

United Nations Office for Project Services (UNOPS)
Audit Advisory Committee
Annual Report 2016
(DP/OPS/2017/3 – Annex 3)

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A. Background

1. The Audit Advisory Committee (“Committee”) of the United Nations Office for Project Services was established in 2015 pursuant to Executive Board decisions 2015/4 and 2015/12 on the Committee’s Terms of Reference laid out in DP/OPS/2015/CRP.1. Pursuant to the Committee’s ToR, its purpose is to assist the Executive Director in fulfilling his/her responsibilities regarding oversight, financial management and reporting, internal audit and investigation, external audit, risk management, and systems of internal control and accountability. The primary role of the Committee is to advise the Executive Director, taking into consideration the Financial and Staff Regulations and Rules as well as the policies and procedures applicable to UNOPS and its operating environment.¹

2. The Committee held its inaugural meeting on 4 March 2015 and operates under the Terms of Reference laid out in the Organizational Directive no 5, rev. 5 of 1 September 2015.

3. This annual report, covering the period 1 January and 31 December 2016, submitted at the request of the Executive Board (decision 2008/37, DP/2009/2), is pursuant to section 31 of the Committee’s Terms of Reference.

B. Committee members and meetings in 2016

4. For the period from 1 January to 31 December 2016, the Committee comprised the following members, all of whom confirmed their independence in fulfilling their function:

- a. Anni Haraszuk (Chair)
- b. Robin McPhail
- c. Bente Svensson
- d. S. Bhaskar

5. During 2016, the Committee convened for its 5th – 7th meetings in February, June and November. All meetings were attended by the Executive Director. UNOPS Deputy Executive Director, Director of IAIG, and members of the UNBOA team engaged with the Committee on relevant matters. Additionally, throughout the year the Committee invited members of the senior management team and selected technical experts for deliberation on specific topics. Pursuant to section 15 of the AAC Terms of Reference, UNOPS provided substantive and technical secretariat support. The Committee commends the substantive quality and timeliness of the secretariat support.

¹ In the period 2007-2014, the UNOPS Strategy and Audit Advisory Committee (SAAC) fulfilled these functions and responsibilities in accordance with its Terms of Reference.

C. Reporting to the Executive Board

6. Pursuant to section 2 of the AAC Terms of Reference, the Committee provided independent advice to the Executive Director and UNOPS management on governance reports to the Executive Board.

7. Throughout the year, the Committee reviewed and provided advice on relevant governance reports and followed the outcomes of UNOPS official reporting to the Executive Board, i.e.:

- a. Financial report and audited financial statements for the year ended 31 December 2014 and Report of the Board of Auditors (A/70/5/Add.11)
- b. Report of UNOPS on the status of implementation of the recommendations of the Board of Auditors for 2014 (DP/OPS/2016/1)
- c. Annual report of the Executive Director (DP/OPS/2016/2), including Annex 1 - Financial highlights
- d. Activity report for 2015 of the Internal Audit and Investigations Group (DP/OPS/2016/3)
- e. Activities of the UNOPS Ethics Officer in 2015 (DP/OPS/2016/4)
- f. Midterm review of the UNOPS strategic plan, 2014-2017 (DP/OPS/2016/5)

D. External audit

8. Pursuant to sections 6.e, 6.f, 6.g, and 6.h of the AAC Terms of Reference, the Committee reviewed and advised extensively on external audit matters.

9. The Committee was continuously briefed on the status of UNBOA recommendations under implementation throughout the year, as well as the ongoing UNBOA 2015 audit process including the focus areas for the management and financial audits. The Committee noted that the 2015 financial audit statements were issued with an unqualified audit opinion, highlighting that the UNOPS management continues to emphasize the importance of audit as a going concern. The Committee commended the good cooperation and continuous dialogue between the UNBOA team, IAIG, UNOPS management and the AAC.

10. The Committee further noted that UNOPS maintains a full overview of UNBOA recommendations through successfully introducing quarterly benchmarking among the senior leadership vis-à-vis implementation of oversight recommendations. In this context, the Committee discussed the importance of highlighting the processes UNOPS has initiated to strategically address the UNBOA recommendations. The UNBOA and the Committee extended their appreciation to UNOPS continuous attention and efforts towards the recommendations scheduled for implementation in 2016.

11. The UK team's mandate as the UN Board of Auditors for UNOPS ended in 2016 with the official hand-over to the new India team occurring at the end of July 2016. The Committee was introduced to the Director and Deputy Director of the new team, and briefed on the timeline for the 2017 UNBOA audit plan. It further noted that the initial assessment conducted by the India team at UNOPS HQ had been concluded as satisfying. The Committee urged the new team to consider some continuity of team members over the three-year term. The team, UNOPS and the Committee look forward to further deepen the working relationship.

E. Internal audit and investigations

12. Pursuant to sections 6.e, 6.f, 6.h of the AAC Terms of Reference, the Committee reviewed and advised extensively on internal audit matters.

13. The Committee noted EB decision 2015/13 in which UNOPS, UNDP and UNFPA had been requested to express an audit opinion in the 2015 reports based on the work undertaken during the year. The Committee recognized the value of the provision of an audit opinion from IAIG to the UNOPS management and noted with appreciation that IAIG had liaised with UNOPS General Counsel and UNDP in order to assure compliance with the UN standards for expression of audit opinion.

14. The Committee discussed the evolution of UNOPS maturity level over the past years in internal audit and investigations. It was noted that targeted audits had become more frequent, and that the advisory role of IAIG had gradually expanded, allowing IAIG to provide proactive support to directors and managers during the entire project cycle. The Committee further noted that, following a peer review of the investigations function of IAIG in 2015, a recruitment process of an Investigations lawyer had been initiated so to further assure the quality and enforcement of the investigations function of IAIG.

15. During the year, the Committee discussed the ongoing work of IAIG as well as the 2017 IAIG Audit work plan. It was highlighted that during 2016 and 2017, IAIG would apply a proactive approach in its audit methodology by using the new ERP system. In this context, the Committee noted that management had prioritized reserves for an IAIG data analytics tool which had been developed for the purpose of providing a more holistic and continuous approach to analyse transactional data in oneUNOPS.

16. The Committee also noted that IAIG would continue its engagement with the Governance, Risk and Compliance team in an ex-officio role so to focus efforts on specific functional and process areas where non-compliance is expected to pose the highest risks. The Committee commended IAIG for taking a proactive approach in its work during 2016 and 2017 as well as taking advantage of the new technology and risk management introduced to UNOPS.

17. The Committee noted that UNOPS has maintained high implementation rate of internal audit recommendations in the past years. In addition, the Committee noted with appreciation the lowest number ever of internal audit recommendations open for more than 18 months at the end of 2016.

F. Ethics

18. Pursuant to section 6.b of the AAC Terms of Reference, the Committee reviewed and advised on Activities of the UNOPS Ethics Office (DP/OPS/2016/4), the UNOPS fraud and corruption prevention policy, ethics function including code of ethics, and whistle blower policy.

19. The Committee discussed the 2015 Annual Report of the Ethics Office and the results of the Ethics, Integrity and Anti-Fraud Survey for the same year. The Annual Report highlighted that the number of referrals to the UNOPS Ethics office has remained the same for the past five years, however noticing that the Office receives a number of HR related referrals, which may be better directed to the People and Change Group. It was also noted that in 2016, the Ethics Office would be aiming to achieve higher efficiency in its review of the financial disclosure program, and give added emphasis on revealing potential conflicts of interest.

20. In the context of the Ethics, Integrity and Anti-Fraud Survey, the Committee noted that the UNOPS culture and personnel management had been a central topic in various senior management meetings and in the Corporate Operations Group retreat in 2016 and had been further highlighted in the Midterm review of the Strategic Plan 2014-2017. The Committee was further informed of the new PRA/PER system in the

organization, which had been restructured to reflect a five-point scale so to provide a more detailed and realistic performance assessment of the UNOPS personnel compared to the previous three-point scale.

G. Financial matters

21. Pursuant to sections 6.c and 6.d of the AAC Terms of Reference the Committee advised on financial matters and reporting.

22. The Committee commended UNOPS for the 2015 preliminary financial results which indicated a strong financial year for the organization. It further highlighted that the corporate performance review is an essential process for UNOPS which supports the organization to systematically monitor and manage both financial performance and risks.

23. The Committee further discussed and commended the organization's improved ability to make appropriate financial projections and to manage risks in partner and business related changes while sustaining growth. It also discussed how the new ERP system could support the UNOPS Finance Group in preparing the year-end financial review and facilitate further analysis of financial results in the future, e.g. cost pattern by type of revenue. The Committee noted management's attention to enhance use of internal data for performance management and business intelligence, including automation of corporate performance reviews and reporting via the ERP system.

24. The Committee noted that the audited financial statements for 2015 were issued with an unqualified audit opinion, supporting the impression of the strength and quality of the UNOPS financial statements. The Committee also noted that 2015 was the final year of IPSAS implementation and that PP&E had been brought onto the balance sheet. The Committee notes the UNBOA suggestion that UNOPS, with a view to the risk and liabilities of its operations, may consider setting reserve levels on a more strategic basis. The Committee concurs with the importance for UNOPS of having an explicitly articulated position on the strategic use of its operational reserves.

25. UNBOA commended the implementation progress of oneUNOPS, highlighting that it would enhance the organization's internal controls. UNBOA appreciated the fruitful collaboration with IAIG during 2015 in assuring consistency in reports and conclusions. The Committee noted the UNBOA opinion that the work of IAIG serves as an important and effective component within the internal control framework. The Committee also noted with appreciation the successful recruitment of a new CFO.

H. Risk management systems

26. Pursuant to section 6.a of the AAC Terms of Reference, the Committee reviewed and advised on the development and soundness of UNOPS Risk Management Systems as per UNOPS Financial Regulations and Rules, Article 4, Rule 104.03.

27. During the year, the Committee was briefed on the implementation process of the UNOPS Governance, Risk and Compliance (GRC) principled performance framework, to be launched on 1 January 2017. The Committee noted that the vision for the UNOPS GRC approach would be to achieve a pragmatic alignment between the three lines of defense modality and the segregation of duty, while maintaining organizational knowledge and experience. In this context, the Committee highlighted the potential benefit of aligning/embedding GRC and three lines of defense with the more strategic framework of the EFQM excellence model.

28. The Committee further noted the ongoing work to establish an enhanced legislative framework for the purpose to ensure clearer boundaries in the policies and consistency between the different legislative instruments and components, and increase efficiency through simplification and empowerment

of personnel. The Committee was further informed that in order to enhance monitoring of risk-based decision making in the organization, the current opportunity and engagement process would be merged in the quarterly assurance process and linked together in oneUNOPS. It was suggested that this could allow for appropriate escalation of key risk areas on all organizational levels to then be annually aggregated and prioritized to determine the overall UNOPS risk profile. The Committee further reminded of upside risks, that risks should be considered also as opportunities.

29. The Committee discussed the UNOPS risk picture in relation to the development of the new ICT strategy and UNOPS reporting process, noting that reporting on risks would be included in the new strategy and overall ICT architecture. It was further noted that properly embedding the Engagement Acceptance process in the UNOPS systems and processes remains a vital objective as many risks pertain to and can be identified in the organization's pipeline. The Committee further discussed the UNOPS risk picture from a behavioral perspective, including KPIs and incentives. The Committee highlighted the importance to align the organization's business development KPIs with the organization's risk appetite.

I. Management information systems

30. Pursuant to section 6.i of the AAC Terms of Reference, the Committee reviewed and advised on the development and soundness of UNOPS management information systems.

31. The Committee was briefed on the road map for the ICT strategy, focusing on establishing, inter alia, strategic priorities for 2017 and development of a two-year ICT strategy. In the context of the ICT strategy, the Committee noted that it would contain two dimensions; a) A road map of the way forward for the ICT components, its infrastructure and service delivery, b) A new formal ICT governance structure for the longer term.

32. The Committee further discussed the possibility of developing the ICT strategy as a business line in the future. In this context, the Committee discussed the digital agenda in relation to implementation of the SDGs. It was further highlighted that continuous innovation and improvement of technology would be an essential lever for optimization for UNOPS transactional services and the provision of efficient management support services to partners in the UN system and beyond.

33. In the context of the development of the ICT strategy, the Committee noted it would focus on address of potential system risks. It noted that address should be achieved through a combination of policy/process and system updates. Moreover, the ICT unit would coordinate with the Risk and Quality Group to ensure integration into the GRC framework, as well as facilitate prioritization of high and medium risks based on risk appetite.

34. The Committee further discussed the possibility of benchmarking potential fraud risks of UNOPS contracts and vendors using oneUNOPS. It further noted that considering the areas and countries where UNOPS operates it would be challenging to perform an overall assessment of the market. The Committee suggested that country specific analyses may be warranted, in order to determine possible risk of fraud in relation to specific transactions in such situations and countries. The Committee noted the IAIG attention to analysis of offices in similar contexts, and ambition to identify possible trends.

J. Committee working methods

35. The Committee confirmed its commitment as the Audit Advisory Committee to support and advise the Executive Director on critical matters, adding value to UNOPS and meeting mutual expectations.

36. The Committee discussed, in consultation with the Executive Director and Deputy Executive Director, the overarching themes for AAC advisory discussions based on the AAC's Terms of Reference. It was noted that the UNOPS external and internal audit, including collaboration between the two functions and the AAC, will be an important feature of the continuing advisory discussions of the Committee.

37. The Committee noted that the UNOPS management team with a view to leverage expertise, enhance the organization's loop-learning, and add strategic value of the audit function to UNOPS operations, will also constitute a central aspect to the AAC advisory discussions moving forward. Additionally, the importance of cross-fertilization between the AAC and the Strategic Advisory Group of Experts was highlighted.

38. In 2016, the AAC chair was invited for the first meeting of UN System Oversight Committees on 28 November in NYC. It was highlighted that one key issue to be addressed in the meeting would be to compare the structuring of Audit Advisory Committees in the UN system, including their appointments and mandates.

K. Conclusions

39. Throughout 2016, 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. In its advisory capacity, the Committee has kept in focus the organization's alignment with the direction and decisions of the General Assembly and Executive Board.

40. The Committee notes UNOPS continued solid financial performance and improvements in data analytics supporting financial projections and focused business planning. The Committee appreciates the overall UNOPS maturity progress regarding financial matters, as evidenced by the 2015 report of the UNBOA. As the UK team's mandate as external auditors came to an end in 2016, the Committee thanked the team for its continued support and collaboration in the past two years, and welcomed the new India team as external auditors for UNOPS.

41. The Committee commends UNOPS for its continued commitment to excellence and transparency in its business - and operational approach. The continued focus on implementation of audit recommendations and introduction of quarterly benchmarking among the senior leadership demonstrate the extensive coordination and technical support provided to resolve audit issues. These efforts have resulted in a continuously high implementation rate in the past years for internal audit recommendations. In addition, the Committee noted with appreciation the lowest number ever of internal audit recommendations open for more than 18 months, as presented in the IAIG Activity Report for 2016 (DP/OPS/2017/3).

42. The year 2016 was an exceptionally active year for UNOPS in continuing to strengthen the organization's risk management systems. Actions included the enhancement of the UNOPS legislative framework and utilization of the new ERP system to enhance risk-based decision-making, as part of the implementation process of the GRC principled performance framework. 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.

Furthermore, the Committee noted the significant potential offered through a combination of these approaches and digital solutions.

43. Throughout the year, the Committee followed closely the launch of the UNOPS ERP system, including key risks and collaboration between the Business Innovation and Improvement Program, functional practices and operations in order to achieve successful implementation of the ERP. Actions were taken accordingly by the organization and the Business Innovation and Improvement Program and the Committee commended UNOPS for the successful launch of OneUNOPS. Moving forward, the potential of OneUNOPS as an essential platform for the continued development of the UNOPS risk management systems, particularly in relation to internal controls in the UNOPS business processes, was highlighted. The Committee moreover noted and appreciated the development of the new ICT strategy which would be followed up on in 2017.

44. The Committee notes the enhanced strategic focus of UNOPS mandate as articulated in relevant Executive Board decisions. It notes the contributions UNOPS can make to the 2030 Agenda through: (a) effective specialized technical expertise in infrastructure, procurement, and project management; (b) provision of efficient management support services; and (c) support to expand the overall pool of resources available for resilience and sustainable development across development, peace and security and humanitarian efforts.

44. In addition to the areas outlined in the Audit Advisory Committee's ToR, areas for specific Committee focus in 2017 may include, *inter alia*:

- a. Implementation and value-added of the Governance, Risk and Compliance principled performance framework;
- b. Value-added of OneUNOPS, incl. impact on the internal control environment, management and governance reporting;
- c. Data universe, incl. data quality, analytical intelligence and value-added to UNOPS' business model;
- d. Treasury function, i.e. UNOPS's transition to assuming responsibility for its own function;
- e. Exposure and mitigation measures in specific risk areas, e.g. Engagement Acceptance; fraud, corruption and money laundering, and cyber security;
- f. Arrangements for working and partnering with other UN entities, and the public and private sector;
- g. Compliance in HR area, incl. recruitment processes and employee policies and procedures;
- h. Continued successful collaboration with new team of external auditors in 2017;
- i. Continue the development of the AAC's working methods, incl. the collaboration with key stakeholders (external audit, internal audit etc.) in its support and rendering advice to the Executive Director etc. adding value to UNOPS on strategic, tactical and operational level.

Anni Haraszuk
Chair, UNOPS Audit Advisory Committee
Copenhagen, March 2017