

United Nations Office for Project Services (UNOPS)
Strategy and Audit Advisory Committee
Annual Report 2013
(DP/OPS/2014/3 – Annex 3)

A.	Background	2
B.	Committee members and meetings in 2013	2
C.	Audit Advisory Subcommittee.....	2
D.	Strategy, policy and organizational matters	3
	<i>UNOPS reporting to the Executive Board</i>	3
	<i>UNOPS mandate – Executive Board decisions</i>	3
	<i>The UNOPS Strategic Plan, 2014-2017</i>	4
	<i>Operationalizing sustainability</i>	4
	<i>UNOPS Sustainable Delivery Practices</i>	4
	<i>UNOPS results reporting framework</i>	5
	<i>Partnerships and outreach</i>	5
	<i>UNOPS excellence model</i>	6
E.	UNOPS risk management	6
	<i>Engaging with the Ethics Officer</i>	6
	<i>UNOPS Management Information System</i>	6
	<i>UNOPS Risk Management Systems</i>	7
F.	External and Internal Audit.....	8
	<i>Following audits of the United Nations Board of Auditors (UNBOA)</i>	8
	<i>Internal Audit activities</i>	8
G.	Financial matters	9
	<i>UNOPS 2012 financial statements</i>	9
	<i>UNOPS budget estimates for the biennium 2014-2015 and annual budget</i>	9
	<i>Review of the UNOPS operational reserve</i>	10
	<i>UNOPS costing and pricing</i>	10
H.	Committee working methods	10
I.	Conclusion	10

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 2013, 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 2013

4. For the period from 1 January to 31 December 2013, 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-Echeverri¹
- d. Ms. Anni Haraszuk
- e. Mr. Ibrahim Assane Mayaki²
- f. Mr. Mads Øvlisen

5. During 2013, the Committee convened in February, August and December for its 18th, 19th and 20th meetings respectively. All meetings were attended by the Executive Director and the Deputy Executive Director. Throughout the year, the Committee invited members of the senior management team and selected technical experts for deliberation on specific matters. 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.

C. Audit Advisory Subcommittee

6. The Audit and Advisory Subcommittee (AAS) was established pursuant to Section 7 of the SAAC Terms of Reference for the purpose of facilitating the Committee's work in the areas of finance and audit, providing overall assurance and advice on relevant high-level perspectives and best practices in these areas.

¹ Having served the Committee since 2010, Mr. Luis Gomez-Echeverri resigned in September 2013.

² Having served the Committee since November 2012, Mr. Ibrahim Assane Mayaki resigned in December 2013.

7. The AAS 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. The AAS held its inaugural meeting on 21 November 2012.

8. For the period from 1 January to 31 December 2013, 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

9. During 2013, the Subcommittee convened in May and December for its 2nd and 3rd meetings respectively. Both meetings were attended by the Deputy Executive Director, while members of the senior management team, including the Director of the Internal Audit and Investigations Group, the Ethics Officer, other selected technical experts, and members of the UNBOA audit team were invited for deliberation on specific matters.

D. Strategy, policy and organizational matters

10. Pursuant to section 5.1.1 of the SAAC Terms of Reference, the Committee and its Subcommittee 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 reviewed and provided advice on several draft reports and followed 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 2010-2011 (DP/OPS/2013/1)
- b. Annual report of the Executive Director (DP/OPS/2013/2)
- c. UNOPS strategic plan, 2014-2017 (DP/OPS/2013/3)
- d. Activity report for 2012 of the Internal Audit and Investigations Group of the United Nations Office for Project Services (DP/OPS/2013/4)
- e. Activities of the UNOPS Ethics Office (DP/OPS/2013/5)
- f. UNOPS budget estimates for the biennium 2014-2015 (DP/OPS/2013/6)
- g. Review of the UNOPS operational reserve (DP/OPS/2013/CRP.1)
- h. Report of the ACABQ on the UNOPS budget estimates for the biennium 2014-2015 and Review of the UNOPS operational reserve (DP/OPS/2013/7)
- i. Annual statistical report on the procurement activities of United Nations system organizations 2012 (DP/OPS/2013/8)

UNOPS mandate – Executive Board decisions

12. At its 19th meeting, the Committee noted the strategic importance of decisions of the Executive Board. Through decision 2013/22 on the Annual Report of the Executive Director, the Board took note of (a) the significant contributions made by UNOPS, often in the most challenging environments, to the operational results of the United Nations and its partners; and (b) the increased focus on sustainability and investment in its core areas of expertise, notably infrastructure, procurement and project management.

Furthermore, the Board took note with appreciation of the demonstrated ability of UNOPS to (a) continuously improve its efficiency, including through the adoption of internationally recognized standards of performance; and (b) enhance the quality of its products and services while simultaneously reducing its management budget.

Through decision 2013/23 on the UNOPS Strategic Plan, 2014-2017, the Board welcomed the enhanced focus of UNOPS services to partners in the United Nations and beyond, the emphasis on sustainability, national ownership and capacity development, recognizing that it is firmly grounded in the self-financing business model of UNOPS. Furthermore, the Board called on United Nations system organizations to actively seek efficiency gains through greater collaboration, taking into account the competitive advantages of UNOPS in its mandated areas of expertise: procurement, infrastructure and project management, including provision of implementation, transactional and management advisory services.

The UNOPS Strategic Plan, 2014-2017

13. The Committee was engaged throughout the development of the UNOPS Strategic Plan, 2014-2017 (DP/OPS/2013/3). It noted that the planning process was based on the comprehensive mid-term review conducted in 2012, extensive internal and external consultations and reflected the Millennium Development Goals and the Post-2015 United Nations Development Agenda, as well as the outcomes of the 4th High Level Forum on Aid Effectiveness (December 2011), the Rio +20 Conference (June 2012) and the Quadrennial Comprehensive Policy Review (December 2012).

14. The Committee commended UNOPS efforts to ensure its continued relevance by further focusing and deepening its capacities in its three main areas of delivery: project management, infrastructure and procurement. The Committee noted UNOPS strategic emphasis on sustainability, focus and excellence.

Operationalizing sustainability

15. The Committee noted UNOPS efforts in applying sustainability methodologies and standards, especially in regards to national ownership and capacity building. **The Committee discussed how UNOPS could not only respond to the immediate demand of partners but also influence its external environment with regard to sustainability as well as contribute to best practices in its areas of focus.**

16. The Committee discussed the use of indicators of sustainability and the sustainability marker being developed by UNOPS, tailored to the Organization's activities and business strategy, including emphasis on relative as opposed to absolute targets. In this context, **further exploration of available external benchmarks and determination of relevant baselines were encouraged.** Furthermore, the Committee took note of the practical guidance afforded through UNOPS toolkits for community engagement and gender mainstreaming.

UNOPS Sustainable Delivery Practices

17. **The Committee interacted with and advised on various aspects related to the strengthening of UNOPS three Delivery Practices of Sustainable Project Management, Sustainable Infrastructure and Sustainable Procurement,** noting the Organization's aim of becoming a provider of choice and knowledge leader in these focus areas by improving professionalism, skills and best practices among personnel.

18. In regards to UNOPS specialized products and services, the Committee noted UNOPS focus on quality standards and management, value-add and partnerships and strengthening national capacity. **The Committee continued its review and support for, a costing and pricing methodology appropriate to sustain the Organization's self-financing business model.**

19. The Committee noted UNOPS approach to project risk management, and **emphasized the importance of systematically managing risks at project level and elevating relevant risks for management oversight through target indicators. The Committee suggested the possibility of further aligning and linking project assurance and corporate performance management.**

UNOPS results reporting framework

20. The Committee discussed UNOPS results framework and the methodological and practical challenges of monitoring and reporting on long-term impact and outcomes, as well as reflecting the three pillars of sustainability: economic, social and environmental. The Committee noted that this was a common challenge for all development actors, which may be exacerbated for UNOPS due to its business model as a self-financing project implementer, and not a fund or programme with a traditional longer-term programmatic mandate.

21. At the same time, the Committee noted that UNOPS reporting on results had been significantly strengthened in recent years, that the focus on the three Delivery Practices and the explicit attention to articulating and recording their contributions to partners' sustainable outcomes gave promise for further enhancements in the period of the next strategic plan. In addition, UNOPS drive to make results information publicly available in standardized formats may prove a valuable resource to inform partners' programmatic and thematic evaluations.

Partnerships and outreach

22. In the context of innovative funding and changes in the development arena, the Committee discussed the increased importance of South-South and triangular cooperation as well as public-private partnerships, foundations and global funds mechanisms. **The Committee discussed how UNOPS may be well positioned to play a neutral linking role between funding, coordination and delivery in multi-partner initiatives.** The Committee highlighted UNOPS operational agility, ability to adapt and action-oriented approach as major strengths to understand and deliver on partners' needs.

23. The Committee discussed the significant role played by national governments in setting the enabling environment to achieve successful development, including the need to take advantage of potential trilateral development assistance. The Committee suggested that in such context UNOPS could position itself as a provider of processes, transparency and management advisory services which could fill current institutional gaps. **Specifically for infrastructure and procurement, the Committee suggested UNOPS could support national institutions in establishing policies, technical specifications and operational frameworks.**

24. In relation to UNOPS communication strategy, **the Committee suggested the possibility of raising the Organization's profile by broader sharing of lessons learned and knowledge. The results from UNOPS annual partner survey could be used as input for developing more targeted communications.**

UNOPS excellence model

25. The Committee noted UNOPS strategic pursuit to leverage internationally recognized best-practice and standards of excellence as a means of positioning the Organization to provide leadership in its areas of focus. The Committee discussed UNOPS excellence model both in terms of client perception/expectation as a driver for internal improvement. On the latter, the importance of further embedding the framework across the Organization was highlighted, e.g. through internal training, consultancies and assessments.

26. UNOPS underwent an external performance assessment conducted by the European Foundation for Quality Management (EFQM) in May 2013. UNOPS was the first organization to receive a rating of '4' at the initial assessment and recognized the value-add of UNOPS benchmarking itself accordingly to a recognized excellence framework. The Committee observed that key findings would be used as a basis for identification of new change projects and continuous improvement initiatives for UNOPS.

27. The Committee indicated that improvements in performance could be reported in terms of financial performance, internal processes (efficiency and effectiveness) as well as overall business results (operational and management). In this context, **the Committee highlighted the importance of setting clear KPIs and enhancing supporting systems to meet the needs of the Organization.**

E. UNOPS risk management

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

Engaging with the Ethics Officer

29. The Committee discussed with the Ethics Officer the latter's annual report to the Executive Board (DP/OPS/2013/5). **The Committee highlighted that the strengthening of UNOPS ethics function, as well as internal audit and investigation, were essential means of curtailing risks and was pleased to learn that in future higher emphasis would be placed on training initiatives** to raise ethics awareness, including measurements of their success. The Committee acknowledged the importance of UNOPS maintaining a pro-active approach relating to ethics and fraud prevention, and suggested revising the questions in the 2013 Integrity, Ethics and Anti-Fraud Survey, in order to obtain more representative and meaningful results that would enable better analysis and thus facilitate appropriate management consideration and decision-taking.

30. **The Committee also discussed the importance of interacting with the ethics function of other organizations in the United Nations system and beyond,** noting the participation reported by the Ethics Officer in the Ethics Network of Multilateral Organizations.

UNOPS Management Information System

31. During the year, the Committee was briefed on the review of UNOPS ERP system - Atlas, including the external assessment conducted by the Gartner Group which had concluded that an agile and flexible ERP system would be essential for UNOPS to continue responding to current and future needs of its partners. The Committee noted the potential of a new ERP system to enhance internal process

efficiency, strengthen the interface with clients, and further optimize internal controls and governance elements.

32. The Committee indicated potential opportunity costs of implementing a new system, both in terms of financial investment and management attention. In focusing on the inherent risks related to implementing new systems, **the Committee recommended that UNOPS liaise with organizations and project managers who have recently implemented similar new systems to ensure that lessons learned are considered. The Committee highlighted that implementation should be considered as an effort going well beyond the basic ICT requirements, indicating that close involvement of relevant functional areas was essential to any approach to achieve maximum benefit to the Organization.**

UNOPS Risk Management Systems

33. The Committee indicated that UNOPS attention to ensuring strategic focus and building of organizational capability had placed the Organization in a better position to prevent and/or mitigate key risks. Through its targeted initiatives, UNOPS had made good progress in strengthening systems and approaches for management of risks during 2013.

34. The Committee noted that the foundation of the risk management system (RMS) is based on international standards for risk management³ and other best practices⁴. The three dimensional approach comprises: categories of risks (strategic and operational); ownership of risks (board, senior management, entity, project); process of managing risks (recognize, prioritize, mobilize). The Committee reviewed the RMS based on the definitions of strategic and operational risks which it had concurred with earlier (SAAC annual report for 2011) and noted how different UNOPS risk management instruments and systems are geared towards management of the two categories of risks at different ownership levels.

35. The Committee noted how in recent years UNOPS had engaged different ownership levels in the process of managing strategic risks. This included the process of recognizing risks and opportunities in the context of the mid-term review (MTR) of UNOPS strategic plan, 2010-2013, prioritizing a response to the MTR findings at the 2012 global management meeting and mobilizing the response through the deployment of strategic must-wins. The Committee noted that UNOPS used a similar approach in recognizing strategic risks and opportunities in the context of articulating the four year strategic plan, prioritizing a response in the biennial budget estimates which were further informed by an external EFQM excellence assessment and mobilizing the response through annual budgets and targets, which are complemented by regular management oversight and review through the year. In this context, the Committee noted UNOPS aim to further strengthen the ongoing management oversight through increased regularity in the management conversations at different levels, and further sophistication of the supporting management information systems, e.g. the real-time performance dashboards in the management workspace. In this regard **a need to further integrate and align the quarterly project assurance and the corporate performance management processes was stressed. The Committee highlighted the importance of having these processes driven by business needs and in support of UNOPS focus.**

³ ISO 31000: 2009, Risk management – principles and guidelines.

⁴ E.g. COSO framework: The Committee of Sponsoring Organizations of the Treadway Commission.

36. Briefed on how UNOPS could leverage the holistic excellence model to frame the Organization's strategic risks universe, the Committee noted that this approach may have several benefits. In terms of scope, the comprehensive coverage of the model, covering both organizational enabler and results criteria, may support an integrated approach to deployment of strategy, and management of associated results and risks. In terms of management oversight, mapping of the results criteria of the excellence model to UNOPS results framework could enhance monitoring and management of risks at the relevant ownership levels, based on KPIs cascaded through the relevant levels of the Organization.

F. External and Internal Audit

37. Pursuant to sections 5.2.1 and 5.3.1 of SAAC Terms of Reference, the Committee and its Subcommittee reviewed and advised extensively on both external and internal audit matters.

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

38. The Committee expressed satisfaction at the unqualified External Audit report for the year ended 31 December 2012, which covered both financial and performance audit. This was a particularly challenging period for the Organization in view of the full implementation of the International Public Sector Accounting Standards (IPSAS) and transition to IPSAS compliant accounting systems and financial reports.

39. The Committee was briefed throughout the year on the status of UNBOA audit recommendations under implementation, as well as 2013 interim findings and 2014 audit planning. This included invitations to the UNBOA team to join the SAAC and the AAS meetings during appropriate agenda items. The Committee noted that the UNBOA team had progressively acquired a better understanding of UNOPS and that its audit approach had been developed accordingly. The Committee commended the good cooperation and continuous dialogue between the UNBOA team, the Internal Audit and Investigations Group (IAIG), UNOPS management and the SAAC/AAS.

Internal Audit activities

40. With regard to the IAIG Activity Report for 2012 (DP/OPS/2013/4), **the Committee suggested leveraging contents of recommendations in order to position future reports based on qualitative issues, including key themes. The Committee also stressed the importance of matching risk level with resources available for audit purposes and the role of IAIG in systematically informing the Executive Director of the exposure to residual risk.**

41. Throughout the year, the Committee was kept informed on the progress of completing the IAIG 2013 audit plan, and briefed on the development of the 2014 audit plan. The Committee noted management's increased focus on implementation of audit recommendations, and the extensive coordination and technical support it put in place to resolve issues. This resulted in high implementation rates when compared to other United Nations entities.

42. The Committee noted that the IAIG Charter had been updated, with the main change relating to IAIG submission of its annual report directly to the Executive Board, rather than through the Executive Office. **The Committee suggested that IAIG may wish to consider submitting the annual report**

simultaneously to the Executive Board and to UNOPS Executive Office, as a means to further enhance perception of its independence.

43. The Committee noted that the publication of audit reports on the internet had contributed to better report quality and that the introduction of the *TeamMate* audit management software had contributed to improved IAIG efficiency. Professional training and certifications achieved by the IAIG team were also discussed and commended by the Committee.

G. Financial matters

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

UNOPS 2012 financial statements

45. The Committee was briefed on UNOPS 2012 financial statements, the first to be IPSAS compliant. The Committee noted the strong financial position of UNOPS and suggested that UNOPS capture and reflect on lessons learnt from the accounts closure process for future implementation exercises of a similar nature.

46. The Committee noted the significant organizational changes, policy implications, enhanced disclosure, adaptation and automation of systems and tools in support to the operationalization of IPSAS in 2013. It suggested further strengthening the technical capacity of UNOPS practitioners in the standards to ensure continued maintenance of relevant internal controls moving forward. In addition, the Committee recommended that UNOPS management consider how adoption of IPSAS can be translated into more useful financial information with which to support managers achieve improved operational results. Throughout the year, the Committee was kept abreast of management efforts to identify a suitable candidate for the position of Chief Financial Officer.

47. The Committee took note of the arrangements put in place by UNOPS and UNDP to finally resolve the long-outstanding issues related to reconciliation of the interfund account between the two organizations.

UNOPS budget estimates for the biennium 2014-2015 and annual budget

48. The Committee reviewed the budget estimates to support the implementation of UNOPS Strategic Plan, including relevant KPIs and targets for management results. In particular, the Committee reviewed UNOPS refined approach to cost recovery and recognized that the approach will enable UNOPS to implement its strategy more effectively, thereby promoting development effectiveness.

49. In the budget estimates UNOPS commits to “reinvesting at least half of any financial surplus into innovation for sustainability”. In preparation for these investments, clear principles and processes for decision-making, resource allocation and tracking of the results of investments has been put in place. The Committee noted with appreciation that such initiatives were commensurate with advice it had previously given and encouraged the adoption of a relatively high risk appetite when selecting initiatives for investment.

50. The Committee noted with appreciation the reset of UNOPS approach to annual target setting and resource allocation which empowers regions and makes the Organization as a whole more agile while maintaining adequate controls and high performance standards. The Committee observed that this places responsibilities for financial risk with those that are in the best position to manage it, which is good practice.

Review of the UNOPS operational reserve

51. The Committee was briefed on the outcome of the review of UNOPS operational reserve formula in the context of IPSAS implementation and the Executive Board decision 2013/33. The independent report recommended options for a change to the formula for calculating the minimum requirement for the UNOPS operational reserve. The Executive Board endorsed an approach to set the reserve at four months of the average of the previous three years' expense under the management budget. The Committee noted that the change would free resources needed for investment in innovation and strategic projects and appeared appropriate to UNOPS current situation and risk profile.

UNOPS costing and pricing

52. The Committee noted the revision of UNOPS costing and pricing model, which provides clear guidance to management and allows better financial and strategic appraisal of projects prior to engagement acceptance. The revision more appropriately reflects UNOPS self-financing business model and the overall organizational risk, while at the same time supporting national ownership.

H. Committee working methods

53. The SAAC differs from audit committees in the United Nations system in that it has a dual role, i.e. to provide strategic guidance to the Executive Director, and to perform audit committee functions through the AAS. The Committee conducted a self-assessment exercise of its dual role for 2013 and concluded that it has fulfilled the requirements outlined in the terms of reference approved by the Executive Board.

I. Conclusion

54. The Committee supports the UNOPS Strategic Plan, 2014-2017 with its organizational focus on development effectiveness, sustainability, value-adding capacity of UNOPS products and services, and excellence. The Committee supports UNOPS delivery focus on Sustainable Infrastructure, Sustainable Project Management and Sustainable Procurement.

55. The year 2013 was an exceptionally active year for UNOPS in strengthening procedures and systems for managing risks in the finance area. Actions included the complete implementation of IPSAS, approving the budget estimates for the biennium 2014-2015, strengthening of UNOPS Growth and Innovation Fund, changing the costing and pricing policy as well as reviewing UNOPS operational reserve requirements.

56. The Committee notes UNOPS increased maturity in relation to results reporting and the Organization's ongoing efforts to enhance transparency, accountability, excellence benchmarking and quality assurance. In this regard, UNOPS has been recognized to have achieved world class standards in its core business areas.

57. The Committee supports UNOPS approach to enhance its risk management systems gradually and its ongoing efforts to further enhance organizational efficiency and effectiveness, management and operational performance.

58. The Committee believes it is essential for UNOPS to continue to strengthen its role as a neutral player among the diverse actors contributing to sustainable development, while maintaining an innovative and agile organizational culture as well as openness to actively foster new partnerships.

59. Areas of Committee focus in 2014 will, *inter alia*, include:

- a. Risk Management
- b. Review of general ledger systems
- c. Oversight of ERP process
- d. Consolidation of finance function
- e. Review of how sustainability has been embedded into UNOPS implementation processes.

Robin McPhail

Chair, UNOPS Strategy and Audit Advisory Committee
Copenhagen, March 2014