

UNOPS Audit Advisory Committee
Annual Report for 2022
(DP/OPS/2023/2 - Annex 7)

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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 2015/12.¹
2. This annual report covers the Committee's activities in 2022. 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 2022, the members were:
 - a) Sheila Khama (Chair, 1 May 2022)
 - b) Pablo Sanchez-Lozano
 - c) James H. Cottrell
 - d) Naohiro Mouri (joined 1 April 2022)
 - e) Gautam Sashittal
 - f) Paivi Rekonen (Chair, retired 30 April 2022)
4. During 2022, the Committee performed its functions in accordance with its terms of reference, set out in Executive Office Instruction number 2 of 2009 "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 2022, the Committee held five meetings (April, June, August, October and November). It also made itself available for additional meetings to provide inputs and feedback on a range of issues. Through these meetings the Committee was able to fulfill its functions and advise the UNOPS Executive Director in mandated areas, including to advise on remedy for the S3i crisis.
8. In December 2022, the Chair participated in the seventh meeting of the United Nations system oversight committees. Further, the Chair held three meetings with the President of the UNDP/UNFPA/UNOPS Executive Board Bureau throughout the year.
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 its secretariat.

B. External governance by the Executive Board

10. During 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) The Annual Report of the Internal Audit and Investigations Group on UNOPS internal audit and investigations activities in 2021 ([DP/OPS/2022/3](#))

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

- b) Activities of the UNOPS Ethics Office in 2021 ([DP/OPS/2022/4](#))
- c) Annual report of the Executive Director ([DP/OPS/2022/5](#))
- d) UNOPS 2021 annual report on the recommendations of the Joint Inspection Unit ([DP/OPS/2022/5 - Annex 4](#))
- e) Financial report and audited financial statements for the year ended 31 December 2021 and Report of the Board of Auditors ([A/77/5/Add.11](#))
- f) UNOPS 2021 report on the status of implementation of the recommendations of the Board of Auditors ([DP/OPS/2023/1](#))
- g) Information note on the role of UNOPS in blended and impact financing for the SDGs ([DP/OPS/2023/CRP.1](#))
- h) Framework for restating the UNOPS strategic plan, 2022-2025 ([DP/OPS/2023/CRP.2](#))
- i) Comprehensive Response Plan ([DP/OPS/2023/CRP.3](#))
- j) UNOPS financial outlook for 2023 ([DP/OPS/2023/CRP.4](#))

11. In reflecting on its engagement with mandated governance reports, the Committee welcomed the organization's efforts to make these available at a point when they were almost finalized, yet shared in time for the document owners to incorporate any feedback the Committee may have.

S3i initiative and crisis

12. During 2022, the Committee throughout was kept abreast of the developments in relation to the S3i initiative, following a series of management failures. It provided continuous advice to the Executive Director, and, following her resignation as of 8 May 2022, the Acting Executive Director at its regular meetings, as well as through a number of ad hoc meetings.

13. The Committee noted an evolving range of efforts to elucidate the chain of events over time. This included an early internal midterm review, the exploration of options for comprehensive independent evaluations, as well as the commissioning and completion of two reports by an independent external reviewer, as mandated by the Executive Board and concluded in late November 2022.

14. The Committee took note of the conclusion of an investigation by the Office of Internal Oversight Services (OIOS) on the events of S3i. It noted that the report was confidential, and that no details could be disclosed. Any disciplinary actions would need to be founded in facts and follow due process. It also noted that the Office for Legal Affairs (OLA) would seek to recover funds, in relation to S3i.

15. It reviewed and provided feedback on the two external independent reviews, sharing its observations on the methods and findings, underscoring that recommendations would need to be taken seriously and acted upon.

16. It actively engaged in a number of discussions on possible ways forward, focused on scrutinizing and documenting events as well as reviewing how UNOPS could contribute substantially in the space of development finance going forward. It highlighted that the need for development financing was ever-growing; and noted that there remained in principle room for UNOPS to contribute to developing bottom-up approaches founded in clear concepts and solid governance.

17. The Committee further took note of an evolving range of actions for remedy pursued by management, guided by continued dialogue with and decisions of the Executive Board, and further informed by stakeholder consultations. This included

- a) Initial immediate actions, including the suspension of all investment activities in June.

- b) Actions guided by the ten point action plan, as compiled following Executive Board decision 2022/13, and superseded in November by the comprehensive response plan.
- c) A comprehensive response plan to implement the recommendations from the independent external review on UNOPS internal control systems, risk management and overall governance structures, as compiled following Executive Board decision 2022/24.

18. Related to this, the Committee noted management's efforts to ensure external communication and targeted engagement with key stakeholders, with a focus on rebuilding trust within the Executive Board, Member States at large, partners, and the Secretary-General. It also noted that the S3i-related events had reputational consequences beyond UNOPS, fueling criticism of the United Nations.

19. The Committee welcomed the drive for transparency, acknowledgement and ownership, while urging consistency and coherence in messaging. It expressed its support in view of the challenging situation, and further advised that efforts should be made to ensure a measured reaction, which clearly distinguished and separated individual culpability from a conversation on the validity of the organization's strategic direction and implementation support, as well as the soundness of its governance, integrity and culture. It suggested that a professional services company be engaged.

20. The Committee kept itself abreast of parallel efforts to prevent disruptions to the delivery of UNOPS portfolio, and address morale of the UNOPS workforce. It highlighted that there was a risk that personnel motivation and sense of belonging would suffer in the absence of an ethical, transparent process to establish the true course of events, and uncover the full scope of individual misconduct while avoiding implicating innocent individuals.

21. The Committee undertook extensive deliberations on its own role in relation to the events, assessing that it had acted upon the information available to it, while also expressing a sense of embarrassment of not having been able to preempt the events that had unfolded. It concluded that it would need to continue to operate within the cornerstones of its mandate, while pursuing practical changes in its way of working, with an emphasis on proactiveness, stakeholder engagement, access to information and independence.

22. Also as part of its deliberations, as well as in close dialogue with the Executive Director and the Acting Executive Director, the Committee over time calibrated its own role as part of efforts to effectively address the crisis and rebuild trust. It noted that the Committee's self-reflection was considered to be an important component in the overall review of the oversight and control, and thus in the UNOPS response and recovery.

23. In response to the crisis, and informed by its reflections, the Committee already during 2022 strengthened its engagement with a range of stakeholders, including the ethics and audit functions; and the Executive Board.

24. Upon invitation, all Committee members partook in a dedicated session with the Independent Audit Advisory Committee (IAAC) in July to engage in a dialogue on the Committee's view on and role in the S3i crisis and the events leading up to it. In reflecting on the exchange, the Committee underscored the need to restore confidence in the organization, including by taking decisive substantive action, as well as by addressing the misconception that the S3i activities represented a risk to the broader portfolio and partners.

C. Strategy implementation

25. 2022 was the first year of the UNOPS strategic plan, 2022-2025. Throughout the year, the Executive Director a.i. kept the Committee abreast of strategy implementation.

26. The Committee noted that in the context of a challenging global situation of compounding development crises, the UNOPS mandate, expertise and core competencies remained highly relevant.

Fast-track midterm review and restated strategic plan 2022-2025

27. The Committee noted that UNOPS would prepare a fast-tracked midterm review of its strategic plan 2022-2025, and a restated strategic plan 2022-2025 for the 2023 Annual Session of the Executive Board, following a decision by the Board (2022/24).

Infrastructure

28. The Committee was briefed on the current efforts and strategic outlook in relation to evidence-based infrastructure (EBI). It noted that the organization had developed a range of tools designed to support governments in identifying a pipeline of infrastructure projects in line with needs, capabilities and risks; and identifying financing needs and potential sources of financing.

29. It further noted the continued efforts to operationalize these tools in collaboration with governments; and to leverage them for targeted engagement with United Nations country-level analysis and planning processes. It took note that the EBI approach had the potential to enhance the UNOPS contributions to the 2030 Agenda and address long-term needs.

30. The Committee welcomed the strong value proposition of the EBI methodology and approach, noting that challenges remained to scale and mainstream both. It highlighted the importance of infrastructure lifecycle management, and suggested to explore combining the EBI-approach with an offer for project implementation. It further underscored the importance of linking the offer to the Sustainable Development Goals, developing and using associated performance and risk indicators, and understanding the landscape of potential partners and projects.

Procurement

31. The Committee noted UNOPS ambitions in relation to supporting governments with their public procurement, and that there was potential for the organization to play a bigger role through cost-effective procurement support, especially in the health sector. It also noted the risks in relation to such activities, and highlighted the need for adequate mechanisms for prevention of fraud.

32. It further noted a collaboration of the Procurement Group with the IAIG to enhance vendor screening for the purpose of prevention of sexual exploitation and abuse, as the associated risks were highest among UNOPS suppliers.

UNOPS contributions

33. The Committee noted that the organization, following the outcome of a 2021 MOPAN assessment and an Executive Board decision (2021/20), had initiated an internal effort to identify ways to systematically understand, analyze and substantiate how its implementation activities contributed to the objectives of its partners and the achievement of the broader development goals.

34. It also noted that a set of internal contribution indicators had been developed, which aimed to drive the implementation of strategy in the areas of infrastructure, procurement, climate change and health for the strategy period; and that the intent was to roll them out in 2023 as part of the results management framework.

35. The Committee took note that while the ambition was to drive an internal paradigm shift towards understanding UNOPS contributions beyond outputs, it was acknowledged that this would require significant time, effort, and additional internal and external capacity.

36. The Committee welcomed the effort. It highlighted that the ownership of outcomes, and thus the responsibility to evaluate them, predominantly remained with the partner; but also that it appeared to be useful for the organization to periodically revisit projects some time after their completion, while considering the resources required to do so under consideration of the timeframe for realization of outcomes.

Digital transformation

37. The Committee was briefed on digital transformation; including a recently completed maturity assessment; the resulting indicative road map; and the estimated budget and timeline. It took note that the initial focus would be on establishing a governance structure and conducting business process reviews.

38. The Committee also noted that initiatives were underway to enhance the organization's digital capabilities in the areas of partnerships, human resources and general enterprise resource planning. Overall, it was envisioned to request a release of \$21 million from the UNOPS reserve for investments in digitalization from the Executive Board.

Cross-cutting issues

39. The Committee noted updates in relation to progress on cross-cutting strategic management priorities, including the achievement of gender parity; continued and enhanced efforts in relation to health and safety as well as the prevention of sexual exploitation and abuse.

D. External audit and reviews

The United Nations Board of Auditors

40. The Committee reviewed the report of the UNBOA for the period ended 31 December 2021. It noted that the opinion on the financial statements had been unqualified. At the same time, it noted and discussed with management an Emphasis of Matter in relation to the bad debt allowance for S3i, and UNOPS efforts to obtain an independent valuation.

41. The Committee took note of the organization's efforts to effectively engage with the UNBOA team and facilitate the UNBOA's biennial audits. It also noted the timing and scope of the 2022 interim and 2023 year-end audits, and the term duration of the current audit team.

42. Upon inquiry, the Committee noted that no material issues had been raised, and that UNOPS was working systematically to address outstanding recommendations, particularly on issues related to S3i. It also noted management's intent to increase the overall implementation rates.

43. In relation to the implementation of UNBOA recommendations, the Committee noted that the implementation rate had increased to 53 per cent, compared to 33 per cent in 2020, and was projected to further increase. The efforts to drive and resource implementation of UNBOA recommendations was part of a broader, systematic response to the S3i crisis.

The Joint Inspection Unit

44. In relation to the recommendations of the Joint Inspection Unit (JIU), the Committee noted the consistently high implementation rates. At the same time, it took note of the longer timeframes required for closing recommendations that are of a broader system-wide nature and thus require concerted and coordinated action from numerous UN entities.

45. It noted that also the efforts to close recommendations from the JIU were part of the wider effort to accelerate closure of all oversight recommendations, as part of the systematic response to the S3i crisis.

E. Internal audit and investigations

46. During the year, the Committee engaged with the IAIG via two briefings and one in camera session. It was kept abreast of the progress against the IAIG 2022 work plan, including opinions expressed through completed audits.

47. The Committee noted the IAIG report on 2021, and the opinion of the adequacy and effectiveness of UNOPS governance, risk management and control processes; as well as a briefing on specific issues and related mitigation approaches, including audits of the 'PharmaMx' project.

48. The Committee engaged in dialogues on the IAIG 2022-2025 strategy; as well as on high-level organizational risks. Noting an assessment of the evolving landscape of risks in general, and the need to adequately understand and address these, it suggested reviewing private sector efforts for the purpose of benchmarking.
49. The Committee took note of the IAIG collaboration with the Chief Information Security Officer (CISO), and resolved to engage further on cyber risks and digital transformation.
50. The Committee further noted an update on investigations, including on the topics of financial irregularities, sexual exploitation and abuse, as well as fraud; and disciplinary actions taken. It encouraged the organization to consider additional measures to prevent fraud, particularly “low-level” fraud, under consideration of leading practices in this area.
51. The Committee noted that the IAIG had repeatedly engaged bilaterally with the Executive Board. It further took note of the results of a self-assessment of the IAIG independence and associated recommendations, as presented to the Executive Board for its Second Regular session, in line with decision 2022/13. It underscored that it would be essential to ensure IAIG independence, reinforce investigative capacity, enhance protection against retaliation, and lend full support from management.
52. Subsequently, the Committee noted that changes foreseen in relation to the IAIG Charter, resourcing and staffing, as per the recommendations of the self-assessment, were considered adequate by the Director, IAIG, to ensure the function could operate with independence; and that the Acting Executive Director was fully supportive of these steps.
53. The Committee expressed its encouragement to the IAIG to call out and address unethical behaviour at all levels; while also ensuring continued dialogue and collaboration with internal and external stakeholders, noting that the dialogue with the Executive Board had been enhanced.

F. Ethics

54. During the year, the Committee engaged with the Ethics Office via one briefing and one in-camera session.
55. In April, the Committee took note of the resignation of the Ethics and Compliance Officer; and subsequently welcomed the appointment of the new Ethics and Compliance Officer (a.i.). It noted that a decision had been made to review the terms of reference for the position of Ethics and Compliance Officer, as the integration of the ‘compliance’ function with the ethics function was uncommon in the UN system, and had effectively to date not been operationalized. Subsequently, an Ethics Officer was appointed effective 1 November 2022.
56. The Committee reviewed the 2021 Annual Report of the Ethics Office. It noted that its effectiveness seemed to have suffered from the Covid-19 pandemic’s impact on how UNOPS workforce interacted, specifically in relation to the drive to respond to results from the People Survey in a credible manner; and pursue the ‘Speak up!’ campaign and culture shift.
57. The Ethics Office in 2022, following a decision by the Executive Board (2022/16), initiated an independent review of its independence and impartiality. The Committee took note of the terms of reference for this review, which had been developed in consultation with the Ethics Network of Multilateral Organisations (ENMO). It also noted that the review would be conducted by ENMO members. The Chair of the Committee subsequently engaged with the independent reviewers in January 2023.
58. Further in relation to the review, the Committee reflected that, outside the United Nations system, the ethics function would typically be considered part of the second line of defense in the the Three Lines of Defense Model; and that therefore its focus was on monitoring compliance with the code of conduct and taking effective action in case of violations thereof. Thus, full independence was not necessarily prerequisite for functional integrity.
59. The Committee took note of a revised policy on the protection against retaliation, which had been updated and aligned in collaboration with the Ethics Panel of the United Nations

(EPUN). Amongst others, key aspects such as the duty of care in cases of allegations of sexual exploitation and abuse, and misconduct; the victim-centred approach; whistleblower protection; and protection against retaliation had been strengthened.

60. Further, the Committee welcomed a situational assessment of the Ethics Officer a.i. In the context of the S3i crisis. Provided from a perspective of rebuilding an ethical organizational culture and trust, it highlighted the need to establish accountability founded in a victim-centred approach, and to reform the internal justice system. The Committee underscored its commitment to ensuring a continued engagement and dialogue with the Ethics Officer.

G. Internal governance and risk management

Leadership and organizational structure

61. The Committee took note of a leadership transition in the second quarter of 2022, with the Executive Director resigning from her role as of 8 May 2022. The new Executive Director, ad interim, was appointed as of 9 May 2022.

62. The Committee noted the abolishment of the Senior Leadership Team, and the establishment of a Management Team with expanded membership in its stead, including representation of regional directors and additional functional directors as full members; and the audit and ethics functions as ex officio members.

63. The Committee noted that a new organizational structure would be established in 2023, with two Deputy Executive Directors; one in charge of functional compliance for traditional management functions; and one in charge of substantive compliance, including regions, partnerships and communications.

64. The Committee also noted recurring updates on the status of the recruitment processes for the vacant senior positions, including the Executive Director and Deputy Executive Director positions.

Risk management

65. Throughout the year, all meetings of the Committee involved consideration of risks from a variety of perspectives, including strategic, financial and audit; and the monitoring of risk factors and mitigation activities ongoing throughout the year.

66. Conversations on risks were initiated both ways. The dialogue with management was characterized by openness and transparency, and view to ensuring continued monitoring and timely seeking of advice. The Committee, inter alia, recalled past emphasis of solid risk management where the organization is particularly exposed, including when accepting new projects and engaging with new partners.

67. The Committee also took note of a briefing by the Chief Risk Officer (CRO), including on the evolving role of the function, and observations on the maturity and status of risk management in the organization. It encouraged the CRO to consider external models for risk management functions, and to pinpoint key risks to the organization.

H. Financial matters

68. The Committee was briefed on the 2021 financial performance and financial statements.

69. It noted that the year 2021 had seen an overall surplus of \$90.4 million, comprising an operational surplus of \$63.6 million and a net finance income of \$26.8 million, and resulting in reserves of \$360 million. While this represented a financial surplus, it had not been received favourably, considering the organisation's expressed commitment to a net zero target, and the situation at the time of issuance of the financial statements.

70. The Committee noted that the financial statements remained fully IPSAS compliant and that the audit of the financial statements for the year ended 31 December 2021 had been

unqualified. It also noted the issuance of an Emphasis of Matter; and the steps UNOPS was undertaking to address the underlying issue, in coordination with the UNBOA.

71. During the year, the Committee was kept abreast of the organization's overall financial situation under consideration of the S3i crisis. It took note that while some partners had suspended the signing of new projects and temporarily halted implementation of projects, overall delivery had not been interrupted. It also noted that a major project in Mexico was being closed following a change in government policy, and that the UNOPS portfolio would undergo a corresponding downward financial adjustment in 2023.

72. At multiple points during the year, the Committee discussed UNOPS reserves and approach to cost recovery; noting the organization's efforts to address concerns and requests for information, raised in relation to both aspects by partners and the Board, particularly in the wake of the S3i crisis.

73. The Committee noted the Board's approval of a new reserve structure, tailored formula and minimum operational reserve of about \$140 million in early 2022 (decision 2021/21). It also noted that conversations on the level, structure and formula for a maximum reserve level were ongoing and likely to continue into 2023. In parallel, Board members were discussing options for an approach to using funding in excess of any to-be-defined maximum level.

74. Specifically in relation to the response to the S3i crisis, the Committee noted that the organization had undertaken parallel, complementary efforts to:

- a) revisit its cost recovery policy with a view to a net zero target and to maintaining the organization as a going concern;
- b) seek approval to appropriately resource its structures, IT systems and tools;
- c) identify a suitable methodology to return part of the current reserve, as well as potential future 'excess reserve' to partners.

75. During the year, the Committee also took note that the cost recovery component of risk increment had been abolished; and the existing reserves had been consolidated and frozen.

76. It reflected extensively on the matter, concluding that

- a) adequate reserves, underpinned by a tailored cost recovery policy, were important in view of the organization's risk exposure, its fee-for-service operating model, and the need to be able to meet obligations as a going concern, and undertake capital investments.
- b) a simultaneous reduction in fees, internal resourcing of capacity, and reserves, suggested by some stakeholders, did not seem to be commensurate with the organization's ambition to grow and effectively enhance its contributions.

I. Self-assessment

77. During 2022, the Committee undertook a comprehensive self-assessment. This was part of the response to the events of the UNOPS S3i initiative which unfolded in 2022.

78. By mid 2022, the Committee decided that a comprehensive review of its ToR should have primary focus for its 2022 self-assessment.

79. The priority to a review of the ToR was subsequently echoed in recommendation of the forward looking review produced by KPMG in 2022.

80. The review was conducted with the objective to identify measures to enhance and protect the independence of the Committee in fulfilling its advisory function to the Executive Director and the Executive Board.

81. The review was conducted with a view to not infringe on the oversight responsibility and authority which the General Assembly has vested in the Executive Board. Pursuant, the revised ToR preserves the Committee's advisory nature.
82. The review was the subject of the Committee's deliberation at several of its meetings in 2022.
83. Throughout the process the Committee's Secretariat provided procedural and substantive support for the review. This has, inter alia, included the development of working papers presenting:
- a) Benchmarking of the Committee's ToR against the ToRs of more than twenty similar committees in the UN system.
 - b) A comprehensive overview of how the Committee has evolved since its establishment was first requested by the Executive Board in 2007.
84. The review covered topics such as: a) core of mandate, b) functional scope, c) access to the Executive Board, d) reporting, e) conflict of interest, f) cooling off, g) skills, expertise and composition, h) secretariat autonomy, i) budget, j) programme of work, and k) working methods and meeting practices.
85. The review resulted in more than thirty recommendations for enhancement of the Committee's formal ToR, practices and working arrangements. The recommendations were unanimously adopted by committee members. It also recommended a new procedure for the selection and appointment of members.
86. The revised ToR incorporates all thirty recommendations, and clearly states that the purpose of the Committee is to advise on the functioning of oversight; not provide oversight in its own right.
87. The revised ToR, as endorsed by the Executive Director, is submitted for the Executive Board to take note of the revisions along with this annual report on 2022.

J. Conclusion

88. The year 2022 was a year of crisis for UNOPS. It saw continued efforts to understand the series of events that had led to the S3i crisis; take appropriate and decisive action to rectify identified issues; and rebuild trust with partners and personnel. It also saw significant changes in leadership and key personnel.
89. The Committee remained fully engaged and supportive of the decisive actions undertaken by the Acting Executive Director in response to known issues. It made itself available to review and advise on a wide range of related aspects, and the associated documentation. It also made efforts to enhance its engagement with external stakeholders, specifically the Executive Board, through its Bureau President.
90. The Committee believes that the organization must remain fully committed to implementing the necessary remedial actions to prevent recurrence of the management failure at the heart of the S3i crisis, and restore full trust among its partners and personnel; and remains available to support such efforts in line with its role and mandate.
91. At the same time, it is of the opinion that the organization remains able and ready to contribute to the solution of persistent development challenges for countries and people. As such, it remains important to ensure that remedial measures are proportionate to underlying issues, and do not undermine the organization's ability to undertake measures to strengthen the capacity of its institution and delivery platform.
92. The events in 2022 prompted extensive self-reflection by the Committee, and examination of whether, and how, it could have acted differently to prevent, or uncover and stop earlier, these events.

93. The Committee believes that the enhanced independence and changes to its ways of working and proactively engaging with stakeholders, as reflected in its revised terms of reference, will strengthen its ability to advise the Executive Director on the functioning of the organization's oversight and accountability arrangements.

94. In its advisory capacity, the Committee has reviewed the governance reports presented pursuant to decisions of the General Assembly and Executive Board. While some actions remain to be completed, it believes that the organization is taking appropriate steps to strengthen its governance and oversight arrangements in a meaningful manner.

95. In 2023, UNOPS will present a restated strategic plan, 2022-2025 to the Executive Board. The Committee will continue to advise the Executive Director in accordance with the provisions of its terms of reference.

Sheila Khama

Chair, UNOPS Audit Advisory Committee

Copenhagen, April 2023

Annex I - Terms of reference of the UNOPS Audit Advisory Committee as revised in 2022

Changes to the previous version are in italics.

Section 1 - Purpose

1. The Audit Advisory Committee ('Committee') is established to serve in an independent expert advisory capacity to assist *the Executive Director and the Executive Board* in exercising their oversight responsibilities in accordance with relevant best practices, industry standards, financial and staff regulations and rules, as well as policies and procedures applicable to UNOPS and its operating environment.
2. The Committee shall provide external, independent, senior-level advice regarding the functioning of audit and oversight in UNOPS; internal and external audit and oversight matters; financial management and reporting; ethics; and strategy implementation.
3. The Committee shall seek to promote proper governance and high ethical standards, as well as the adoption and use by management of best practices for risk and financial management, and systems of internal control and accountability.
4. *The purpose of the Committee is to advise on the functioning of oversight; not provide oversight in its own right. Pursuant, the Committee shall act in an independent advisory capacity, and is neither a governance body nor an appeal body; no language or clauses in these Terms of Reference ('TOR') shall imply otherwise. The Committee shall not take an executive role in the mandated activities of UNOPS.*
5. Members of the Committee shall act in an independent, non-executive capacity while performing their advisory role in the Committee. Members shall not be held personally liable for decisions taken by the Committee acting as a whole.
6. The United Nations Board of Auditors ('UNBOA') performs the external audit of the UNOPS operations and the Internal Audit and Investigations Group ('IAIG') provides internal audit and investigations services.

Section 2 - Mandate

7. The Committee shall:
 - a. Review and advise on policies significantly affecting financial management and reporting; and on the UNOPS financial statements and reports, including any significant changes in accounting policies, presentation and disclosures.
 - b. Be consulted on any proposed changes to the Financial Regulations and Rules.
 - c. Review and advise on the effectiveness of the UNOPS systems of internal controls and accountability; including its internal governance, risk management and control procedures.
 - d. *Review and advise on prevention and control of fraud, corruption and other forms of misconduct of a financial or non-financial nature.*
 - e. Review and advise on the internal audit and investigations functions:
 - i. The Charter.
 - ii. Any policies significantly affecting the function.
 - iii. *The appointment, early termination and performance assessment of the director for internal audit and investigations functions.*
 - iv. The strategy, annual work plans, budgets and periodic reports.
 - v. The quality and assurance improvement programme, including internal and external assessments.
 - vi. Relevant reports and management letters.

- vii. The status of implementation by management of oversight recommendations.
- viii. The policy for disclosure of internal audit reports and implementation thereof.
- ix. *Material and/or strategic risks identified through internal audits and investigations.*
- f. *Review and advise on the ethics function:*
 - i. *The appointment, early termination and performance assessment of the director of the ethics function.*
 - ii. *The strategy, annual work plans, budgets and periodic reports.*
 - iii. Any policies significantly affecting the function.
 - iv. *The administration of the Financial Disclosure programme as per ST/SGB/2007/11.*
- g. Review and advise on the UN Board of Auditors:
 - i. Audit scope and related matters.
 - ii. Reports of the UNBOA and relevant management letters.
 - iii. The status of implementation by management of oversight recommendations.
 - iv. *Material and/or strategic risks identified through UNBOA audits.*
- h. Promote the understanding and effectiveness of the audit and investigations as well as ethics functions; provide a forum to discuss ethics, internal control and other matters raised by the UNBOA and IAIG; and strive to maintain open communications with them.
- i. Consider the risk and control implications of audit reports and management letters and highlight, as appropriate, issues that may need further examination with proper consideration to confidentiality and due process.
- j. *Review and advise on internal governance through policy and procedure managed by the director of the legal function, including as it relates to the organization's compliance function.*
- k. Review and advise on strategy implementation, including positioning, communications, management and leadership, organizational culture, and strategic initiatives.
- l. *Review and advise on results-based management and reporting, including monitoring, analysis and reporting on management results and contributions.*
- m. Review and advise on the governance, development and management information technology systems impacting financial management and reporting.
- n. Review and advise on any issues arising from activities covered by these TOR.

Section 3 - Authority

8. *In fulfilling its advisory role in relation to matters of oversight, the Committee can perform any of the principal duties within its functional scope at its discretion.* It has the authority to review all activities that it deems appropriate and necessary to perform its mandate. In exercising its authority, the Committee may:

- a. Obtain all information and/or documents it considers necessary to perform its mandate including all internal and external audit reports.
- b. Request the cooperation of UNOPS personnel.
- c. Obtain legal or other independent professional advice as it deems appropriate.

9. *The Committee may establish internal reporting mechanisms catering to a regular and systematic flow of information from management control functions and internal oversight functions providing assurance to the Committee on the internal control environment, including to the attention of the Committee's awareness of material weaknesses.*

10. The Committee shall meet at least annually in a private session with the directors of the internal audit, investigations and ethics functions.

11. The Committee shall meet at least annually in private sessions with the representatives of the UNBOA *at the appropriate level*.

12. *The Chair of the Committee shall have free and unhindered access to meet with the President of the Bureau of the UNDP/UNFPA/UNOPS Executive Board, and shall, at his/her discretion, engage formally or informally to bring relevant issues to the attention of the President.*

13. *The Committee, in coordination with the Executive Board Bureau, may organize an annual meeting of the President of the Bureau and the Chair.*

14. *In exceptional circumstances, the Committee may be called upon by the Executive Board and/or the Executive Director to engage in support of targeted reviews.*

15. *The Executive Director shall establish a dedicated budget allocation for the Committee to independently commission external independent advice. This budget shall be managed by the Chair, with support from the Secretariat.*

Section 4 - Reporting

16. *The Committee shall carry out its work independently. It shall make available a report of its activities to the Executive Director and the Executive Board, in a manner and frequency decided by the Executive Board.*

17. *At any time, the Committee may bring matters it deems of importance to the Executive Director and the Executive Board.*

18. *The Chair shall interact regularly with the Executive Director, to advise on the results of Committee deliberations and be kept abreast of issues of relevance to the Committee's mandate and functions.*

Section 5 - Membership

19. The Committee shall comprise three to seven non-executive members. All members shall be independent and external to UNOPS.

20. The term of office for Committee members shall be three years, renewable once. Continuance of membership shall be reviewed annually, and confirmed through signature of an affidavit on conflict of interest. To ensure continuation of the Committee the appointment of members shall be staggered.

21. As a whole, the Committee shall comprise people with expertise and working knowledge commensurate with the scope of its mandate, i.e. in the following areas:

- a. Finance
- b. Accounting
- c. Organizational governance in the United Nations context
- d. External audit
- e. Internal audit and investigations
- f. *Ethics*
- g. Internal control
- h. Risk management principles and practices
- i. Strategy development and strategy implementation

22. *A simple majority of the Committee members shall have significant, relevant and recent experience in financial or internal oversight.*

23. Due consideration shall be given to the overall composition of the Committee, with a view to ensuring that all areas of the Committee's mandate and scope of activities can be effectively covered; and that the Committee overall exhibits gender and geographical balance.

24. *Former UNOPS personnel shall not be appointed to the Committee within three years of the termination of their employment with the organization.*

25. *Former Committee members shall not accept employment as UNOPS personnel within three years after the end of their tenure.*

Section 6 - Selection and appointment

26. Members of the Committee are appointed by the Executive Director to provide external advice, and act in an independent, non-executive capacity.

27. The Executive Director shall designate a Chair from amongst the members of the Committee. *The term of the Chair shall typically follow the Committee's annual reporting cycle, which is completed at the end of March.* If the Chair designated by the Executive Director is not present at a meeting, the members will elect an acting Chair from amongst the members present.

28. The Executive Director initiates and determines the approach for selection and appointment of members. *The Chair and a subset of Committee members may support the process with assistance from the Secretariat.*

29. The Executive Director shall keep the Executive Board informed of changes in the membership.

Section 7 - Remuneration

30. Members shall not be remunerated for activities undertaken in their capacity as members of the Committee, in order to maintain their independence.

31. UNOPS shall reimburse Committee members for any travel and subsistence costs which are necessarily incurred in relation to participation in Committee meetings.

Section 8 - Conflict of interest

32. *Committee members serve in their personal capacity, and shall not seek or receive any instructions from any government in the performance of their duties.*

33. *Committee members shall not hold any position or engage in any activities that could impair their independence, in fact or in perception, from UNOPS or organizations and companies that maintain a partnership or business relationship with UNOPS, in fact or in perception.*

34. It is the responsibility of the individual Committee member to disclose a conflict of interest or the appearance of a conflict of interest to the Committee.

35. All Committee members shall sign a statement of disclosure of interest. In order to avoid any appearance of doubt, Committee members shall consult the Ethics Officer, prior to any meeting at which they expect to raise any potential conflict of interest; and shall inform the Chair and Executive Director of the outcome of such consultation.

36. Committee members shall promptly inform the Executive Director in writing of any personal or professional conflict of interest, or appearance thereof, related to the activities of the Committee or the knowledge gained through serving on the Committee.

37. Where an actual conflict of interest arises by a Committee member, that member shall not partake in discussions on the matter in question, and shall abstain from voting on the matter.

Section 9 - Indemnification

38. Committee members shall be indemnified from actions taken against them as a result of activities performed in the course of exercising their responsibilities as members of the Committee, provided such activities are performed in good faith and with due diligence.

Section 10 - Confidentiality

39. All members of the Committee shall sign an affidavit on conflict of interest on first appointment.

40. The deliberations of the Committee and the minutes of the meetings are confidential unless otherwise decided. The documents and informational material circulated for the consideration of the Committee shall be used solely for that purpose and treated as confidential.

Section 11 - Secretariat

41. The Executive Director shall provide a Secretariat to the Committee. The Secretariat shall comprise UNOPS personnel *with autonomy and access to information* to fulfill the function.

42. The Secretariat shall provide advice and substantive support to facilitate the Committee's work, including agendas, supporting materials, meetings, minutes, the Chair's annual report to the Executive Board, and other aspects, as required for the effective functioning of the Committee.

43. The Secretariat, in fulfilling the function, may draw on support from relevant business units.

44. *The Secretariat shall normally be included as an observer to relevant management fora; and have a direct reporting line to the Executive Director.*

Section 12 - Programme of work and meetings

45. The Committee shall establish an annual programme of work, *which shall be aligned with the requirements and schedule for statutory reporting to the Executive Board.*

46. The Committee shall normally meet three to four times a year in person or virtually. In-person meetings normally take place at the UNOPS headquarters location, *but may from time to time be convened at an alternate UNOPS location.* The Chair, any Committee member, the Executive Director, and the directors of internal audit, investigations and ethics, may request additional meetings.

47. The Chair, in consultation with Committee members and the Executive Director, shall decide the time and duration of a meeting, under consideration of the quantum of work. Time shall be allocated for any pre-briefing of the Committee by UNOPS personnel and the UNBOA, as the Committee deems appropriate.

48. Committee members shall normally be given at least 21 days' notice of meeting dates.

49. The Chair, in consultation with Committee members, shall prepare a provisional agenda for each meeting, which shall be circulated by the Secretariat together with supporting documents at least one week prior to the relevant meeting. The UNBOA may also submit documentation.

50. *In principle, the Executive Director shall engage with the Committee at all meetings of the Committee, through a dedicated segment in the agenda.*

51. *The Committee may, for the purpose of informing an agenda item, invite the functionally responsible manager, or his/her delegate, to participate in the Committee's meeting for the duration of that agenda item.*

52. All meetings of the Committee shall be minuted. Meeting minutes shall be reviewed and approved by the Committee at subsequent meetings, and be kept on record by the Secretariat.

Section 13 - Attendance, quorum and voting

53. It is expected that Committee members are present for all meetings of the Committee, in person or virtually.

54. Any three Committee members present, in person or virtually, shall constitute a quorum. An alternate cannot represent a member.

55. The Committee shall strive to achieve decisions on a consensus basis; and may, as required, take decisions based on a simple majority vote. Votes may be cast only by the Committee members present in the meeting. Should votes be equally divided, the Chair shall have the casting vote.

Section 14 - Self-assessment

56. The Committee shall perform, from time to time, a self-assessment relative to the Committee's purpose, mandate and responsibilities outlined herein. Through this it reviews its terms of reference to ensure it is operating with maximum effectiveness; and recommends any changes it considers necessary to the Executive Director.