference framework for information security.

56. The Committee noted that although the UN in principle is not subject to national data protection laws, adequate data protection and cyber security would be essential for the organization to remain a

credible partner. This particularly, because many of the partner organizations would be subject to such regulations and related scrutiny.

## **H. Financial matters**

### *Financial performance*

57. During the year, the Committee was kept abreast of the organization's overall financial performance. Presented with an update on the indicative financial performance for 2018, it noted the indications of strong financial performance and an overall solid financial position. This was confirmed when the Committee was presented with the final audited financial statements later in the year. The Committee noted that the UNOPS financial statements are fully IPSAS compliant, and that the audit had not resulted in matters of emphasis.

58. In relation to the statement of financial performance for 2018 - the income statement - the Committee noted that the UNOPS revenue from project activities had increased from USD 832 million to USD 941 million. It further noted that project-related expenses had amounted to USD 853 million, and net revenue from project activities to USD 88 million. It further noted that in 2018 the UNOPS turnover had included an additional USD 1,010 million of agent expense.

### *Operational reserve*

59. In relation to the UNOPS operational reserve the Committee noted that based on the 2018 results the reserve continued to exceed the minimum reserve requirements established by the Executive Board. It noted that contingent liabilities had been disclosed in notes to the financial statements, and that the solid financial position would enable continued pursuit of the social impact investment strategy laid out in the strategic plan, 2018-2021. In this context it noted the provisions of the financial regulations that up to 50 per cent of the excess over the minimum reserve at the discretion of the Executive Director may be used for investments in future revenue generating activities. It further noted that social impact investment had been disclosed in notes to the statements. Overall, it observed that although the reserves exceed the minimum level, they still appear relatively modest considering the size of the portfolio and the risks associated with the operational environment.

### *Budget estimates*

60. Presented with the biennial budget estimates, 2020-2021 the Committee noted that these essentially serve as a link between, on the one hand the strategic plan, and on the other hand the internal annual budgets and results frameworks. In reviewing the report of the ACABQ the Committee noted that the minimum requirement for the UNOPS operational reserve in recent years had remained relatively stable. It noted that this was because also the management expense from which the requirement is derived had been kept at stable levels in spite of the significant growth in the organization's overall delivery.

### *Accounting standards*

61. The Committee noted that also in 2018, the UNOPS revenue from project implementation services had been recognized as exchange transactions in accordance with IPSAS 9, and IPSAS 11 for construction contracts. It noted that exchange transactions in internal United Nations financial reporting are understood as part of revenue from other activities. In view of this it noted that the UNOPS revenue is unlike that of the majority of United Nations organizations, which derive their revenue from non-exchange transactions, which are recognized in accordance with IPSAS 23. In internal United Nations reporting non-exchange transactions are understood as assessed, voluntary core, or earmarked non-core contributions.

62. In relation to management of organization-wide strategic risks, the Committee recalled that the UNOPS financial statements are audited as a going concern; and that UNOPS, with its unique self-financed business model, is one of few United Nations organizations for which this is the case. It further noted that the need to accumulate some surplus is commensurate with the need to ensure the ability to operate as a going concern in accordance with the financial regulations established by the Executive Board.

63. The Committee repeated its past encouragements that UNOPS continue its pursuit to leverage the strategic advantage presented by IPSAS for enhanced transparency and accountability, including for external reporting and internal performance management, as well as reporting against requirements and standards established within the United Nations system. In this context it noted the continued ambition to significantly shorten internal financial closure cycles.

## **I. Conclusion**

64. Throughout 2019, UNOPS has identified opportunities to further optimise its contributions and value-add to the UN System and beyond. At the same time UNOPS has kept focus on enhancing management systems and ensuring a solid and robust financial position guarding against sudden shocks and risks that could affect the medium-term sustainability of its unique self-financing business model. In its advisory capacity, the Committee has reviewed the governance reports presented pursuant to decisions of the General Assembly and Executive Board.

65. In relation to overall management of strategic risks the Committee notes the organization's continued focus on review and adjustment of its policy framework and structures, and the attention to ensuring that day-to-day implementation is supported by IT tools, which are continuously prioritized for improvement. It further notes that procedures and tools in place to ensure internal accountability for timely implementation of oversight recommendations are an important component of the organization's overall risk management system.

66. In 2020, the Committee will continue to perform its advisory functions in accordance with the provisions of its Terms of References. This will include, inter alia, particular focus on the organization's measures to ensure gender equality and mainstreaming; deter and detect fraud; manage cyber security and risks, and further build its culture of accountability.

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Bente Svensson  
Chair, UNOPS Audit Advisory Committee  
Copenhagen, March 2020