

United Nations Office for Project Services (UNOPS)

Strategy and Audit Advisory Committee Annual Report 2011

(DP/OPS/2012/5-Annex 2)

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A. Background

1. The Strategy and Audit Advisory Committee (SAAC) of the United Nations Office for Project Services (UNOPS) provides external, independent, senior level advice regarding the Organization's strategic, business and audit objectives, including any significant risk management issues. The Committee has an advisory role and assists the Executive Director in fulfilling his oversight responsibilities in accordance with relevant best practices and industry standards.
2. The Committee was established in November 2007, and held its inaugural meeting in January 2008. During the period covered by this report (1 January 2011 to 31 December 2011), the Committee operated under its Terms of Reference as laid out in Organizational Directive No. 5, rev. 3 of 6 November 2009.
3. This annual report of the SAAC is being submitted at the request of the Executive Board (Decision 2008/37, DP/2009/2) and pursuant to section 6.2.1 of the Terms of Reference for the Committee.

B. Committee members and meetings in 2011

4. For the period 1 January to 31 December 2011, the Committee comprised the following members,¹ all of whom confirmed their independence in fulfilling their function.
 - a. Mr. Robin McPhail (Chair)
 - b. Ms. Amalia Lo Faso
 - c. Ms. Britta Gammelgaard
 - d. Ms. Gunilla Hesselmark
 - e. Mr. Luis Gomez-Echeverri
5. During 2011, the SAAC convened in March, May, and October for its 11th, 12th and 13th meetings. Meetings were attended by the Executive Director and the Deputy Executive Director². At all meetings the Director, Internal Audit and Investigations Group briefed the Committee on internal audit issues. Throughout the year, the Committee invited members of the Senior Management Team and selected technical experts for deliberation on specific aspects of UNOPS strategy and policy.³ Furthermore, the Chair visited UNOPS operations in Pakistan and contributed to a special strategy session on advisory services. Pursuant to section 2.3 of the Terms of Reference for the Committee, UNOPS provided substantive and technical secretariat support. The Committee noted the quality and timeliness of the support from its secretariat.

¹ Having served the Committee since 2008, Ms. Hesselmark retired on 31 May 2011.

² At the 11th SAAC meeting on 24 March 2011, the Deputy to the Executive Director sent apologies.

³ Other members of UNOPS Senior Management Team and technical experts invited by SAAC in 2011: Regional Director, North America Office; Director, Finance Practice Group (Chief Financial Officer/Comptroller); Director, Human Resources Practice Group; Director, Corporate Performance and Management Group; Director, Switzerland Operations Centre (JIU focal point); Deputy Director, Human Resources Practice Group; Practice Lead Project Management; Ethics Officer, Strategic Budget Advisor; Quality Management Advisor; Results Management Advisor; Finance Analyst; IPSAS Project Manager.

C. Strategy and policy matters

6. Pursuant to section 5.1.1 of its Terms of Reference the Committee advised the Executive Director and UNOPS management on strategy and policy matters. During 2011 the Committee further enhanced the breadth and depth of its substantive engagement with the Organization and key stakeholders.

Established with a clear mandate

7. At its first meeting in 2011 the Committee noted the significant strategic importance of General Assembly Resolution 65/176 reaffirming UNOPS mandate and relevant provisions as established through Executive Board decisions 2009/25 and 2010/21. The Committee particularly noted:

- a. The reaffirmation of the role of UNOPS as *“a central resource for the United Nations system in procurement and contracts management as well as in civil works and physical infrastructure development, including the relevant capacity development activities.”*
- b. The encouragement of the Executive Director to *“. . . further enhance engagements as a service provider to various actors in the development, humanitarian and peacekeeping arena, including United Nations, governments, intergovernmental institutions, international and regional financial institutions, private sector and non-governmental organizations.”* And *“. . . continue efforts aimed to integrate national capacity development in its operations.”*

8. The Committee further noted the resolution’s acknowledgement of the viability of UNOPS unique self-financing business model, which does not rely on direct budgetary contributions; as well as relevant provisions completing the process of establishing UNOPS as a self-standing entity on equal terms with other Funds and Programmes of the United Nations, which was initiated through Executive Board decision 94/12 in June 1994.

Advising on preparation and outcomes of the Executive Board

9. Throughout the year the Committee followed closely and advised on preparation and outcomes of the Executive Director’s official reporting to the Executive Board:

- a. Report on the implementation of the recommendations of the Board of Auditors for the biennium 2008-2009 (DP/2011/15)
- b. Annual Report of the Executive Director (DP/OPS/2011/1)
- c. Activity Report for 2010 of the Internal Audit and Investigations Group of the United Nations Office for Project Services (DP/OPS/2011/2)
- d. UNOPS: activities for 2010 - Report of the Ethics Office (DP/OPS/2011/3)
- e. Annual statistical report on the procurement activities of United Nations system organizations 2010 (DP/OPS/2011/4)
- f. United Nations Office for Project Services budget estimates for the biennium 2012-2013 (DP/OPS/2011/5)

Implementing recommendations of the United Nations Board of Auditors

10. Briefed on the Executive Board's review of the report on implementation of recommendations of the United Nations Board of Auditors for the 2008-2009 biennium, the Committee noted the Executive Board's satisfaction with UNOPS 90% implementation rate, and the absence of any specific concerns.

Providing comprehensive reporting on results

11. Reviewing the 2010 Annual Report of the Executive Director, the Committee noted its comprehensive and rich content. The Committee particularly noted the indicative strong interim financial results for 2010. While recognizing that there does not seem to be any perfect approach to Results-based Management, the Committee noted UNOPS enhanced reporting of contributions to operational results, as well as the utility of the balanced scorecard approach as a basis for segmenting reporting on the management results indicating continued deepening of organizational maturity.

Reviewing Internal Audit recommendations

12. In reviewing the 2010 Activity Report of the Internal Audit and Investigations Group (IAIG), the Committee noted the adherence to the report format established by the Executive Board. Overall, the Committee noted the majority of audit recommendations stem from Project Audits and Audits of Special Programmes, which to a large extent reflects the relative frequency of these types of internal audits.

13. Noting the continued high geographical and functional internal audit coverage, the Committee observed that the average number of recommendations issued per audit report is around 30. In view of its experience from benchmarks in the UN System and beyond, this number is relatively high. The Committee suggested IAIG consider the possibility of further focusing the recommendations issued, possibly resulting in issuance of an average of 5-6 targeted key recommendations per audit report, with various housekeeping issues brought to management's attention in a different format.

14. The Committee noted the practice of classifying recommendations in accordance with their level of priority, and acknowledged the potential utility of this approach for enhanced management of associated risks. However, having reviewed a sample of open recommendations classified as high priority, the Committee suggested UNOPS conduct a review of the classification to determine the continued validity of the current ranking of recommendations.

Engaging with the Ethics Officer

15. Briefed by UNOPS Ethics Officer the Committee noted UNOPS Ethics Office's establishment and reporting in accordance with the direction of the Executive Board, and in alignment with the Terms of Reference for the function stipulated in the Secretary-General's Bulletin of 30 November 2007 (ST/SGB/2007/11). The Committee noted the Ethics Office's close coordination with UNOPS Internal Audit and Investigations Group and Legal Practice Group; its work to further target the financial disclosure programme in view of personnel risk profiles; as well as UNOPS engagement in the UN Ethics Committee working to ensure cohesion of the function in the UN System.

Adding value in procurement

16. Reviewing the annual statistical report on the procurement activities of UN System, the Committee noted UNOPS responsibility for developing the report is closely aligned with the Organization's core mandate. In this context, the Committee noted UNOPS measure of success of contributions as a central resource for procurement. UNOPS does not gauge its success in terms of the Organization's relative procurement share compared to other agencies. Rather UNOPS gauges its success of fulfilling the role, in terms of its ability to provide the UN System with enhanced value for money through UNOPS specialized expertise in procurement of specific generic items, and its significant expertise in the nexus of procurement and construction of physical infrastructure; as well as the Organization's contributions to development of procurement capacity of national governments.

Proposing prudent financial targets for 2012-2013

17. Reviewing UNOPS proposed financial targets and budget estimates for the 2012-2013 biennium the Committee noted the approach and the levels of the proposed financial targets. The Committee noted the diligence of UNOPS combined top-down and bottom-up approach for forecasting biennial revenue and establishing cost estimates, resulting in prudent targets for the biennium: zero real budgetary growth in view of the anticipated delay in revenue recognition in the first year under International Public Sector Accounting Standards (IPSAS), while meeting operational reserve requirements. Through its deliberation the Committee advised that UNOPS, in relation to establishing funding levels for business development activities, in the future may consider benchmarking with comparator organizations in the private sector. The Committee noted the utility of the new harmonized budget format, particularly the summary of management resources by functional area and management results.

Strengthening the management results framework

18. The Committee noted the clarity of the management results framework developed for the 2012-2013 biennium. The Committee believed the revised management results framework, with its impressive simplicity, consistency and conceptual alignment, will facilitate internal communication and be useful for planning and performance management purposes, and reflects international best practices.

Staffing for agility

19. The Committee noted the Executive Board's support for the proposal to upgrade the position of the Executive Director from Assistant Secretary-General to Under Secretary-General. Furthermore, the Committee noted UNOPS staff funded by the management budget comprises a limited portion of the Organization's personnel, providing the agility needed for a self-financing organization. In this relation the Committee further recognized the appropriate level of flexibility provided by UNOPS financial regulations and rules for the Executive Director to make necessary and rapid adjustments of staffing levels in order to align with related activity levels.

Engaging with UNOPS management and experts

20. Continuing its practice from prior years, in 2011 the Committee invited members of UNOPS senior management team and selected technical experts for briefings and deliberations on specific strategy and policy matters. Furthermore, members of UNOPS Senior Management Team had an opportunity to interact informally with the Chair at a face-to-face meeting convened in conjunction with the first regular session of the Executive Board.

Using knowledge and track record for enhanced implementation support

21. As part of its regular process of briefings and interactions with management of UNOPS Regional Offices, the Committee was briefed on the role and strategy for services delivered through UNOPS North America Office. The Committee noted the office's responsibility for liaison with New York-based partners; and the organization of the regional portfolio in thematic clusters tailored to accommodate partner needs for implementation support for global programmes. The Committee commended the Office's attention to innovation of products and services ensuring their continued attractiveness to partners. In this regard, the establishment of a pool of pre-cleared experts is a welcomed innovation accommodating partner's need for speed and flexibility in selection and deployment of experts for field assignments.

22. Overall, the Committee noted the significant potential to utilize existing knowledge for development of new product and services, and leverage the track record with existing partners for provision of implementation support in new areas. The Committee particularly noted the potential of the small grants modality for support of partners with a substantive mandate in environment and climate change; and UNOPS strong relationships with the Department of Peacekeeping Operations, Department of Field Support and the United Nations Development Programme.

Focusing on personnel

23. Briefed on UNOPS Human Resources strategy "Putting People First" and the associated work programme, the Committee noted it comprises essential human resources components. The Committee noted UNOPS leadership through the three year pilot project on recognition, rewards and sanctions implemented under the auspices of the International Civil Service Commission (ICSC). The Committee particularly noted the 97% completion rate of staff performance appraisals resulting from implementation of merit rewards in 2011, and the ICSC's encouragement and support.

24. Overall, the Committee noted UNOPS focus on personnel performance management, learning, talent management and mobility of personnel. Furthermore, it noted the ambition to leverage the experience from establishing a pool of specific experts, for improvement of relevant policy, procedure and systems, and eventually establish a global personnel roster, which, with due regard to ensuring objectivity and transparency in the selection process, may enhance the attraction of qualified external and internal candidates, and increase the speed of partners' selection and deployment of personnel. Finally, the Committee noted UNOPS attention to the variety of human resources issues associated with the implementation of other strategic change initiatives, e.g. the transition to IPSAS, ISO 9001 certification, and the harnessing of capability for advisory services.

Responding to demand for capacity building

25. Briefed on the launch of the strategic initiative to harness capabilities for advisory service and support organizational capacity building in the areas of UNOPS core mandate, the Committee noted UNOPS responsiveness to the Executive Board and the General Assembly.

26. The Committee noted advisory services will be a complement to, not a departure from, UNOPS existing areas of service. With regard to UNOPS approach, the Committee noted the attention to economic self-reliance of the service line, enabled through a gradual and focused build-up around specific demand for specialized service. Overall, the Committee noted the potential of advisory service to become a strong complement to UNOPS existing areas of service, enhancing the Organization's value-add to the UN System and beyond, particularly for building national capacity.

D. UNOPS Risk Management Systems

27. Pursuant to section 6.2.2 of the Committee's Terms of Reference it reviewed the soundness of the risk management systems in UNOPS. Throughout 2011, the Committee was briefed and advised on UNOPS measures to mitigate relevant strategic and operational risks,⁴ with a particular view to mitigation of risks posed by the unique conditions of UNOPS self-financing business model.

Strengthening through a phased and integrated approach

28. The Committee recalled its endorsement⁵ of the phased and integrated approach to further embedding a comprehensive risk management system laid out in UNOPS Strategic Risk Management Planning Framework (Organizational Directive No. 33), and its caution that roll-out of enterprise-wide risk management in some organizations has failed to deliver the expected benefit. The Committee noted UNOPS enhanced capability for systematic mitigation of operational and strategic risks, and looks forward to follow the further strengthening of UNOPS risk management systems in the coming years.

Managing operational risks through certification of systems

29. In relation to management of operational risks, the Committee noted UNOPS outstanding achievement of becoming the first UN organization to achieve organization-wide ISO 9001 certification of its quality management system in June 2011. The Committee recognizes this achievement as a key milestone in the phased approach to further embed a comprehensive risk management system. In this connection, the Committee commended UNOPS considerable effort in documenting the Organization's key processes, as well as the further integration of the Organization's balanced scorecard.

30. As highlighted by the Committee in its 2010 annual report, the ISO 9001 standard provides a sound framework for continuous improvement of UNOPS operational infrastructure. Among other things it is anticipated that focused dialogue between internal audit and managers of functional areas will further enhance systematic identification and mitigation of specific operational risks.

31. Additional external assurance to the Committee of the appropriateness of UNOPS systems for management of operational risks stems from the achievement of organizational certification of UNOPS Procurement and Supply Chain Management processes and procedures, which was awarded by the Chartered Institute for Procurement and Supply (CIPS) in May 2011.

⁴ As defined through the risk maturity assessment conducted as a joint effort of UNOPS management and the internal audit function.

Strategic Risks: "risks arising from strategic decisions which are associated with the long-term direction and viability of an organization, including reputational risk";

Operational Risks: "risks arising from day-to-day decisions which are associated with the adequacy of internal processes, people and systems, or triggered by external events".

⁵ Strategy and Audit Advisory Committee Annual Report 2010 (DP/OPS/2011/2, Annex 2, para 6)

32. Overall the Committee notes with appreciation the measures taken to strengthen systematic management of operational risks, which it believes complement the strengthening of UNOPS engagement acceptance process implemented in 2010.

Managing strategic risks through responsive focus, engagement and transparency

33. With regard to management of strategic risks posed by developments in the political environment and the fluctuating demands for service, the Committee noted with appreciation UNOPS responsiveness to the Executive Board's and the General Assembly's request to provide capacity building in the areas of procurement and physical infrastructure, particularly the Organization's focused drive to further harness advisory services in these core areas of its mandate.

34. In relation to UNOPS engagement with partners and stakeholders, the Committee notes the Organization's enhanced engagement in high-level substantive and thematic deliberations. The Committee particularly notes UNOPS focused contributions of knowledge for the Executive Board thematic discussion on South Sudan and transition from emergency to early recovery and development; its contributions of operational perspectives on the nexus of climate change, infrastructure and community development at the 17 Conference of the Parties to the UN Framework Convention on Climate Change; and the perspectives offered on transparency at the Fourth High Level Forum on Aid Effectiveness in Busan. Overall, these contributions evidence the Organization's focused engagement in strategic deliberations with partners and other stakeholders.

35. In the area of transparency, the Committee noted significant process, particularly the publishing on its website of detailed real-time procurement and project data, enabling UNOPS to be the first UN organization to join and comply with the standards of the International Aid Transparency Initiative. The Committee notes the potential to leverage knowledge in this area for development of complementary capacity building services.

Managing risks through mid-term review of strategy

36. In 2011, UNOPS has continued to strengthen its management of strategic and operational risks. With this backdrop, the Committee endorses the decision of the Executive Director to launch a mid-term review of UNOPS 2010-2013 strategic plan. UNOPS engagement with partners and stakeholders through its mid-term review will provide vital business intelligence on the products and services in demand, and enable the Organization to further sharpen its strategic focus, while at the same time identify strategic improvement initiatives needed to ensure that the plan remains on track or is appropriately adjusted.

E. External and Internal Audit

37. Pursuant to sections 5.2.1 and 5.3.1 of its Terms of Reference, the Committee reviewed and advised on external and internal audit issues. Throughout the year, the Committee was kept abreast of audit by the United Nations Board of Auditors, and advised on the activities of the IAIG.

Following audits of the United Nations Board of Auditors

38. Reviewing the report on implementation of recommendations of the Board of Auditors for the 2008-2009 biennium (DP/2011/15), the Committee noted UNOPS high implementation rate of 90%. Briefed on progress of the Board of Auditors' audit of the 2010-2011 biennium, the Committee noted the comprehensive functional and geographical coverage, and management's responsiveness to interim findings.

39. The Committee noted the Board of Auditors' consultative engagement on appropriate interpretation of IPSAS and management of associated risks, inter alia, in the context of the comprehensive assessment of UN System IPSAS readiness. In this context, the Committee noted the importance of mitigating the risk of loss of institutional knowledge in the context of handover of UNOPS external audit to a new external audit team.

Establishing an Audit Advisory Subcommittee

40. In its report for the financial period ending 31 December 2009, the Board of Auditors recommended that UNOPS consider gaps identified and take further steps in its process of strengthening the governance and oversight arrangements (A/65/5/Add.10, Para. 375). The Committee has duly considered the recommendation, reflecting the growth of the Organization and in consultation with the Executive Director decided to establish a subcommittee focused on audit and finance issues. Terms of Reference for the new Audit Advisory Subcommittee have been developed for adoption at the Committee's first meeting in 2012. The Terms of Reference reflect the provisions of paragraph 7 of the SAAC Terms of Reference as approved by the Executive Board.

Advising Internal Audit

41. In review of the 2011 work plan of the IAIG, the Committee noted the geographical and functional coverage of the work plan for the year. The Committee noted the further refinement of the risk based approach to audit planning, the higher focus on investigations and on the classification and follow up of audit recommendations, and the attention to continuous learning of the internal audit team, among others. Furthermore, the Committee noted Internal Audit's advisory function in the context of IPSAS and the phased implementation of UNOPS Risk Management Systems.

42. With regard to the different types of internal audit reports, the Committee noted the classification of reports in three types: IAIG Audits, Audits of Major Programmes and Project Audits. In relation to the latter, the Committee noted the focus on enhancing predictability of the volume and timing, as a basis for optimizing resourcing of IAIG's responsibilities for facilitating project audits, e.g. maintaining a roster of deployable auditors, review of terms of references for project audits, and quality assurance of final reports.

43. In relation to disclosure of internal audits to parties other than Member States, the Committee noted UNOPS strong support for transparency and its consultative engagement with UNDP and UNFPA to ensure an aligned position on the matter.

Enhancing reporting on and monitoring of internal audit recommendations

44. Briefed on the new format for internal audit reports, presented in a concise tabular format intended to prompt shorter and more precise relay of observations and recommendations, the Committee noted IAIG's efforts to enhance the usefulness of the format of internal audit reports, including the traffic-light approach introduced for expression of audit opinion in relation to UNOPS corporate functions.

45. In relation to monitoring implementation of internal audit recommendations, the Committee notes the utility of the real-time data available through UNOPS balanced scorecard on the Organization's intranet. Notwithstanding these enhancements and the usefulness of quantitative reporting on audit recommendation, the Committee requests that IAIG in its reporting to the Committee, supplement further with qualitative highlights providing the Committee with consideration of potential systemic risks to the organization that it should be aware of.

Focusing on proactive investigation

46. In relation to investigations, the Committee noted the challenges of managing the natural fluctuations of case load. Noting that processing of investigation cases is resource intensive the Committee notes IAIG's attention to identifying enhanced approaches for resolution of conflicts before they escalate, including the potential of risk-based approach for targeted proactive investigation.

F. Financial Regulations and Rules and IPSAS

Revising Financial Regulations and Rules with prudence

47. Pursuant to section 6.2.3 of its Terms of reference the Committee reviewed changes proposed to UNOPS financial regulations and rules (FRRs) approved by Executive Board decision 2009/04. The Committee noted UNOPS proposed changes to the FRRs are limited in scope and directly targeted at facilitating the transition from United Nations System Accounting Standards (UNSAS) to IPSAS, as well as harmonizing UNOPS budget nomenclature with other UN agencies under the auspices of the Executive Board. The Committee noted with appreciation UNOPS timely action to consult the Committee prior to finalizing the proposed revisions, and submitting proposed changes to the FRRs for review by the Advisory Committee for Administrative and Budgetary Questions, prior to presenting revisions for decision by the Executive Board.

Achieving the deadline for transition to IPSAS

48. Updates on UNOPS preparations for the transition from UNSAS to IPSAS were a standing item on all meetings of the Committee in 2011, including focus on appropriate levels of resources assigned to the project. The Committee recognized the considerable effort invested in the project, particularly by UNOPS Finance Practice Group and its practitioners throughout UNOPS global operations, and commended the significant achievement of enabling transition readiness in accordance with the 1 January 2012 deadline.

Managing risks of transitioning to IPSAS

49. The Committee noted UNOPS focused approach to managing risks associated with the transition to IPSAS. The Committee particularly noted UNOPS focus and attention to manage the unique risks stemming from its self-financing business model, i.e. the effects of IPSAS on revenue and expense recognition; and treatment of assets. In this regard the Committee noted the attention to ensuring estimation of the anticipated impact of delayed revenue recognition in the context of preparing 2012-2013 budget estimates for the Executive Board. Furthermore, the Committee noted UNOPS readiness to mitigate potential risks stemming from Enterprise Resources Planning system dependencies; as well as UNOPS close consultation with the United Nations Board of Auditors on appropriate interpretation of IPSAS.

G. Conclusion

50. Throughout 2011, 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 the management systems, guarding against risks that may affect the long-term sustainability of its unique self-financing business model. The Committee has kept in focus in its deliberations the Organization's alignment with the direction of the General Assembly and Executive Board to:

- a. act as a service provider to various actors in the development, humanitarian and peacekeeping arena;
- b. be a central resource in procurement, contract management, civil works and physical infrastructure; and
- c. continue efforts aimed to further integrate national capacity development in its operations.

51. The Committee strongly supports the Organization's overall strategic direction. Through its engagement with the UNOPS Senior Management Team and the Organization at large, the Committee has reconfirmed its impression of an organization of capable and innovative people with a strong sense of common purpose and commitment to mitigate the risks of the Organization, its partners and people in need.

Robin McPhail
Chair, UNOPS Strategy and Audit Advisory Committee
Copenhagen, February 2012