**United Nations Office for Project Services (UNOPS)**

**Audit Advisory Committee**

**Annual Report 2015**

**(DP/OPS/2016/3 – Annex 3)**

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# 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 its Terms of Reference, the Committee’s 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.
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 to 31 December 2015, 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.

# Committee members and meetings in 2015

1. For the period from 1 January to 31 December 2015, the Committee comprised the following members, all of whom confirmed their independence in fulfilling their function:[[1]](#footnote-1)
2. Anni Haraszuk (Chair)
3. Robin McPhail
4. Bente Svensson
5. During 2015, the Committee convened its first four meetings in March, June, August, and December. All meetings were attended by the Executive Director. The UNOPS Deputy Executive Director, the Director of IAIG, and members of the United Nations Board of Auditors **(**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 Committee’s Terms of Reference, UNOPS provided substantive and technical secretariat support. The Committee commends the substantive quality and timeliness of the secretariat support.

# Reporting to the Executive Board

1. Pursuant to section 2 of its Terms of Reference, the Committee provided independent advice to the Executive Director and UNOPS management on governance reports to the Executive Board.
2. 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.:
3. Annual report of the Executive Director (DP/OPS/2015/2), including Annex 1 - Financial highlights
4. Activity report for 2014 of the Internal Audit and Investigations Group (DP/OPS/2015/3)
5. Activities of the UNOPS Ethics Officer in 2014 (DP/OPS/2015/4)
6. UNOPS budget estimates for the biennium 2016-2017 (DP/OPS/2015/5)
7. Report of the Advisory Committee on Administrative and Budgetary Questions on the UNOPS budget estimates for the biennium 2016-2017 (DP/OPS/2015/7)
8. 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)
9. Report of UNOPS on the status of implementation of the recommendations of the Board of Auditors for 2014 (DP/OPS/2016/1)

# External audit

1. Pursuant to sections 6.e, 6.f, 6.g, and 6.h of its Terms of Reference, the Committee reviewed and advised extensively on external audit matters.
2. The Committee noted that the 2014 UNBOA financial report and audited financial statements reflect well the maturity of UNOPS regarding financial matters, including IPSAS implementation. The report was considered to be positive and appreciative of UNOPS applying management best practices. The Committee noted that there was room for improvement vis-à-vis how management issues are presented, for example by refining the wording applied so as to lay out more clearly the steps taken towards solving issues and moving UNOPS strategy execution forward.
3. The Committee was briefed throughout the year on the status of UNBOA audit recommendations under implementation, as well as 2015 interim findings and 2016 audit planning. This included invitations to the UNBOA team to join the Committee meetings for appropriate agenda items. The Committee commended the good cooperation and continuous dialogue between the UNBOA team, IAIG, UNOPS management and the Committee.
4. The Committee noted that the mandate of the National Audit Office of the United Kingdom as external UNBOA auditor for UNOPS was coming to an end, and that a formal handover process was soon to be commenced. The Committee appreciated the UK team’s offer to participate in the introductory meetings so as to facilitate a smooth transfer to the new external auditor team once selected.

# Internal audit

1. Pursuant to sections 6.e, 6.f, 6.h of its Terms of Reference, the Committee reviewed and advised extensively on internal audit matters.
2. The Committee noted the 2014 Activity Report of IAIG and discussed potential enhancements to the format of internal audit reports as well as the internal audit planning process. It was highlighted that both have potential to increasingly act as drivers for organizational improvements and for the identification of overarching/systematic areas meriting prioritized attention from management. The Committee further noted and discussed the 2016 Audit Plan of IAIG.
3. With regard to the IAIG Activity Report for 2014 (DP/OPS/2015/3), the Committee noted management’s increased focus on the 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 three years. The Committee also noted that there were only five recommendations outstanding for more than 18 months.
4. The Committee discussed taking further advantage of the value added of both internal and external audit. It was suggested that additional analysis could be conducted in order to ascertain areas in which issues concentrate. Such an exercise could facilitate better prioritization, functional ownership as well as actionable follow-up. In this context, it was noted that the UNOPS implementation rate of audit recommendations, 97 percent in 2014, remains at a very high level.

# Internal investigations

1. Pursuant to sections 6.a, 6.b, 6.e and 6.f of its Terms of Reference, the Committee reviewed and advised on internal investigations matters.
2. The Committee was presented with a peer review of the IAIG investigations function, performed by the European Anti-Fraud Office (OLAF). The Committee took note of the overall conclusion that the IAIG investigations function complies with the three international benchmarks against which the review had been conducted. Furthermore, the Committee took note of two recommendations pertaining to the role of the Committee vis-à-vis the IAIG investigations function: (a) to consider attention to the investigations function when appointing future members of the Committee; and (b) to include monitoring of the organization’s implementation of investigations-related recommendations on the Committee’s agenda, based on biannual statistical updates from IAIG. The Committee noted the recommendations, and agreed that it would follow up on these in close consultation with the Executive Director.

# Ethics

1. Pursuant to section 6.b of its Terms of Reference, the Committee reviewed and advised on Activities of the UNOPS Ethics Office (DP/OPS/2015/4), the UNOPS fraud and corruption prevention policy, the ethics function including the code of ethics, and the whistle blower policy.
2. The Committee reviewed and discussed the draft report on the Activities of the UNOPS Ethics Office (DP/OPS/2015/4) 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.
3. The Committee discussed the preliminary results of the second UNOPS Fraud Survey. It noted the further refinements of the survey. Moreover, it discussed other important incentives to stimulate behaviour in this area such as clear communication of management actions following a denounced misconduct, as well as measures to actively nurture and reinforce the organization’s values and culture of transparency and ethics.

# Financial matters

1. Pursuant to sections 6.c and 6.d of its Terms of Reference, the Committee advised on financial matters and reporting.
2. The Committee noted the UNOPS preliminary financial statements, as well as the indication that the 2014 UNBOA audit report is expected to be issued with unqualified opinion. The Committee discussed UNOPS financial and operational performance, potential for investments as well as risk management considerations, for example the provisions for potential liabilities, application of a risk increment to projects, as well as consideration for currency fluctuations. In this context, the Committee discussed the implementation of the new ERP system and the importance of managing potential implications to the performance of next year’s financial reporting and business operations.
3. The Committee noted that the UNOPS Budget Estimates 2016-2017 have been well received by the Advisory Committee on Administrative and Budgetary Questions. It considered that the demonstrated confidence of UNOPS governance bodies in the organization’s financial and management approaches results from its solid performance over the past decade as well as trusted leadership.
4. The Committee discussed recent improvements in data analytics supporting UNOPS financial projections, which could incorporate additional risk management elements moving forward. It was noted that a bottom-up process for country/regional/global forecasting has been put in place, thereby enhancing UNOPS ability for focused business planning. Prospects to further automate UNOPS forecasting through the new ERP system were noted by the Committee. Moreover, alignment of organizational incentives around operational targets and performance was discussed by the Committee.
5. The Committee was briefed on the UNOPS preparations for assuming responsibility for its own treasury functions. With support from PWC consultants, FPG/BIIP has continued its progress towards internalizing the UNOPS treasury functions, through its work on four main streams: (a) cash management, (b) cash flow forecasting, (c) foreign exchange management, and (d) investment management.
6. The Committee noted the ongoing recruitment process of the new Chief Financial Officer, including the profile expected from candidates, so as to develop the strategic role and business advisory capabilities of UNOPS Finance Practice. Team leads in UNOPS Finance Practice are currently being supervised by the Deputy Executive Director. The Committee further noted the invitation from the Executive Director to indicate a Committee member to join the interview panel.

# Risk management systems

1. Pursuant to section 6.a of its 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.
2. The Committee took note of the continued progress of the UNOPS risk management programme, established as a response to recommendations of the UNBOA and the Joint Inspection Unit. The programme is structured in three tranches for implementation over a period of two and a half years. The Committee noted the vision of the programme to further establish a structured approach to support UNOPS decision-making related to threats and opportunities, enabling better governance, value creation and increased awareness about risks. Additionally, it noted that the aim of the programme was not to establish a parallel system for risk management but rather to ensure that this was embedded in relevant functions and processes throughout the organization.
3. The Committee discussed how risk management supports strategy implementation, namely by helping to identify tangible obstacles to the accomplishment of organizations’ objectives. In this context, the relevance of well-informed engagement acceptance and talent management/acquisition were highlighted as two key areas of risk exposure for organizations comparable to UNOPS. Furthermore, the Committee discussed the importance of managing reputational risks in relation to the perception and position of the organization.
4. The Committee appreciated and supported the establishment of the UNOPS Risk and Quality Group and the introduction of the Governance, Risk and Compliance Principled Performance framework as a means of strengthening the application of other recognized approaches to corporate governance, risk, compliance, and performance management.
5. The Committee noted that responsibility for the engagement acceptance process had been anchored with the Risk and Quality Group. It recognized management’s attention to continuously improving this central risk management process. In this context, the Committee noted that the Risk and Quality Group had identified four key risk categories against which new engagements could be assessed:
6. Technical (location, scope, resources)
7. Legal (legal agreements, due diligence)
8. Financial (cost/price, contingency, currency)
9. Mandate/political (values, strategy, reputation)
10. The Committee recognized that focus on these areas could ensure that engagement decisions would be made based on a well-informed and coherent understanding of risks, threats and opportunities associated with the acceptance and management of new engagements. Moreover, it could enable additional coherence of the UNOPS risk management systems, and support the implementation of the UNOPS Strategic Plan 2014-2017.
11. The Committee took note of the UNOPS ambition to introduce the Governance, Risk, and Compliance (GRC) Principled Performance framework as part of the organization’s risk management systems. It noted that this initiative would complement other recognized models, such as the excellence and three lines of defence model, in the continual process of enhancing the organization’s risk management systems. It discussed how, in the UNOPS context, the GRC Principled Performance framework could contribute to the establishment of a holistic organizational approach that addressed the governance, management and assurance of performance, risk and compliance – each in consideration of the other. The Committee further noted that the UNOPS vision was for the GRC Principled Performance framework to function in concert with the ERP system, informing and guiding UNOPS management in managing operational and strategic risks.
12. The Committee discussed sources of both internal and external data in support of a risk management system and broader UNOPS analytical intelligence. It noted that the launch of OneUNOPS and the ERP system on 1 January 2016 would be an essential platform for the continued development of the UNOPS risk management systems, particularly in relation to internal controls embedded in the UNOPS business processes. In addition to the expected improvements in data collection through the new ERP system, it was indicated that emerging and existing high-risks exposure could already be targeted by quick-wins in the scope of the programme.

# Management information systems

1. Pursuant to section 6.i of its Terms of Reference, the Committee reviewed and advised on the development and soundness of UNOPS management information systems.
2. Continuing the intensive discussion on the progress of the Business Innovation and Improvement Programme (BIIP) and the new ERP system, the Committee noted how UNOPS has built internal capacity and knowledge for the long-term maintenance of the BIIP and ERP system.
3. The Committee discussed key risks monitored by the BIIP Steering Committee, including the establishment of new banking arrangements, measures to replace the UNDP Project Modality, and the revision of the UNOPS Internal Control Framework governing the controls in the organization’s revised business processes. In this context, the Committee highlighted the importance of close collaboration between BIIP and functional practices and operations for the successful implementation of the ERP system and BIIP.
4. The Committee suggested the identification of ‘champions’ throughout the organization to promote the improvements and benefits resulting from the BIIP, as well as the inclusion of a specific goal in the UNOPS senior managers’ individual performance assessments regarding their contributions to the programme’s success. UNOPS confirmed attention to mitigating the key risks and noted that the recommendations would be included as part of the roll out of the BIIP.
5. The Committee discussed the interest in conducting an independent assurance assessment specific to the ERP implementation. It also noted that a fraud risk assessment is scheduled for October/November.
6. The Committee noted the changes in the relationship with UNDP due to the departure of UNOPS from the Atlas partnership as of 1 January 2016. The Committee highlighted that UNOPS throughout the process has ensured timely consultation at different levels, from technical support level up to heads of agency level.
7. The Committee reiterated that the launch of OneUNOPS on 1 January 2016 would be an essential platform for the continued development of the UNOPS risk management systems, particularly in relation to internal controls in the UNOPS business processes. The streamlining of data and information across the organization via the new ERP system would enable the design of dynamic risk management systems superseding conventional “tick-the-box” management of risks, and going beyond thinking of risks solely in financial and legal terms.

# Committee working methods

1. The Committee confirmed its commitment to support and advise the Executive Director on critical matters, adding value to UNOPS and meeting mutual expectations.
2. The Committee discussed, in consultation with the Executive Director and Deputy Executive Director, the overarching themes for its advisory discussions based on its Terms of Reference. It was noted that the UNOPS external and internal audits, which entail collaboration between the two functions and the Committee, will be an important feature of the continuing advisory discussions of the Committee.
3. The Committee noted that the UNOPS management team will also play a central role in Committee advisory discussions, with a view to leveraging expertise, enhancing the organization’s loop-learning, and adding strategic value of the audit function to UNOPS operations. Additionally, the importance of cross-fertilization between the Committee and the Strategic Advisory Group of Experts was highlighted.

# Conclusions

1. Throughout 2015, UNOPS has identified opportunities to further optimize its contributions and value added to the United Nations System and beyond. At the same time UNOPS has maintained its 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.
2. 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 report of the UNBOA for 2014. As the UNBOA UK team’s mandate as external auditors is coming to an end in 2016, the Committee thanked the team for its continued support and collaboration in the past two years, and noted that in 2016 the formal handover process to the new team will commence.
3. The Committee commends UNOPS for its continued commitment to excellence and transparency in its business and operational approach. The increased focus on the implementation of audit recommendations, demonstrated in the extensive coordination and technical support provided to resolve audit issues, has resulted in the highest implementation rate in the past three years for audit recommendations, as presented in the IAIG Activity Report for 2014 (DP/OPS/2015/3).
4. The year 2015 was an exceptionally active year for UNOPS in strengthening the organization’s risk management systems. Actions included the launch of the UNOPS risk management programme, establishment of the Risk and Quality Group, measures to strengthen the engagement acceptance process, and the ambition to introduce the Governance, Risk, and Compliance Principled Performance framework. The Committee supports the UNOPS approach to enhancing 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.
5. Throughout the year, the Committee followed closely the preparations for the launch of the UNOPS ERP system, including key risks and collaboration between BIIP, functional practices and operations, in order to achieve successful implementation of the ERP. Actions were taken accordingly by the organization and the BIIP team. 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.
6. The Committee notes the enhanced strategic focus of the UNOPS mandate as articulated in relevant Executive Board decisions, and expresses its support for the UNOPS delivery focus on Infrastructure, Project Management and Procurement.
7. In addition to the areas outlined in the Audit Advisory Committee’s Terms of Reference, areas for specific Committee focus in 2016 may include, *inter alia*:
	1. Implementation and value-added of the Governance, Risk and Compliance principled performance framework;
	2. Value-added of OneUNOPS and BIIP, including the impact on the internal control environment, management and governance reporting;
	3. Data universe, including data quality, analytical intelligence and value-added to the UNOPS business model;
	4. Treasury function, i.e. UNOPS’s transition to assuming responsibility for its own function;
	5. Exposure and mitigation measures in specific risk areas, e.g. engagement acceptance, fraud, corruption and money laundering, and cyber security;
	6. Arrangements for working and partnering with other United Nations entities, and the public and private sector;
	7. Compliance in Human Resources, including recruitment processes and employee policies and procedures;
	8. Transition from UK team’s mandate as external auditors for UNBOA in 2015 to a new team in 2016;
	9. Continued development of the Committee’s working methods, including its collaboration with key stakeholders (external audit, internal audit, etc.) in its support and rendering of advice to the Executive Director, adding value to UNOPS at strategic, tactical and operational levels.

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Anni Haraszuk

Chair, UNOPS Audit Advisory Committee

Copenhagen, February 2016

1. Through decision 2015/4 on DP/OPS/2015/CRP.1 it was decided that members of the Executive Board will consider the process for selection of members of the Audit Advisory Committee at the Annual Session 2015. It was further decided that pending the outcome of this process, the current members of the Strategy and Audit Advisory Committee could continue their duties. Through decision 2015/12 the Executive Board endorsed the process of selection of members as laid out in DP/OPS/2015/CRP.1. [↑](#footnote-ref-1)