

United Nations Office for Project Services (UNOPS)
Strategy and Audit Advisory Committee
Annual Report 2014
(DP/OPS/2015/3 – 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 her 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 2014, 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 2014

4. For the period from 1 January to 31 December 2014, 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 Faso¹
- c. Ms. Anni Haraszuk
- d. Mr. Mads Øvlisen

5. During 2014 the Committee convened in March and September for its 21st and 22nd meetings. Both 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.

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 2014, the Subcommittee comprised the following members, who are also members of the SAAC:

- a. Ms. Amalia Lo Faso² (Chair)

¹ Having served the Committee since 2010, Ms. Amalia Lo Faso resigned in March 2014.

- b. Ms. Anni Haraszuk (Chair a.i.)
- c. Mr. Robin McPhail

9. During 2014, the Subcommittee convened in March and September for its 4th and 5th meetings. Meetings were attended by the Executive Director and/or the Deputy Executive Director, while selected technical experts and members of the senior management team, including the Director of the Internal Audit and Investigations Group (IAIG), as well as members of the UNBOA audit team were invited for deliberation on specific matters.

D. Strategy, performance and organizational matters

10. Pursuant to section 5.1 of the SAAC Terms of Reference, the Committee and its Subcommittee provided advice to the Executive Director and UNOPS management on strategy, performance 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 UNOPS official reporting to the Executive Board, i.e.:

- a. Report on the implementation of the recommendations of the Board of Auditors for 2012 (DP/OPS/2014/1)
- b. Annual report of the Executive Director (DP/OPS/2014/2)
- c. Activity report for 2013 of the Internal Audit and Investigations Group of the United Nations Office for Project Services (DP/OPS/2014/3)
- d. Activities of the UNOPS Ethics Office (DP/OPS/2014/4)
- e. Annual statistical report on the procurement activities of United Nations system organizations 2013 (DP/OPS/2014/5)

Management and operational results that contribute to sustainable development

12. The Committee noted the firm platform established for implementing the UNOPS Strategic Plan, 2014-2017 and commended the organization's efforts to ensure its continued relevance by further focusing and deepening its capacities in its three recognized areas of expertise and comparative advantage: project management, infrastructure and procurement. The Committee noted UNOPS strategic emphasis on sustainability, focus and excellence.

13. The Committee noted the significant contributions made by UNOPS in 2014 to the operational results of its partners often in the most challenging environments. The Committee noted the increase in UNOPS delivery over the years, especially in low-income and conflict-affected countries. The Committee highlighted UNOPS important role in supporting country systems by providing services that build capacity of local and national governments.

14. The Committee indicated that the value-add of UNOPS development services should be prioritized over delivery volume, noting that UNOPS engagement acceptance process and the new pricing policy were both already geared towards such approach. Enhancing delivery of and reporting on contributions to sustainability were highlighted by the Committee in this context.

² Having served the Committee since 2010, Ms. Amalia Lo Faso resigned in March 2014.

15. The Committee noted the enhancements to UNOPS management results framework and provided advice on how to leverage target setting and results reporting in the four perspectives (partners; business processes; people; and finance) of the UNOPS balanced scorecard to drive performance and maturity at all levels of the organization. This is regarded as important to underpin the strength and continuity of UNOPS self-financing business model.

Strategic investments

16. The Committee discussed UNOPS 2014 investment plan and the organization's growth and innovation fund which were both geared towards the implementation of the new Strategic Plan. The Committee advised on the criteria applied for identification and prioritization of investment proposals, highlighted the importance of assessing investments' long-term sustainability and noted that detailed implementation plans, including oversight and accountability elements, should be expected for investments made under this modality.

17. The Committee advised in terms of UNOPS risk appetite for entering new markets and innovative solutions, noting UNOPS investments in strengthening business development capabilities in the organization as well as enhancing data quality and reporting in relation to partners.

Delivery Practices – Sustainable Infrastructure

18. Maintaining its long-standing engagement and review of UNOPS three Delivery Practices of Sustainable Project Management, Sustainable Infrastructure and Sustainable Procurement, in 2014 the Committee focused in depth on various aspects related to the strengthening of UNOPS contributions to partners in design and delivery of sustainable infrastructure.

19. The Committee noted the complexity of the infrastructure implementation environment in which UNOPS operates, particularly in regards to risks, legal and financial liabilities, strategic positioning and value-add. The Committee discussed how substantial technical knowledge and process capabilities are pre-conditions for UNOPS to deeply understand and assess partners' needs. By providing integrated solutions through sustainable products and services, UNOPS can gradually move itself up the value-chain in the area of infrastructure.

20. The Committee discussed how available intelligence regarding UNOPS portfolio of infrastructure projects inform the acceptance of new engagements as well as distinguish skills, methodologies and resources needed to deliver applying high-quality standards. The Committee noted that UNOPS fully understands that elements related to people and processes, tools/techniques and technology ought to be available either in-house or through knowledge partnerships; being then supported by internal financial, legal and management systems that are fit for purpose.

21. The Committee discussed the importance of reflecting UNOPS values in every project, especially in terms of national capacity, gender, sustainability, codes of standards and human rights. It was highlighted that this systematic approach should be intrinsic to UNOPS engagement acceptance process, reflecting UNOPS interpretation of broader international policies and standards.

Management Practices – Finance

22. The Committee welcomed UNOPS new Chief Finance Officer and discussed the organization's finance function, following the headquarters review conducted between 2013 and 2014. The Committee

noted that historically the Finance Practice Group had successfully focused on accounting and book-keeping functions. Based on UNOPS organizational maturity, the vision is for the finance function to become an effective business partner to the operations, assisting the organization to achieve its strategic objectives by providing financial advice, analysis and consulting, while maintaining high levels of control over UNOPS financial risks.

23. The Committee noted the focus on building the Practice, namely by encouraging excellence in the team, standardizing procedures and strengthening interaction with finance practitioners in the field. The Committee highlighted the importance of establishing close coordination with other entities and the ERP implementation project.

24. The Committee discussed the relationship between management and the finance function, highlighting the importance of having decision-making firmly based on timely and accurate analysis of operational performance. In this context, the Practice's support to regional entities was highlighted as of particular importance.

Regional Management – Africa

25. In 2014 the Committee engaged with the Director for Africa and discussed the regional portfolio, personnel and leadership team, operational as well as management results. The Committee provided advice on how to boost performance against annual targets and reduce the portfolio's dependency on a limited number of major operations. The Committee was informed of a review conducted to assess country offices' individual organizational maturity, inform the development of improvement plans and risk management practices. Options to restructure field operations to better strategically position UNOPS, balancing business units in the regional portfolio, were considered with the Committee.

26. Regarding business development, the Committee indicated that Africa possibly provide more opportunities to UNOPS than any other region. A balance between diversifying UNOPS portfolio while focusing in contexts where it can add high value was suggested. Having meaningful market research was indicated as critical at this point by the Committee.

27. In this regard, the Regional Director discussed with the Committee the relevance of addressing fragility and building resilience, both areas where most of UNOPS experience and comparative advantage lay. The Committee highlighted how the concept of fragile States may be challenged by different interpretations and nuances, requiring awareness of each country's specific challenges. Therefore, products and services must be strategically targeted so that UNOPS is perceived as a preferred solutions provider in specific contexts, e.g. post-conflict and infrastructure systems. The Committee suggested that UNOPS, in its areas of expertise, may consider to further position itself as a trusted and neutral advisor to national governments on the continent. This is particularly the case, given the continued human resource capacity gaps which many of the countries in the region face.

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.

Management information system

29. Continuing its attentive engagement on the review of UNOPS ERP system - Atlas, the Committee discussed the comprehensive process leading up to establishment of the Business Innovation and Improvement Programme (BIIP), including the overall assessment and recommendations of the Gartner consultancy group and the internal business case which informed the decision for adoption of a new ERP system.

30. The Committee took note of the BIIP launch in May 2014, its structure, deliverables schedule, risk log, supporting change management activities and latest achievements. The Committee appreciated the programme's focus on UNOPS business processes as well as in creating internal knowledge and competencies for future maintenance of the system.

31. The Committee highlighted the opportunity for strengthening UNOPS framework on risk management, internal control, segregation of duties and compliance as an integral part of the new system. In this context, the Committee stressed its interest in continuing its dialogue with both internal and external audit on this topic.

32. The Committee indicated that the expected additional value for partners should be further communicated. Internally, the BIIP could rely on networks tapping specific knowledge and experiences available in UNOPS operations. Externally, sharing of lessons learned with other organizations adopting the same system (e.g. ICAO) should continue. In addition, the Committee supported the envisioned third-party validation of the implementation and noted with appreciation the inclusion of an external fraud risk assessment of business processes being reengineered.

Risk management systems

33. The Committee noted the improved planning and review process applied during the mid-term review 2014 which further links assessment of performance and associated risks at project and corporate levels, and allows for focused escalation of risks as well as cascading of accountability. The Committee noted that such enhancements were adopted in response to external auditors' request for a more systematic approach and clear procedures for implementing enterprise risk management in practice (A/69/5/Add. 11) and in accordance with SAAC recommendation in its Annual Report for 2013 (DP/OPS/2014/3 – Annex 3). This optimized use of corporate tools has, inter alia, enabled further data aggregation and documentation, better informing management conversations, workplan prioritization as well as mobilization of resources.

34. The Committee discussed how risk management was further embedded at UNOPS during 2014, highlighting the importance of effective internal communication to inform practitioners on 'where UNOPS risks come from' and 'what is in place to consistently deal with them' – either for mitigation of threats (e.g. Engagement Acceptance Committee) or capitalization of opportunities (e.g. Partnerships Practice Group, growth and innovation fund).

35. The Committee discussed the value of establishing an implementation plan, with defined milestones and resources, for enhancing the maturity level of UNOPS risk management system. In this regard, the importance of ensuring organizational buy-in and not overloading operations with additional corporate requests was highlighted. The importance of striking the right balance of additional documentation and administrative cost versus the ability to capture and address material risks was

highlighted by the Committee as essential to ensure implementation of cost-effective risk management processes.

F. External and internal audit, and ethics

36. 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.

External audits by the United Nations Board of Auditors (UNBOA)

37. The Committee expressed satisfaction at the unqualified External Audit report for the year ended 31 December 2013, which covered both financial and performance audit. The Committee commended the organization since, after a challenging year in 2012 due to the full implementation of the International Public Sector Accounting Standards (IPSAS), 2013 audit has proved UNOPS technical financial capacity and seriousness in tackling substantive matters. Both years have allowed for a satisfying outcome of unqualified audit opinions and IPSAS is now considered day-to-day business in UNOPS.

38. The Committee was briefed throughout the year on the status of UNBOA audit recommendations under implementation, as well as 2014 interim findings and 2015 audit planning. This included invitations to the UNBOA team to join the SAAC/AAS meetings during appropriate agenda items. The Committee commended the good cooperation and continuous dialogue between the UNBOA team, IAIG, UNOPS management and the SAAC/AAS.

39. On the status of implementation of certain external audit recommendations, the Committee noted that, based on the advisory opinion of an arbitration panel, the long-standing interfund issue between UNOPS and UNDP had been resolved and related recommendations of UNBOA could be closed.

40. The Committee discussed the implications of the adoption by UNOPS of an IPSAS 5-year transitional provision on capitalization of fixed assets. In addition, progress in the areas of risk management as well as financial and management information made available in corporate systems has been noted over the past two years, as previously recommended by the UNBOA. The Committee discussed areas where UNOPS applies good practices that could be replicated in other UN system organizations, as well as possibilities for additional external benchmarking.

Internal audit activities

41. With regard to the IAIG Activity Report for 2013 (DP/OPS/2014/3), the Committee noted an improvement in project audit opinions (92 per cent unqualified) and that no internal audit report was rated ‘unsatisfactory’ in 2013. In terms of the average number of recommendations per report, there has been an overall decrease, which is in line with SAAC/AAS advice to focus on the more significant issues when performing audits.

42. Throughout the year, the Committee was kept informed on the progress of completing the IAIG 2014 audit plan as well as on the development of the 2015 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 improvements in the cumulative implementation rate of recommendations, compared to the previous two years. The Committee also noted that there were only six recommendations outstanding for more than 18 months.

43. Discussing investigations statistics, the Committee noted that case trends may reflect changes in UNOPS portfolio as well as the enhanced maturity of the investigation function in IAIG. The Committee was informed that the majority of cases detected related to medical fraud by staff and also partner personnel under UNOPS contract. The sanctions commonly applied in cases of misconduct were discussed by the Committee.

44. The Committee discussed financial and reputational risks in procurement, both regarding the use of specific vendors as well as in the tender process. The Committee noted UNOPS efforts to further enhance procedures for pro-active vendor management, including vendor pre-qualification and evaluation. The Committee suggested revisiting this matter again in the future.

Ethics function

45. The Committee reviewed and discussed the report on the Activities of the UNOPS Ethics Office (DP/OPS/2014/4), noting the function's compliance with the requirements of the ST/SGB/2007/11 and the recommendations of the 2010 report of the Joint Inspection Unit. The Committee also noted the interaction with the ethics function of other organizations in the United Nations systems and beyond, namely the Ethics Panel of the United Nations and the Ethics Network of Multilateral Organizations.

G. Financial matters

46. Pursuant to section 5.4 of SAAC Terms of Reference, the Committee and its Subcommittee advised on financial matters and reporting.

UNOPS 2013 financial statements

47. The Committee noted UNOPS financial performance and projections (2009-2014) regarding Delivery, Net Engagement Revenue, Management Expense and Engagement Additions, discussing potential reasons for identified trends.

48. The Committee was briefed on UNOPS 2013 financial statements and commended the sound financial position of the organization. The Committee took specific note of the settlement between UNOPS and UNDP that finally resolved the long-outstanding issues related to reconciliation of the interfund account between the two organizations as well as the full provision for after-service benefits for personnel.

H. Committee working methods

49. The Committee confirmed its commitment to support and advise the Executive Director on critical matters, adding value to UNOPS and meeting mutual expectations. In consultation with the Executive Director and Deputy Executive Director, the Committee expressed its support for reconstituting its functions and responsibilities through the establishment of:

- a. An Audit Advisory Committee (AAC) with a ToR comparable to those of the other two organizations governed by Executive Board for UNDP/UNFPA/UNOPS;
- b. A Strategy Advisory Group of Experts (SAGE) to provide strategic advice to the Executive Director.

50. The Committee and the Executive Director agreed to initiate a process to identify potential individuals to join the committees to be established and contribute to UNOPS strategic thinking and discussions. The interest of geographical and background diversity among members was highlighted.

I. Conclusion

51. The Committee noted the retirement of Mr. Jan Mattsson from the United Nations in May 2014 and commended his instrumental role in creating for UNOPS its clear mandate in the UN System, its strong financial viability and its commitment to continuous reform and improvement of its business and operational practices.

52. The Committee welcomed the appointment of Ms. Grete Faremo to the position of UNOPS Executive Director in 2014 and had the pleasure of engaging with her in her new role at the September meeting of the Committee.

53. The Committee notes that the first year of implementation of the UNOPS Strategic Plan, 2014-2017 has contributed to further positioning of UNOPS as a stable, focused, well-run and trustworthy organization.

54. The Committees notes and endorses that enhancements to UNOPS business processes, people management and the communications strategy are considered priorities for the upcoming times. In addition, the Committee will continue to support and advise on the implementation of the new ERP system, strengthening of business intelligence in support of risk management and decision-making across the organization.

55. The Committee will continue to follow closely the evolving international development arena, advising on partnership opportunities and UNOPS differentiated competitiveness in contribution to sustainable development.

56. Areas of Committee focus in 2015 will, inter alia, include:

- a. Oversight of new ERP implementation, including management of results and risks;
- b. Effectiveness and efficiency of UNOPS control environment and risk management systems;
- c. Review and discuss UNOPS cyber-crime risks;
- d. Review and discuss changes of the UNOPS global structure;
- e. Identify opportunities to further enrich the Committee's strategic value-add and contributions;
- f. Review progress and results of selected investment plans;
- g. Review enhanced reporting on sustainability contributions.

Robin McPhail

Chair, UNOPS Strategy and Audit Advisory Committee
Copenhagen, March 2015