

# **UNOPS Audit Advisory Committee**

## **Annual Report 2020**

**(DP/OPS/2021/2 – 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 2020. 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. All members confirmed their independence in fulfilling their function. In 2020, the members were:
  - a) Bente Svensson (Chair)
  - b) S. Bhaskar
  - c) Sheila Khama
  - d) Pablo Sanchez-Lozano
  - e) Paivi Rekonen
  - f) James H. Cottrell
4. During 2020, the Committee performed its functions in accordance with its terms of reference, 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 2020, the Committee held three meetings (March, May, and October). Due to the Coronavirus disease (COVID-19) pandemic all 2020 meetings were conducted in a virtual format. Through these meetings the Committee was able to fulfil its functions and advise the UNOPS Executive Director in mandated areas.
8. In December 2020, the Chair participated in the fifth 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 Internal Audit and Investigations Group on UNOPS internal audit and investigations activities in 2019 ([DP/OPS/2020/2](#))
  - b) Activities of the UNOPS Ethics Office in 2019 ([DP/OPS/2020/3](#))

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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.

- c) Annual report of the Executive Director ([DP/OPS/2020/4](#))
- d) UNOPS 2019 annual report on the recommendations of the Joint Inspection Unit ([DP/OPS/2020/4 – Annex 4](#))
- e) UNOPS net assets ([DP/OPS/2020/CRP.1](#))
- f) Midterm review of the UNOPS strategic plan, 2018-2021 ([DP/OPS/2020/5](#))
- g) Financial report and audited financial statements for the year ended 31 December 2019 and Report of the Board of Auditors ([A/75/5/Add.11](#))
- h) Report of UNOPS on the status of implementation of the recommendations of the Board of Auditors for 2019 ([DP/OPS/2021/1](#))

11. In overall reflection on the mandated governance reports, the Committee noted the organization's diligence in ensuring compliance therewith, and the efforts made to enabling the Committee's engagement with the draft reports.

### **C. Strategy implementation**

12. 2020 was the third 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, as well as the organization's response to COVID-19.

#### *COVID-19*

13. Throughout the year the Committee was updated on the measure and effect of the three-pronged response to COVID-19: a) duty of care and business continuity, b) continuity of project delivery and rapid response to partners' COVID-19 related demands, and c) monitoring of potential medium- to long-term implications.

14. The Committee commended the comprehensive UNOPS response for mitigation of the risks posed by the pandemic. It noted that the ability to quickly adjust and respond to the uncertainties posed by the situation is a testament to the organization's agility and resilience.

#### *Midterm review of the UNOPS strategic plan, 2018-2021*

15. In September, the Executive Director presented the midterm review of the UNOPS strategic plan, 2018-2021 to the Executive Board. The Committee commended UNOPS on the strong support the Executive Board had expressed in its decision 2020/20 on the midterm review.

16. The Committee took note that overall, the midterm review had reconfirmed the relevance of the non-programmatic mandate and the strategic direction set by the Executive Board, as well as the continued viability of the unique demand-driven and self-financing UNOPS business model. It emphasized that the Board's confirmation of the continued relevance of the strategic framework and goals had put UNOPS on a clear path to sustain its strategic direction in 2022-2025.

17. The Committee noted that over the 2018-2019 biennium, the UNOPS gross delivery totaled \$4.3 billion. The organization continued to see growth in demand for support in the most difficult contexts and had worked in 72 countries in fragile and special situations. At the same time, middle-income programme country governments' demand for technical assistance and implementation capacity more than doubled.

18. Furthermore, the Committee noted that the UNOPS partnerships had continued to diversify, and it over the biennium had worked with more than 170 different partners. In this context it noted that although UNOPS had seen significant growth in demand from most types of partners, the United Nations share of activities and demand from entities in the development system had remained relatively stable in absolute terms.

19. The Committee commended that, in accordance with its mandate, UNOPS had extended support to expand partners' implementation capacity across the three pillars of the United Nations Charter. Working in many sectors it had helped people and provided support towards countries achievement of most of the sustainable development goals.

20. The Committee noted that UNOPS through the review had set new ambitions for its focus on quality, inclusion, and health and safety. Being on a strong trajectory to achieving gender parity, it had through its 'Goal Zero' stated a firm commitment to health and safety. In addition, it had completed the process initiated in 2019 to develop a framework with key indicators for monitoring of sustainable, resilient, and inclusive implementation approaches in relevant projects.

21. Finally, the Committee noted that UNOPS had seen significant progress on its priorities for value adding services for direct support to countries. The organization had continued to build knowledge and capacity for technical assistance in support of quality infrastructure and public procurement; and demonstrated proof of concept for sustainable infrastructure impact investment.

#### *Sustainable infrastructure impact investment*

22. During the year, the Committee was kept abreast of the continued development of the sustainable infrastructure impact investment initiative. This included updates on the governance arrangements being put in place to solidify the initiative. The Committee was also briefed on the nature of the special purpose vehicles used as the basis for structuring the investment deals, on a country-by-country basis. Representation included UNOPS, the respective government, the respective funding partners, and, where relevant, also the implementing partner.

23. The Committee noted that the Secretary-General in 2020 had appointed an Assistant Secretary-General, Chief Executive to head the Sustainable Infrastructure Impact Investment Office established in Helsinki, Finland. By the end of the year, recruitment for all functions in the new team had been completed.

24. The Committee commended that the development of the portfolio had continued in parallel with establishment of the new office. In the area of affordable housing, investments had been made for development of 1.3 million homes across seven countries, including India, Pakistan, Ghana, Guinea, Kenya, Nigeria, and Antigua and Barbuda. In renewable energy, new investments were being explored in Asia and Latin America, to complement the already ongoing wind energy project in Mexico.

#### *Public procurement*

25. The Committee took note that UNOPS had entered an engagement in the amount of \$6.1 billion with the government of Mexico. Delivery was scheduled to commence 2021 and continue through 2024. The engagement encompassed two main components: (a) support for the procurement of medicines and other medical supplies through competitive and transparent international bidding processes, and the subsequent transportation of these to a set of identified central points throughout the country; and (b) support for development of technical capacity of relevant national entities to deliver the full process in the future, with full transparency, accountability, and good governance.

26. The Committee commended this significant addition to UNOPS portfolio, in terms of volume as well as the focus on direct support to the country. It noted that the nature of the project was like support already being provided to national authorities in other countries in the region. The Committee emphasized that the undertaking is groundbreaking in how it through application of best practices for governance and compliance is supporting current national capacity to deliver at scale in a more efficient, effective, and transparent manner. At the same

time, it noted that the sheer scale of the project made focused risk management essential. It expressed appreciation for management's attention to and focus on risk management and expressed its interest in following the roll-out of the project in coming years.

#### *United Nations Reform*

27. Throughout the year, the Committee was kept abreast of and discussed the UNOPS engagement in the United Nations reform. In relation to the reform of the Resident Coordinator system, the Committee noted that the design phase had been completed, and the reform had entered the implementation phase. Furthermore, it noted that cost-savings envisaged for financing of the development system had yet to be realized.

28. In relation to the financing of the reform, the Committee noted that, also in 2020, UNOPS had paid on time and in full the doubled agency cost-sharing. The Committee recalled that UNOPS in 2019 had consulted the UNBOA to seek guidance on IPSAS compliant application of the one per cent levy to exchange transactions. It noted that the United Nations Controller in 2020 had advised on the application. Finally, it noted that the agency cost-sharing had been reviewed 2020, and that a full review of the financing would be conducted in 2021.

29. In relation to potential cost-savings from efficiencies, the Committee noted that this aspect of the reform was still relatively nascent. At the same time, it noted that UNOPS in principle could be a resource, particularly for global shared services. However, considering the fee for service business model, this would require that entities in the development system increasingly source relevant implementation activities to UNOPS. It further noted that an increase in entities seeking efficiency gains through UNOPS may require adjustment of incentive structures and/or encouragement by Member States.

### **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 2019. It noted that project closure and the reserve utilization strategy had been areas of focus.

31. In relation to implementation of UNBOA recommendations, the Committee noted that UNOPS in 2020 managed to further increase the implementation rate. By the end of 2019, the implementation rate stood at 67 per cent, compared to 61 per cent in 2018 and 27 per cent in 2017. It noted that the continued success could be ascribed to inclusion of recommendations for implementation in internal target agreements and recurrent monitoring and review thereof.

32. Briefed on the 2020 UNBOA audit and the handover from India to China, the Committee noted that the introductory briefing organized by management had seen significant interest from the new team. Furthermore, it reiterated its readiness to engage with the UNBOA at the right level and noted that due to COVID-19 the 2020 audit was envisaged to primarily be conducted virtually.

#### *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 reiterated that when considering the relevance and cost-benefit of implementing specific system-wide recommendations it is important to take the unique UNOPS business model into account. It noted that the recommendations, at times, seemed to be of primary relevance to

agencies, funds and programmes with normative and programmatic mandates, and more traditional funding models.

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

34. During the year, the Committee followed the implementation of the 2020 work plan of the Internal Audit and Investigations Group (IAIG) and was kept abreast of the opinions expressed through completed audits. It noted with satisfaction that despite COVID-19, the IAIG had been able to keep implementation on track. This had in large part been due to strong support from management and colleagues in country offices, and successful usage of automated tools and streamlined processes within the team.

35. In relation to the key performance indicators for the internal audit function the Committee noted the increase in outputs with the same number of personnel resources. At the same time, it noted attention to overall efficiency, as demonstrated by a reduced average number of recommendations per report, average mission time, and timely turn-around time for investigations. The latter had been supported by enhanced use of technology and information triangulation. The Committee reiterated its encouragement to further explore the possibility of introducing indicators of strategic effect to better gauge the IAIG value proposition as a strategic business partner.

36. The Committee repeated its appreciation for the focus on enhanced use of data for continuous auditing and for the organization's oversight recommendations dashboard. It reiterated its encouragement of the continued enhancements of IT for data analytics, monitoring of recommendations, and for providing assurance in an efficient and timely manner. Furthermore, the Committee supported the continued IAIG attention to supplement its traditional audit reports and recommendations with assignments of a more management advisory nature.

37. The Committee noted that by the end of 2019 the overall implementation rate for internal audit recommendations stood at 96 per cent, maintaining the high levels of prior years. In this context the Committee noted the attention of management to target early implementation of recommendations from internal audits with an unsatisfactory or qualified opinion. At the same time, it noted that by the end of the year only one recommendation older than eighteen months had been open and commended management on its continued focus on ensuring timely implementation of internal audit recommendations.

38. The Committee expressed its overall appreciation of the work of IAIG. It took note of the IAIG work plan for 2021, in which the focus and location of internal audits of field office operations is determined based on a risk assessment. Finally, the Committee expressed support for the IAIG to continue its close collaboration with UNDP, UNFPA, UNICEF, UN-Women and WFP to ensure harmonization of reporting in line with Executive Board decision 2020/10.

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

39. The Committee reviewed the 2019 Annual Report of the Ethics and Compliance Office. The Committee commended the report of the Office, and the work undertaken in 2019, which was the first full year of operations with its enhanced role in relation to compliance.

40. In relation to financial disclosure, the Committee noted that in 2019 all, but one, of 851 personnel required to file had done so. Furthermore, it noted that the outstanding filer had held a retainer contract, and that the individual had been involved in an unrelated internal investigation, pursuant to which his/her services would no longer be retained by UNOPS. It noted that the Office as a measure to reinforce compliance with the requirements for financial

disclosure, had suggested that timely filing be included as part of the criteria for the annual merit rewards.

41. The Committee noted that the enhanced resourcing of the new Office had been considered appropriate to ensure fulfilment of its mandate in line with the scope of the UNOPS operations. Furthermore, it highlighted the importance of a broad and continuous effort to communicate to personnel on the role of the Office, and the support it can provide. In this context it reiterated the important role of the Office, together with other parts of the organization, to instill a culture of accountability.

#### *A culture of accountability*

42. As part of the continuous innovation of the Committee's working methods, it convened a working group to discuss and advise on efforts of reinforcing a culture of accountability. Overall, the Committee emphasized the importance of recognizing the inherent reciprocity of accountability and empowerment; and ensuring that the reinforcement of desired behavior is coupled with credible and transparent consequences.

43. The Committee advised that to ensure engagement of personnel at all levels it would, on the one hand, be important to be sensitive to dilemmas posed by different functions and contexts. On the other hand, it would be essential that management at all levels demonstrate leadership and commitment through continuous and consistent messaging and role modeling.

44. Furthermore, the Committee advised that the effort to reinforce a culture of accountability should go beyond concepts and frameworks and drive for actual results by linking the effort to concrete initiatives. In this context the organization's focus and emphasis on health and safety throughout its operations was seen to be a good case in point.

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

#### *Quarterly business review*

45. Throughout the year the Committee was kept abreast of quarterly business reviews of the organization's performance against its management goals. The reviews are organized in accordance with the dimensions of the organization's internal balanced scorecard: partners, people, process, and finance. Through the reviews senior management assess the organization's performance against internal target agreements on a quarterly basis. The Committee commended the comprehensive and systematic process, suggesting that it could be further supported through digital tools.

#### *Client Board*

46. The Committee took note that the Executive Director in 2020 convened the first meeting of the UNOPS Client Board established in 2019. It noted that the purpose of the Client Board was to focus on operational matters and that it was strictly advisory to the Executive Director. The focus of the first meeting had been to further explore feedback volunteered through the UNOPS partner survey for 2018-2019.

47. The Committee welcomed the establishment of the Client Board and noted the opportunity to deepen the conversation on operational issues and risks presented by this additional feedback mechanism to the Executive Director. Furthermore, it noted that the advice provided by the participants at the first meeting had been taken forward in the UNOPS midterm review of the strategic plan presented to the Executive Board at its second regular session in September 2020.

#### *Treasury management system*

48. The Committee took note of the implementation and global roll-out of a new UNOPS treasury management system. The full digitalization of related business processes and introduction of new controls was expected to decrease the margin of error and reduce risks. At the same time, it would free up personnel-time for higher-value tasks. The Committee underlined that a strong and comprehensive treasury management system is an important means of protecting the organization against fraud and corruption.

49. The Committee commended management's overall attention to take advantage of digitalization for continuous improvement of business processes and practices. It highlighted that the continued growth and increasing complexity of the organization's operating model and types of engagements perpetuated the need to ensure that supporting systems and technologies are continuously reviewed and updated to remain fit for purpose.

#### *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 mitigation focused on increasing value and impact potential, and on reducing cost and adverse consequences.

52. Discussions of risks were initiated both ways. The dialogue remained 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 a 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. In 2020, the Committee convened a working group dedicated to discussing and advising on avenues to further strengthen corporate risk management. The committee noted that the UNOPS enterprise risk management framework compared well to relevant benchmarks and commended the organization's ability to identify operational risks. Consequently, the focus of the discussion had been how best to build on this framework to further strengthen the systematic identification, and structured and holistic discussion of strategic corporate risks.

54. The Committee advised that establishment of a dedicated chief risk officer position with responsibility to coordinate and draw on existing risk management roles and structures could be a useful means for supporting strategic corporate risks management. In addition, it advised that as part of consolidating the function it may be warranted to undertake a review to establish a comprehensive perspective on the organization's current risk management architecture. In this context it suggested that the IAIG assess enterprise risk management on an annual basis. In relation to the overall strategic risk environment the Committee emphasized the importance of maintaining a balanced perspective on strategic risks stemming from within and beyond the United Nations system.

### **H. Financial matters**

#### *Financial performance*



55. During the year, the Committee was kept abreast of the organization's overall financial performance. Presented with an update on the indicative financial performance, it noted that also 2019 had been a year of strong financial performance and consolidation of the organization's 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 in accordance with the self-financing business model, and that the audit had not resulted in matters of emphasis.

56. In relation to the statement of financial performance for 2019 - the income statement - the Committee noted that the UNOPS revenue had increased from \$943 million to \$1,212 million, with expenses increasing from \$924 million to \$1,190 million. As a result, the 2019 operational income amounted to \$22 million compared to \$19 million in 2018.

#### *Net assets and reserves*

57. In relation to the UNOPS net assets the Committee noted that based on the 2019 results the organization would continue to meet and 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.

58. In relation to the reserve utilization strategy, the Committee recalled the provisions of the financial regulations that the Executive Director may transfer up to 50 per cent of the excess over the minimum reserve to a growth and innovation reserve, which may be deployed for investments in future revenue generating activities. It further noted that social impact investments had been disclosed in notes to the statements.

59. The Committee reiterated its observation that although the reserves exceed the minimum level, they still appeared relatively modest considering the size of the portfolio and the risks associated with the operational environment. In this context the Committee commended management's ongoing dialogue with the Executive Board and efforts to enhance the presentation of the four distinct components of the organization's net assets: a) minimum operational reserve, b) growth and innovation reserve, c) accumulated surpluses, and d) actuarial gains/losses and fair value.

60. In conclusion, the Committee emphasised that it would be essential that key stakeholders appreciate that the UNOPS net assets are managed to guarantee financial viability and integrity as a going concern, in accordance with the financial regulations and rules, and with due consideration of the context of the organization's operating environment, the nature of the projects in its portfolio, and business model which is unique to the United Nations system.

#### *Accounting standards*

61. 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-financing 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.

62. 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 and efforts to significantly shorten internal financial closure cycles.

## **I. Self-assessment**

63. In the beginning of 2021, the Committee conducted a self-assessment. The self-assessment confirmed that the composition of the Committee, and its working methods, were sufficient for it to fulfill the responsibilities set out in its terms of reference. Overall, it was concluded that the Committee is forward-looking and able to keep a good balance in servicing requirements stemming from: (a) the United Nations governance and oversight arrangements; and (b) the commercial requirements of the organization's unique self-financing business model.

64. Feedback solicited through a survey of Committee members and senior management indicated high ratings of all aspects of the Committee's responsibility, its composition and working methods. In addition, the feedback volunteered a few areas for additional attention.

65. In relation to the Committee's areas of work it was suggested to consider: (a) including a regular high-level update on ongoing investigations; (b) continuing the attempt to organize one annual meeting with external audit at the right level; and (c) determining if current oversight capability in internal audit, investigations, and ethics, remain adequate pursuant to the growth and increasing complexity stemming from infrastructure impact investment and public procurement.

66. In relation to the Committee's working methods it was indicated that: (a) the Committee works well as a collegium; (b) members are proactive and transparent in relation to disclosing potential conflict of interest; (c) working groups with thematic deep dives are considered a good complement to the regular meetings. Finally, it was indicated that when possible it should be the ambition to complement virtual meetings with one annual meeting at the UNOPS headquarters in the spring, and one annual field visit in the fall.

## **J. Conclusion**

67. Throughout 2020, UNOPS continued to implement its strategy with a view to identifying opportunities to further optimize its contributions and value-add to governments, the United Nations system, and other partners. Through this it has made significant contributions, and the Committee concurs with the Executive Board's conclusion on the midterm review that the UNOPS business model remains viable, and its non-programmatic value proposition and strategic framework and goals relevant.

68. At the same time, the Committee notes that 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. The Committee strongly supports the organization's efforts to ensure that its unique business model with net assets managed to guarantee financial viability and integrity as a going concern is well understood by all key stakeholders.

69. In its advisory capacity, the Committee has reviewed the governance reports presented pursuant to decisions of the General Assembly and Executive Board. In relation to overall management of strategic risks the Committee noted 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 noted 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.

70. In 2021, the Committee will continue to perform its advisory functions in accordance with the provisions of its terms of references, including relevant aspects of the Committee's self-assessment.

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Bente Svensson  
Chair, UNOPS Audit Advisory Committee  
Copenhagen, March 2021