

United Nations Office for Project Services (UNOPS)

Strategy and Audit Advisory Committee

Annual Report 2012

(DP/OPS/2013/5-Annex 3)

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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. The SAAC operates under the Terms of Reference laid out in UNOPS Organizational Directive No. 5, Rev. 3, Add. 1 of 20 November 2012.

3. This annual report, covering the period between 1 January and 31 December 2012, is submitted at the request of the Executive Board (decision 2008/37, DP/2009/2) and pursuant to section 6.2.1 of the Committee's Terms of Reference.

B. Committee members and meetings in 2012

4. For the period from 1 January to 31 December 2012, the Committee comprised the following members, all of whom confirmed their independence in fulfilling their function:

- a. Mr. Robin McPhail (Chair)
- b. Ms. Amalia Lo Faso
- c. Mr. Luis Gomez-Echeverri
- d. Ms. Britta Gammelgaard¹
- e. Ms. Anni Haraszuk²
- f. Mr. Ibrahim Assane Mayaki
- g. Mr. Mads Øvlisen³

5. During 2012, the Committee convened in February, April, May and November for its 14th, 15th, 16th and 17th meetings respectively. All meetings were attended by the Executive Director and/or the Deputy Executive Director. Throughout the year, the Committee invited members of the senior management team and selected technical experts for deliberation on specific matters⁴. Pursuant to section 2.3 of the SAAC Terms of Reference, UNOPS provided substantive and technical secretariat support; the quality and timeliness of which was commended by the Committee.

¹ Having served the Committee since 2010, Ms. Britta Gammelgaard resigned in March 2012.

² Ms. Anni Haraszuk officially joined the Committee at its 15th meeting (11 April 2012).

³ Mr. Mads Øvlisen and Mr. Ibrahim Mayaki officially joined the Committee at its 17th meeting (22 November 2012).

⁴ Other members of UNOPS Senior Management Team and technical experts invited by SAAC in 2012: Director Finance Practice Group (Chief Financial Officer/Comptroller), Director Corporate Performance and Management Group, Ethics Officer, Senior Internal Auditor, Investigator, Head of Communications, Lead on Environment, Lead on Infrastructure, Advisory Services Senior Advisor, Lead on Enterprise Reporting, Strategic Budgeting Officer, Results Management Advisor, Quality Management Advisor, and Management Analyst.

C. Audit Advisory Subcommittee

6. In its report for the financial period ending 31 December 2009, the United Nations Board of Auditors (UNBOA) 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).

7. Following this recommendation, the Audit and Advisory Subcommittee (AAS) was established pursuant to Section 7 of the SAAC Terms of Reference. The Subcommittee's Terms of Reference were approved at the 14th SAAC meeting on February 2012 and form part of UNOPS Organizational Directive No. 5, Rev. 3, Add. 1 of 20 November 2012.

8. At its inaugural meeting on 21 November 2012, the Subcommittee comprised the following members, who are also members of the SAAC:

- a. Ms. Amalia Lo Faso (Chair)
- b. Mr. Robin McPhail
- c. Ms. Anni Haraszuk

The meeting was attended by the Deputy Executive Director, members of the senior management team and selected technical experts for deliberation on specific matters⁵. In addition, members of the UNBOA audit team were invited to attend parts of the meeting.

9. The AAS was established for the purpose of facilitating the Committee's work in the areas of finance and audit, providing overall assurance, relevant high-level perspectives and advice on subjects under its purview, including best practices to further enhance UNOPS risk management systems.

D. Strategy, policy and organizational matters

10. Pursuant to section 5.1.1 of SAAC Terms of Reference, the Committee provided advice to the Executive Director and UNOPS management on strategy, policy and organizational matters.

UNOPS reporting to the Executive Board

11. Throughout the year, the Committee advised on preparation to and followed closely the outcomes of the Executive Director's official reporting to the Executive Board, i.e.:

- a. Report on the implementation of the recommendations of the Board of Auditors for the biennium 2008 – 2009 (DP/OPS/2012/3)
- b. Annual Report of the Executive Director (DP/OPS/2012/4)
- c. Activity Report for 2011 of the Internal Audit and Investigations Group of the United Nations Office for Project Services (DP/OPS/2012/5)
- d. UNOPS: activities for 2011 - Report of the Ethics Office (DP/OPS/2012/6)
- e. Mid-term review of the UNOPS Strategic Plan, 2010 – 2013 (DP/OPS/2012/7)
- f. Annual statistical report on the procurement activities of United Nations system organizations 2011 (DP/OPS/2012/8)

⁵ Other members of UNOPS Senior Management Team and technical experts invited for the AAS inaugural meeting: Director Corporate Support Group & CIO, General Counsel, Director Internal Audit and Investigation Group, Senior Internal Auditor, Investigator, Chief of Portfolio Accounts, Compliance and Reporting, and Strategic Budgeting Officer.

UNOPS mandate – Executive Board decisions

12. At its 17th meeting, the Committee noted the strategic importance of the following Executive Board decisions:

a. Decision 2012/16 from 28 June 2012:

“Encourages UNOPS to further mainstream the national capacity development agenda in the competency areas where UNOPS has a mandate and a recognized comparative advantage, namely, project management, infrastructure and procurement, including through the use of local resources;”

b. Decision 2012/24 from 10 September 2012:

“Endorses the midterm review of the strategic plan, 2010 – 2013, that highlights the enhanced focus of UNOPS, which seeks to maximize its comparative advantage and reduce overlap and duplication with the mandates of partner organizations;

Appreciates the increased emphasis on national capacity development and sustainable approaches to project management, procurement and infrastructure.”

Mid-term Review of the UNOPS Strategic Plan, 2010 – 2013

13. The Committee was engaged and consulted on the Mid-term Review of the UNOPS Strategic Plan, 2010 – 2013 (DP/OPS/2012/7). Following an initial briefing on the objective, scope and approach of the review, the Committee was updated on the extensive consultative process, findings and conclusions. The Committee commended UNOPS on the rich background material and analysis.

14. With regard to a Partner Survey conducted between February and April 2012 (361 interviews carried out in 38 countries), the Committee recommended that partners’ views and feedback be solicited in a structured and comprehensive way. At the same time, the Committee noted the benefits of UNOPS approach to the Survey, through which the entire management team had been involved in interviews, thus creating a platform for subsequent networking and establishment of stronger in-country linkages.

15. In relation to the Organizational Maturity Self-Assessment results, the Committee recognized the value-add of UNOPS benchmarking itself accordingly to an externally recognized excellence framework. The Committee observed that this broad self-assessment exercise was a sound input to UNOPS continual efforts to improve processes, risk management and internal controls.

16. Overall, the Committee commended UNOPS for the comprehensive stock-taking of the organizational performance against the current Strategic Plan, and the attention to tightening corporate focus and adjusting organizational capabilities for the medium and long-term. In this context, the Committee also reviewed and provided feed-back on UNOPS six strategic Must-Wins, especially relating to prioritization, coherence and coordination so as to make best use of internal strengths of knowledge and champions for each initiative. The Committee discussed UNOPS stretch targets for the six Must-Wins, and acknowledged the priority of using a lean management structure and approaches already tested by the private sector to drive implementation.

17. The Committee supported the Mid-term Review conclusions and the stronger positioning of UNOPS in the evolving international development environment, especially in regards to development effectiveness, national capacity and ownership, transparency, sustainability and social responsibility. The Committee welcomed the enhanced organizational focus on UNOPS mandate areas, comparative advantages and value-add of services, acknowledging the Mid-term Review as an excellent foundation for the preparation of the next Strategic Plan 2014 – 2017.

UNOPS Delivery Practices

18. The Committee advised on various aspects related to the strengthening of UNOPS three Delivery Practices of Sustainable Procurement, Sustainable Project Management and Sustainable Infrastructure, highlighting UNOPS role in contributing to partners through its specialized products and services.

19. In regards to UNOPS three types of services: advisory, project implementation and transactional services, provided through the three Delivery Practices, the Committee noted UNOPS approaches and the focus on quality standards and management, value-add and partnerships, as well as developing a costing and pricing methodology appropriate to sustain the Organization's underlying business model.

20. The Committee observed the importance of UNOPS focus on sustainability, especially in regards to national ownership and capacity building, and the progression from the Millennium Development Goals towards the Sustainable Development Goals. The Committee advised on political, operational and practical implications when applying sustainability concepts, while at the same time noting the challenges faced by all UN organizations when resetting results and reporting frameworks to reflect the three pillars of sustainability: economic, social and environmental.

21. In regards to compliance with sustainability standards, the Committee was briefed on UNOPS guidelines and standards for Green Procurement (developed in collaboration with the High Level Committee on Management's Procurement Network and UNEP) and on UNOPS Policy for Sustainable Infrastructure. On the latter, the Committee noted UNOPS objective to certify its Physical Infrastructure Practice against the ISO 14001 environmental standard.

Realignment of UNOPS global structure

22. The Committee followed closely the operationalization of UNOPS strategic realignments, providing insights in regards to possible structural changes and associated budget implications. The Committee noted UNOPS efforts in finding the right balance between project implementation offices and regional presence, supporting a rationalization of deployment and efficiency gains through integrated multi-country management and establishment of a Global Partner Services Office.

23. The Committee endorsed UNOPS priority of further strengthening and professionalizing its business development function throughout the Organization, especially through mainstreaming a lead client relationship/key account management function.

Personnel performance

24. The Committee was briefed on UNOPS approaches to personnel career development and the Organization's agility and efforts in developing internal talent, including both training and recognition and rewards programs. The Committee encouraged UNOPS to continue promoting an inclusive approach,

incorporating both staff members and individual contractors in its initiatives. The Committee also provided suggestions to overcome the challenge of retaining talented project personnel.

25. The Committee was briefed on UNOPS Leadership Development Programme, and suggested assessment of its impact by measuring not only long-term changes and progress of managers but also potential effects on overall personnel attitude.

UNOPS outreach and transparency agenda

26. The Committee was briefed on UNOPS participation in the 4th High Level Forum on Aid Effectiveness (December 2011) and the Rio +20 Conference (June 2012). In this context, the Committee noted UNOPS enhanced engagement with partners and donors in the international development arena, encouraging UNOPS to apply a pro-active approach when reaching new stakeholders, including public/private partnership and global funds.

27. Briefed on UNOPS Information Disclosure Policy (UNOPS Organizational Directive No. 30) and the Organization's engagement with the International Aid Transparency Initiative (IATI), the Committee commended UNOPS for placing itself as a pioneer in the UN system and the broad development community, especially in regards to public procurement, legal agreements and project information being available to the external public.

28. The Committee welcomed the fact that UNOPS had developed platforms that provided consistent internal and external information on different dimensions of its activities, including geo-coding and mapping of UNOPS projects. The Committee further noted that associated tools developed by UNOPS were made available as open source, contributing further to aid effectiveness and transparency.

E. UNOPS risk management

29. Pursuant to section 6.2.2 of SAAC Terms of Reference, the Committee reviewed and advised on the development and soundness of UNOPS Risk Management Systems.

Engaging with the Ethics Officer

30. The Committee was briefed by the Ethics Officer on his independent annual report to the Executive Board (DP/OPS/2012/6), noting that the function includes and focuses on advice and guidance on ethics standards for administrative issues, whistle-blower protection programme and safe-guarding of personnel against retaliation, financial disclosure programme identifying potential conflict of interest, and support to policy coherence with the UN system. The Committee highlighted the importance of further communicating throughout UNOPS the role of the Ethics Officer, enhancing ethics training, as well as ensuring that adequate resources were dedicated to this function.

Strengthening UNOPS Risk Management Systems

31. As already highlighted in the 2011 SAAC Annual Report (DP/OPS/2012/5 – annex 2), the Committee noted UNOPS transition to the International Public Sector Accounting Standards (IPSAS), UNOPS revised Financial Rules and Regulations (FRRs) and the achievement of ISO 9001 certification of UNOPS Practice Quality Management System (PQMS). The Committee also noted that the Mid-term Review of UNOPS Strategic Plan was also an example of good practice in risk management.

32. The Committee indicated that UNOPS overall risk profile seemed to be changing as the Organization evolves towards a higher organizational maturity level. While consolidation of policies and systems had been central issues in prior years, management had successfully shifted focus to consistent implementation, accountability and transparency. The Committee encouraged UNOPS to continue reviewing its controls to ensure that they were commensurate with risk exposure.

UNOPS Management Information System

33. The Committee was briefed on how UNOPS Management Information System provided comprehensive real-time data leveraged as business intelligence for ongoing monitoring and assessment of strategic and operational risks. The system provided various dimensions for analysis of financial performance, reflecting enhancements to the methodology behind UNOPS balanced scorecard, management budget and project data.

34. The Committee recognized that the detailed, helpful and actionable information regarding internal audit recommendations made available in UNOPS Management Information System had enhanced quality and supported resolution of pending issues.

35. The Committee also noted the launch of a new Management Workspace which allowed personnel to access more user-friendly data, generate real-time analytical reports and various scenarios supporting UNOPS business model. The attention to ensuring internal sustainability of systems, and the considerable potential to further apply the information both for creation of scenarios as for strategic focus at project level were also noted by the Committee.

36. The importance of externally communicating the availability and transparency of the data was highlighted by the Committee, which also suggested facilitating interpretation and accessibility through UNOPS website.

37. The Committee was briefed on a review of UNOPS Enterprise Resources Planning (ERP) system - Atlas, including a report by the Gartner Group, which provided assessments of business processes, governance elements and associated risks. The AAS supported UNOPS reaching out to organizations with recent experience in ERP implementation and suggested extensive internal consultation in a cross-sectional and phased approach.

Managing risks in UNOPS portfolio delivery

38. In the context of the operational results presented in the Executive Director's Annual Report (DP/OPS/2012/4), the Committee noted with satisfaction UNOPS delivery increase in Least Developed Countries and post-conflict environments both in relative as well as absolute terms.

39. The Committee engaged in providing further advice on the diversification of UNOPS portfolio and establishment of contingency plans for unexpected changes in order to mitigate risks related to UNOPS self-financed nature.

40. The Committee observed that the review of UNOPS portfolio, in the context of the Mid-term Review of UNOPS Strategic Plan, could be further leveraged for strategic management purposes, both

when monitoring trends as when setting targets for the year. The Committee noted UNOPS efforts in enhancing forecasts of medium/long-term results, and provided insights in regards to UNOPS capability to adapt its business model in response to changes or opportunities in countries of operations, for example by delivering more knowledge/expertise-based programs due to the added focus on national and local capacity development.

Management results

41. The Committee noted the comprehensive review and assessment of management results against indicators established in the UNOPS Strategic Plan, 2010 – 2013, subsequent budget estimates and internal target agreements. The Committee stressed the importance of this intelligence being visible internally, especially in regards to business acquisition and revenue targets.

42. The Committee noted the usefulness the UNOPS balanced scorecard, operationalized as a management dashboard drawing on real-time data from different ICT systems. In relation to their operationalization, the Committee noted that the selection, prioritization and hierarchy of indicators are a reflection of UNOPS organizational maturity and the availability of timely and reliable internal data.

F. External and Internal Audit

43. Pursuant to sections 5.2.1 and 5.3.1 of SAAC Terms of Reference, the Committee reviewed and advised on external and internal audit matters.

Following audits of the United Nations Board of Auditors (UNBOA)

44. The Committee noted with satisfaction that the UNBOA audit for the 2010 – 2011 biennium had been concluded without qualifications.

45. The Committee further noted the transition between the previous UNBOA team (South Africa) to the current one (United Kingdom).

46. At its first meeting, the AAS was briefed on the status of UNBOA audit recommendations currently under implementation. The UNBOA team briefed the Subcommittee on its draft audit plan for 2012 – 2013, which covered the scope and approach for both financial and performance audit. The Subcommittee noted with appreciation the collaborative approach among the UNBOA team, the Internal Audit and Investigations Group (IAIG) and the AAS.

Internal Audit activities in 2011

47. With regard to the Activity Report for 2011 of the IAIG (DP/OPS/2012/5), the Committee noted the change in reporting format and the reduced average number of recommendations per report, following the SAAC suggestion to include in the report only the more important recommendations and combine those related to the same issue. The Committee also noted the revision of the ‘compliance’ definition as part of aligning oversight terminology with other UN agencies.

48. The Committee noted the significant improvement in UNOPS implementation rate, whereby the end of 2011 only seven recommendations remained outstanding for more than 18 months, compared to 82 in 2010. At its first meeting, the AAS recommended that IAIG present more comprehensive information

on long-outstanding critical audit recommendations, including ageing, assessment of the continued relevance of the recommendations and the organizational response on their implementation.

Internal Audit activities in 2012

49. The Committee noted that the audit universe for 2012 had been modified to consider business processes in alignment with UNOPS functional areas under the Quality Management System, and to include new parameters in the IAIG risk assessment model.

50. The Committee commended the high level of transparency arising from Executive Board decision 2012/18, whereby in 2012 UNOPS website published the executive summaries of internal audit reports issued after 30 June 2012 and the complete internal audit reports issued after 1 December 2012.

51. With regard to the Audit Plan for 2013, the AAS recommended that IAIG present its risk assessment of UNOPS and illustrate how the Audit Plan relates to it at the AAS next meeting in 2013.

Regulatory review

52. Pursuant to section 5.5.1 of SAAC Terms of Reference, the Committee advised on regulatory compliance activities.

53. The Committee was informed that case management of complaints has improved due to stronger internal coordination between IAIG, HR, Legal and management. The Committee recommended adopting a more pro-active approach to investigation in order to detect unusual trends and identify areas meriting attention.

54. At the AAS first meeting, the Subcommittee requested IAIG to present in future meetings a more extensive report on the state of investigation cases, including case trends, internal control issues, statistics on complaints received, complaints referred to other units for review, those investigated by IAIG, completed, in progress, and outstanding cases, etc.

G. Financial matters

55. Pursuant to section 5.4.1 of SAAC Terms of Reference, the Committee advised on financial matters and reporting.

UNOPS Financial Regulations and Rules (FRRs)

56. Pursuant to section 6.2.3 of SAAC Terms of Reference, the Committee was briefed on the revision of UNOPS FRRs (DP/OPS/2012/1, annex 1 and 2) approved by Executive Board (decision 2012/5) and effective from 1 January 2012. The Committee noted that this revision facilitated the transition from United Nations System Accounting Standards (UNSAS) to the International Public Sector Accounting Standards (IPSAS). The Committee also noted that UNOPS has taken full consideration to comments and recommendations made by the Advisory Committee for Administrative and Budgetary Questions (DP/OPS/2012/2) and the United Nations Office of Legal Affairs.

IPSAS transition

57. Updates on the transition from UNSAS to IPSAS (effective in 1 January 2012) were a standing item on all Committee meetings in 2012; the involvement and training of all UNOPS practices and

regional offices was positively noted. The Committee discussed the immediate consequences of IPSAS implementation, both in terms of financial impact and workload, as well as long-term benefits, including enhanced transparency and accountability – particularly since IPSAS is a standard recognized outside the UN. The Committee emphasized the importance of making a fresh assessment of the methodology for establishing operational reserves pursuant to the transition in accounting standards.

58. At the AAS inaugural meeting, the Subcommittee discussed IPSAS implementation in UNOPS with the current UNBOA team. The Subcommittee stressed the importance of ensuring focused efforts and deployment of resources, both in the short and long-term, in order to fully achieve IPSAS compliance.

Biennial financial statement 2010-2011

59. The Committee was briefed on the biennial financial statement 2010-2011, which indicated net revenue above the target set in the budget document (DP/2010/9) and operational reserves in excess of the target established by the Executive Board. In this context, the Committee noted UNOPS attention in appropriately managing management expenses, and that anticipated provisions had decreased significantly due to conclusions of focused clean-up and project closures exercises.

Financial performance in 2012 and budgeting exercise for 2013

60. The Committee noted that 2012 financial performance in UNSAS terms had maintained a level comparable to 2011 results, with IPSAS implementation impacting revenue recognition as projected. The Committee commended UNOPS for successfully building up its operational reserves over the past years and meeting the requirements established by the Executive Board.

61. The Committee was briefed on the 2013 budgeting exercise, noticing that the realignment of UNOPS global structure would generate savings of around 6 million USD, from which approximately 4 million USD would be reinvested on strategic repositioning, growth and innovation.

Development in long-outstanding liabilities

62. At its first meeting, the AAS welcomed the fact that the amount and number of long-outstanding liabilities had declined considerably over the past four years as a result of UNOPS adopting a more active risk mitigation approach through further legal support to regional offices, enhanced monitoring systems, improvements to and training in contract management.

63. At the AAS initial meeting, the Subcommittee was briefed on the draft Terms of Reference for the dispute resolution relating to inter-fund reconciliations with UNDP. In regards to the envisaged participation of one member of each organization's Strategy and Audit Advisory Committee in an independent panel providing recommendations for executive decision, the AAS suggested consultation with both the UNOPS and the UNDP Ethics Officers in order to further assess any potential conflict of interest arising from participation in the panel by members of the respective Strategy and Audit Committees.

UNOPS costing and pricing

64. At its first meeting, the AAS noted that a proposed revision of the current costing and pricing model had been widely supported by management. The Subcommittee highlighted the importance of

ensuring that the pricing model appropriately reflects the need for delivery of value-add and quality projects as well as reflecting overall organizational risk.

H. Conclusion

65. Throughout 2012, the Committee expressed appreciation for UNOPS agility and willingness to change and adapt itself, noting that previous change programmes had been successfully achieved, which inspires great confidence and reassurance in regards to the Organization's ability to achieve its goals.

66. The Committee notes that 2012 was an exceptionally active and dynamic year for UNOPS since the Mid-term Review of the UNOPS Strategic Plan, 2010-2013 has created opportunity for extensive external consultation and outreach toward partners, while at the same time enabling internal assessment of organizational performance and maturity.

67. The Committee notes the enhanced strategic focus of UNOPS mandate as articulated in relevant Executive Board decisions, and expresses its support for UNOPS delivery focus on Sustainable Infrastructure, Sustainable Project Management and Sustainable Procurement.

68. The Committee also notes UNOPS commitment to fully implement IPSAS, supporting UNOPS holistic approach to transparency and accountability, and to continue to integrate risk management processes into its operations to ensure identification and management of risks that might interfere with the achievement of its objectives. In addition, the Committee notes with appreciation UNOPS sustained efforts to further enhance organizational efficiency and effectiveness, management and operational performance, as well as the value-add of its services and contributions to partners.

Robin McPhail
Chair, UNOPS Strategy and Audit Advisory Committee
Copenhagen, February 2013