

UNOPS Audit Advisory Committee
Annual Report for 2021
(DP/OPS/2022/3 – Annex 7)

| | | |
|----|--|---|
| A. | Introduction | 2 |
| B. | External governance by the Executive Board | 2 |
| C. | Strategy implementation | 3 |
| D. | External audit and review | 5 |
| E. | Internal audit and investigations | 6 |
| F. | Ethics and compliance | 6 |
| G. | Internal governance and risk management | 7 |
| H. | Financial matters | 8 |
| I. | Self-assessment | 9 |
| J. | Conclusion | 9 |

A. Introduction

1. The UNOPS Audit Advisory Committee (the Committee) was established in 2015 in accordance with Executive Board decisions 2015/4 and 2015/12.¹
2. This annual report covers the Committee's activities in 2021. It is submitted at the request of the Executive Board (decisions 2008/37 and 2015/4), and in accordance with section 37 of the Committee's terms of reference.
3. The Committee is composed of members who are external to UNOPS. All members confirmed their independence in fulfilling their function. In 2021, the members were:
 - a) Bente Svensson (Chair, retired 1 December 2021)
 - b) S. Bhaskar (retired, 1 December 2021)
 - c) Sheila Khama
 - d) Pablo Sanchez-Lozano
 - e) Paivi Rekonen (Chair, 1 December 2021)
 - f) James H. Cottrell
 - g) Gautam Sashittal (joined, 1 December 2021)
4. During 2021, the Committee performed its functions in accordance with its terms of reference, Executive Office Instruction "Audit Advisory Committee" ([EOI.ED.2019.02](#)).
5. Pursuant to the terms of reference, the purpose of the Committee 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, systems of internal control and accountability, and application of best practices and industry standards for strategy implementation.
6. 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.
7. During 2021, the Committee held three meetings (March, June, and December). Due to the Coronavirus disease (COVID-19) pandemic all 2021 meetings were conducted in a virtual format. Through these meetings the Committee was able to fulfil its functions and advise the UNOPS Executive Director in mandated areas.
8. In December 2021, the Chair participated in the sixth meeting of the United Nations system oversight committees.
9. Throughout the year the Executive Director provided secretariat for the Committee. The Committee commended the substantive quality, effectiveness and timeliness of support provided by the executive secretariat. It noted particularly the ability to accurately capture nuances of the complex matters deliberated.

B. External governance by the Executive Board

10. 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, including:
 - a) Annual report of the Internal Audit and Investigations Group on UNOPS internal audit and investigations activities in 2020 ([DP/OPS/2021/2](#))
 - b) Activities of the UNOPS Ethics Office in 2020 ([DP/OPS/2021/3](#))
 - c) Annual report of the Executive Director ([DP/OPS/2021/4](#))

¹ In the period 2007-2014, the UNOPS Strategy and Audit Advisory Committee (SAAC) fulfilled the functions of the Committee.

- d) UNOPS 2020 annual report on the recommendations of the Joint Inspection Unit ([DP/OPS/2021/4 – Annex 4](#))
- e) UNOPS strategic plan, 2022-2025 ([DP/OPS/2021/5](#))
- f) UNOPS budget estimates for the biennium 2022-2023 ([DP/OPS/2021/6](#))
- g) Report of the Advisory Committee on Administrative and Budgetary Questions on the UNOPS budget estimates for the biennium 2022-2023 ([DP/OPS/2021/7](#))
- h) Financial report and audited financial statements for the year ended 31 December 2020 and Report of the Board of Auditors ([A/76/5/Add.11](#))
- a) Report of UNOPS on the status of implementation of the recommendations of the Board of Auditors for 2020 ([DP/OPS/2022/1](#))
- b) UNOPS sustainable investments in infrastructure and innovation ('S3i') reserve ([DP/OPS/2022/2](#))

11. In overall reflection on the mandated governance reports, the Committee noted the organization's diligence in ensuring compliance therewith, and the efforts made to enabling the Committee's engagement with the draft reports prior to their finalization and submission for the consideration of the Executive Board.

C. Strategy implementation

12. 2021 was the last year of the UNOPS strategic plan, 2018-2021. The Executive Director kept the Committee abreast of strategy implementation, including the development, and the Executive Board's approval, of the UNOPS strategic plan, 2022-2025. In addition, the Committee was updated on the effects of COVID-19.

The UNOPS strategic plan, 2022-2025

13. In September, the Executive Director presented the UNOPS strategic plan, 2022-2025 to the Executive Board. The Committee commended UNOPS on the new strategic plan and the strong support the Executive Board had expressed in its decision 2021/20.

14. The Committee noted that, as envisaged by the midterm review the year before, the new plan was effectively a continuation of the UNOPS strategy, with an enhanced qualitative statement of the contribution the organization can make in mandated areas, through application of sustainable, resilient, and inclusive implementation approaches to expand implementation capacity.

15. The Committee noted that the new plan had positioned UNOPS well to support "Our Common Agenda" as proposed by the Secretary-General, by making own and unique contributions to the Agenda 2030; including by assisting governments, with involvement of the private sector, in unlocking and optimally leveraging resources beyond Official Development Assistance (ODA).

16. The Committee observed particularly the potential to enhance contributions to countries achievement of the sustainable development goals through the more confidently stated focus on the three UNOPS pillars of quality infrastructure, public procurement and sustainable infrastructure investment and innovation (S3i).

17. Overall, the Committee commended UNOPS on the strategy for the next four years. At the same time, it encouraged the Executive Director to develop more specific contribution indicators and targets for driving progress and measuring its contributions over the next four years.

Quality infrastructure

18. As part of its recurrent deliberations of the strategic focus on quality infrastructure the Committee underscored the importance of the organization's persistent focus on developing

its capabilities to support governments in the holistic assessment, evidence-based planning, and mobilization of financing for sustainable, inclusive, and resilient infrastructure.

19. During the year the Committee was briefed on efforts to enhance engagement in support of climate change mitigation and adaptation through quality infrastructure. In this context it took note of research done by UNOPS, the United Nations Environment Programme and the University of Oxford in advance of the 2021 United Nations Climate Change Conference (COP26). The results had suggested that infrastructure is responsible for 79 per cent of all greenhouse gas emissions; and accounts for 88 per cent of climate change adaptation investment needs.

20. The Committee strongly encouraged the added focus on providing support to countries' planning for, and investing in, decarbonization and climate-proofing of their basic infrastructure, including through awareness raising, capacity building and support for mobilization of financing, including from the private sector.

21. It noted that UNOPS was well-positioned to provide support for sustainable quality infrastructure at scale, including in the renewable energy sector, as evidenced by an increasing number of projects focused on off-grid solutions with strong involvement of local communities.

22. The Committee shared its overall impression that the focus on climate change provided an opportunity for a step change in UNOPS position. In this vein it also underlined the mutually reinforcing relationship and the interdependence between quality infrastructure and public procurement. This underscored the opportunities for UNOPS to contribute across the value chain to countries' efforts to achieve the SDGs, fight climate change and build resilience.

Public procurement

23. The Committee was kept abreast of the development in the strategic focus area of public procurement. It strongly encouraged the continued focus on supporting countries to effectively leverage their public procurement in line with principles of good governance and transparency, building on the significant contribution already made in several Latin American countries.

24. During the year the Committee engaged extensively on the management and internal oversight arrangements in place for the 'PharmaMx' project providing support to the government of Mexico for procurement of medicines and other medical supplies, and the development of technical capacity of relevant national entities.

25. Pursuant to an update on the internal audit strategy, and engagement with the PharmaMx project steering committee, the Committee conveyed its confidence in the comprehensive and cross-organizational arrangement in place for risk management. It noted particularly the focus on maintaining a dynamic approach adapting to the constantly changing situation and complex operating environment.

26. The Committee encouraged that the organization, as part of its broader digitalization agenda, explore opportunities to take further advantage of digital tools for the implementation of this and future projects in the area of public procurement.

Sustainable infrastructure investment and innovation

27. The Committee took note that the UNOPS ambitions to develop its S3i initiative over the years had received strong support by the Executive Board. It further noted that the Executive Director had been requested to present a report on the establishment of a separate S3i reserve to the Board in early 2022. Furthermore, an evaluation of the formal S3i proof of concept should be presented to the Executive Board by the middle of 2024.

28. Towards the end of the year the Committee was provided with a comprehensive update on the progress achieved by the sustainable infrastructure investment and innovation (S3i) office established in Helsinki, Finland in the beginning of 2020.

29. The Committee noted that the office continued to operate as a business unit within the overall UNOPS structure and policy framework. In relation to the internal management arrangements for the initiative, it noted with appreciation the establishment of an S3i Advisory Committee on Investments, comprising no less than ten external experts. It further noted that the full team had been put in place, and that the Chief Executive reported that solid procedures for systematic due diligence and risk management of S3i projects had been put in place.

30. In relation to the continued development and progress of the portfolio of S3i projects the Committee noted the enhanced focus on exploring opportunities in renewable energy. It took note that the Chief Executive had experienced the operating environment surrounding affordable housing to be more complex to navigate than initially anticipated. The Committee encouraged the intent to pursue diversification of focus and partnerships, including as a means of mitigating challenges and risk exposure in a complex operating environment.

31. The Committee commended the apparent progress made. It reconfirmed the strategic importance of the initiative and expressed its continued support. Reflecting on operational challenges, the Committee heeded the innate UNOPS commitment to solid governance structures, the dedication to UN values and principles, and the firm commitment to transparency and zero tolerance.

COVID-19

32. Throughout the year the Committee was updated on the developments in relation to COVID-19, and its effect on the organization and the support provided to partners. It observed that the ability to quickly adjust and respond to the uncertainties posed by the situation, including by offering support to partners' response to the pandemic and crisis, was a testament to the organization's agility and resilience.

D. External audit and review

The United Nations Board of Auditors

33. The Committee was updated on the findings of the UNBOA in its report for the period ended 31 December 2020. It noted that the opinion on the financial statements had been unqualified. At the same time, it noted that an emphasis of matter had been raised in relation to a provision of \$22.2 million made for S3i investments. The Committee reiterated its support for the ambitions of the initiative and noted its strategic importance for UNOPS and the countries it serves.

34. In 2021, the Committee was able to re-establish its interface with the UNBOA team. Among the issues discussed was the possibility for management to receive a written materiality assessment in relation to the emphasis of matter raised. The UNBOA had reserved its right to apply professional judgment in relation to specific matters and conveyed that in conformance with standard procedure a materiality assessment would not be issued in written form.

35. In relation to implementation of UNBOA recommendations, the Committee noted that the implementation rate had decreased. By the end of 2020, the implementation rate stood at only 33 per cent, compared to 67 per cent in 2019, 61 per cent in 2018, and 27 per cent in 2017. The Committee encourages continued management resolve in the implementation of

recommendations and close collaboration between UNOPS and UNBOA to ensure that relevant measures to address outstanding issues are understood and taken.

The Joint Inspection Unit

36. In relation to recommendations of the Joint Inspection Unit (JIU), the Committee commended UNOPS for its continued high level of responsiveness, as demonstrated by the rate of implementation of accepted recommendations. The Committee reiterates that prior to accepting the at times high-level system-wide recommendations offered by the JIU, it is essential to consider their relevance and the cost-benefit of implementing against the unique UNOPS mandate and business model.

E. Internal audit and investigations

37. During the year, the Committee followed the implementation of the IAIG 2021 work plan and was kept abreast of the opinions expressed through completed audits. It noted with satisfaction that despite COVID-19, IAIG had been able to keep implementation on track. This had in large part been due to strong support from management and colleagues in country offices, and successful usage of automated tools and streamlined processes.

38. The Committee reiterated its appreciation for the focus on enhanced use of data for continuous auditing and for the organization's oversight recommendations dashboard. It reiterated its encouragement of the continued enhancements of IT for data analytics, monitoring of recommendations, and for providing assurance in an efficient and timely manner. At the same time, it noted that focus on IT was a standing item in internal audits.

39. In relation to management's response to internal audit recommendations the Committee noted that also by the end of 2020 the overall implementation rate stood at 96 per cent. It also noted the continued management commitment to target early response to recommendations from internal audits with an unsatisfactory or qualified opinion. At the same time, it noted that by the end of the year, twelve recommendations older than eighteen months had not been closed, compared to only one the year before.

40. The Committee supported the continued IAIG attention to supplementing its traditional audit reports and recommendations with assignments of a more management advisory nature. It noted particularly the IAIG focus and attention to support the S3i initiative's continuous improvement of its internal due diligence procedures. The Committee advised to maintain a clear delineation between internal oversight and advisory activities.

41. The Committee noted with appreciation the IAIG focus and attention to exceptionally large and complex projects. During the year the Committee was provided with a briefing on the audit strategy and support provided for a risk assessment of the PharmaMx project. The Committee expressed appreciation for the comprehensive IAIG engagement and encouraged the exploration of increased use of digital tools for delivery, management, and oversight of projects of this nature.

42. The Committee expressed its overall appreciation of the work of IAIG. It took note of the IAIG priorities and plan for 2022, in which the focus and location of internal audits of field office operations is determined based on a risk assessment. Finally, the Committee reiterated its support for the IAIG to continue its close collaboration with UNDP, UNFPA, UNICEF, UN-Women and WFP to ensure harmonization of reporting in line with Executive Board decision 2020/10.

F. Ethics and compliance

43. The Committee reviewed the 2020 Annual Report of the Ethics and Compliance Office. The Committee commended the report and the work undertaken by the Office. It noted that

the report bore evidence to the evolution of the Office, which also in 2020 had seen an increase in its resources.

44. The Committee took note that the Office, as part of a larger multi-year effort to undertake a global ethics risk assessment, had taken steps to increase internal awareness of the ethics function, including through refinement and dissemination of key definitions. In this context it reiterated the important role of the Office, together with other parts of the organization, to maintain the culture of accountability.

45. The Committee took note of indications that the function's role vis-à-vis other groups and units had become better understood by personnel, which had become seemingly more confident in speaking up. In relation to financial disclosure, the Committee noted that in 2020 all 893 personnel required to file had done so.

46. The Committee noted with appreciation support provided by the Office for identification of ethical risks associated with key strategic projects and initiatives, including S3i and PharmaMx. It noted that this type of support was provided with attention to ensuring a clear division of labour between the ethics function and operations.

47. The Committee expressed its readiness to engage further with the Office with advice and support for the ambition to build the compliance function to focus on business ethics, akin to practices in the private sector.

48. The Committee noted that the Chief Ethics and Compliance Officer had maintained a regular interface with the Ethics Panel of the United Nations. It further noted that in 2020 the office, to concentrate its resources on implementing its internal workplan, had discontinued past practices of service provision to other United Nations organizations.

G. Internal governance and risk management

Quarterly business review

49. Throughout the year the Committee was kept abreast of the outcome of quarterly business reviews of the organization's performance against its management goals. The reviews cover the partner, people, process, and finance dimensions of the organization's internal balanced scorecard. Through the reviews senior management assesses the organization's performance against internal management targets cascaded across the organization.

Client Board

50. The Committee took note that the Executive Director in 2021 convened the second meeting of the UNOPS Client Board established in 2019 for the purpose of providing operational advice. It noted that the meeting had been characterized by an overall supportive and positive tone. The deliberations had highlighted areas of successful collaboration, and areas for enhanced support. Overall, the meeting had demonstrated understanding of, and appreciation for, the UNOPS value proposition.

51. The Committee noted that the effective response to COVID-19, support for national public procurement, and the UNOPS value-add in quality infrastructure had been highlighted. It further noted that partners had expressed strong interest in relation to climate action and green infrastructure, and for added focus on local capacity development. They had also encouraged the UNOPS focus on continuous improvement of management and operations, including through enhanced use of IT tools.

Digitalization

52. The Committee took note of the launch of an internal initiative commissioned with the aim to gain an actionable understanding of how digital technology can be applied to better

support the UNOPS strategy and implementation of the expanding and increasingly complex UNOPS portfolio of projects.

53. The Committee welcomed the phased and holistic approach to further explore the potential of digitalization. It expressed appreciation for the focus on building an eventual initiative based on business needs rather than technology solutions and issues. The Committee expresses strong interest in continuing to follow the developments of the initiative.

Risk management

54. Throughout the year, all meetings of the Committee involved consideration of risk, be it from a strategic, financial and/or audit perspective, and the monitoring of risk factors and mitigation activities ongoing throughout the year.

55. The breadth of expertise of the members enabled the Committee to fulfil its advisory role and responsibilities. It allowed the Committee to provide a priori and foresight advice on potential risk areas – both upside and downside. Through this, it could advise on mitigation focused on increasing value-add potential, and on reducing cost and adverse consequences.

56. Discussions of risks were initiated both ways. The dialogue remained open and transparent, and mitigating thinking and actions were reached through dialogue and monitoring. The tone was one of looking for potential risks and opportunities to improve and exploring items in depth. The long-term focus was on a culture of risk consciousness, appropriate mitigation, and the building of capacity and capability to handle and thrive in the adverse and ever-changing risk environment.

57. The Committee took note with appreciation of the establishment and onboarding for a dedicated chief risk officer position. As recommended by the Committee, pursuant to a working group concluded in 2020, the new role would be responsible for coordinating and drawing on existing risk management roles and structures in support of strategic corporate risks management, including the functions of the chief information security officer.

H. Financial matters

Financial performance

58. During the year, the Committee was kept abreast of the organization's overall financial performance. Presented with an update on the indicative financial performance, it noted that also 2020 had been a year of strong financial performance and consolidation of the organization's solid financial position. This was confirmed when the Committee was presented with the final audited financial statements later in the year.

59. In relation to the statement of financial performance for 2020 - the income statement - the Committee noted that the UNOPS revenue had seen a marginal decrease from USD 1,212 million to USD 1,169 million, with expenses decreasing from USD 1,190 million to USD 1,141 million. As a result, the 2020 surplus from operations increased to USD 28 million compared to 22 million in 2019.

60. The Committee noted that the UNOPS financial statements remained fully IPSAS compliant. In accordance with its self-financing, fee-for-service business model the bulk of revenue had been from exchange transactions.

61. The Committee took note that the external audit opinion had been unqualified. At the same time, it took note of the emphasis of matter raised, and supported the management inquiry into the materiality assessment forming the basis.

Biennial budget estimates

62. Having reviewed the biennial budget estimates for 2022-2023, the Committee noted that when excluding the PharmaMx project, the budget was expected to be slightly lower than in the prior biennium. It further noted that the overall average fee, already at a relatively low level of around five per cent, was estimated to decrease even further.

Net assets and reserves

63. In relation to the UNOPS net assets the Committee noted that based on the 2020 results the organization would continue to meet and exceed the minimum reserve requirements established by the Executive Board through decision 2013/33.

64. The Committee strongly supported that management in connection with its biennial budgets had sought the Executive Board's opinion on two strategic finance matters pertaining to the level and composition of the UNOPS reserves. On the first, the Board had decided to establish a new formula for calculation of the UNOPS minimum reserve. On the second, the Board had deferred its decision on establishment of a separate S3i reserve to its first regular session in 2022.

65. In conclusion, the Committee reiterates its emphasis that it is essential that all key stakeholders appreciate that the UNOPS net assets are managed to guarantee financial viability and integrity as a going concern, in accordance with the financial regulations and rules, and with due consideration of the context of the organization's operating environment, the nature of the projects in its portfolio, and the business model which is unique to the United Nations system.

Accounting standards

66. In relation to management of organization-wide strategic risks, the Committee recalls that the UNOPS financial statements are audited as a going concern; and that UNOPS, with its unique self-financing business model, is one of few United Nations organizations for which this is the case. It further recalls that the need to accumulate some surplus is commensurate with the need to ensure the ability to operate as a going concern in accordance with the financial regulations established by the Executive Board.

67. The Committee repeats its past encouragements that UNOPS continue its pursuit to leverage the strategic advantage presented by IPSAS for enhanced transparency and accountability, including for external reporting and internal performance management, as well as reporting against requirements and standards established within the United Nations system.

I. Self-assessment

68. In the beginning of 2021, the Committee completed a self-assessment. Overall, it confirmed that the Committee's composition and working methods are sufficient to fulfill the responsibilities set out in its terms of reference; and that it can balance requirements stemming from: (a) the United Nations governance and oversight arrangements; and (b) the commercial requirements of the organization's unique self-financing business model.

69. Specific findings of the self-assessment were included in the Committee's prior report. During 2021, they were taken into consideration when the Committee's priorities were set, and they will continue to inform priorities in 2022.

J. Conclusion

70. Throughout 2021, UNOPS continued to implement its strategy with a view to identifying opportunities to further optimize its contributions and value-add to governments, the United Nations system, and other partners.

71. The Committee believes that the Executive Board's endorsement of the UNOPS strategic plan, 2022-2025, will enable it to sustain its resolve to contribute its expertise to expand implementation capacity for countries to achieve the Sustainable Development Goals.

72. In the same vein, the Committee concurs with the Executive Board's support that UNOPS, guided by its management goals, continue its pursuit of quality and organizational excellence, and that it invests to fast-track implementation of lessons learned from working under the coronavirus disease and to explore any untapped potential of digitalization.

73. The Committee believes that also in 2021 UNOPS has kept its focus on enhancing management systems and ensuring a solid and robust financial position guarding it against sudden shocks and risks that could affect the medium-term sustainability of its unique self-financing business model.

74. The Committee encourages the organization's continued efforts to ensure that its unique business model with net assets managed to guarantee financial viability and integrity as a going concern is well understood by all key stakeholders.

75. In its advisory capacity, the Committee has reviewed the governance reports presented pursuant to decisions of the General Assembly and Executive Board, and it has been kept abreast by management on the implementation of strategic priorities and initiatives. Pursuant, it believes that also in 2021, UNOPS has kept its focus on maintaining robust management systems and ensuring a solid financial position guarding it against sudden shocks and risks that could affect the medium-term sustainability of its unique self-financing business model.

76. This year, 2022 will be the first year of implementation of the UNOPS strategic plan 2022-2025, and the Committee will continue to advise the Executive Director in accordance with the provisions of its terms of references.

Paivi Rekonen & Bente Svensson
Chair, UNOPS Audit Advisory Committee
Copenhagen, March 2022