

ANNEX 2:

**United Nations Office for Project Services (UNOPS)
Strategy and Audit Advisory Committee
Annual Report 2010**

A. Background

1. The Strategy and Audit Advisory Committee (SAAC) of the United Nations Office for Project Services provides external, independent, senior level advice regarding the organization's strategic, business and audit objectives, including any significant risk management issues. The SAAC has an advisory role and assists the Executive Director in fulfilling his oversight responsibilities in accordance with relevant best practices and industry standards.
2. SAAC was established in November 2007, and held its inaugural meeting in January 2008. During the period covered by this report (1 January 2010 to 31 December 2010), the SAAC operated under its terms of reference as laid out in Organizational Directive No. 5, rev. 3 of 6 November 2009.
3. This annual report of the SAAC is being submitted at the request of the Executive Board (Decision 2008/37, DP/2009/2).

B. SAAC members and meetings in 2010

4. For the period 1 January to 31 December 2010, the SAAC members comprised the below members¹, all confirming their impartiality in fulfilling their function.
 - a. Mr. Robin McPhail (Chair)
 - b. Ms. Amalia Lo Faso
 - c. Ms. Britta Gammelgaard
 - d. Ms. Gunilla Hesselmark
 - e. Mr. Luis Gomez-Echeverri.
5. During 2010, the SAAC convened in March, August and November for its 8th, 9th, and 10th meetings. All meetings were attended by the Executive Director and the Deputy Executive Director. Furthermore, SAAC invited members of UNOPS Senior Management Team, including the Director, Internal Audit and Investigations Group (IAIG), for deliberation on UNOPS strategy and policy.²

C. UNOPS Risk Management Systems

6. Pursuant to section 6.2.2 of the ToR, the SAAC reviewed the soundness of the risk management systems in UNOPS. In this connection, the Committee reviewed UNOPS Strategic Risk Management Planning Framework (Organizational Directive No. 33), noting UNOPS leverage of international standards (ISO 31000), best

¹ In accordance with the ToR, subsection 1.6, the SAAC shall consist of at least five members.

² Other members of UNOPS Senior Management Team included: the Regional Director, Europe, Middle East and CIS Office; the Chief Financial Officer/Comptroller and Director, Finance Practice Group (FPG); the Director, Procurement and Supply Chain Practice Group (PSCPG); the Director, Human Resources Practice Group (HRPG); the Director, Corporate Performance and Management Group (CPMG); the Director, Outreach and Partnerships Group (OPG); and the Director, Corporate Support Group.

practices (COSO) and benchmarking with partners in the UN System. The Committee endorsed the phased and integrated approach to further embedding a comprehensive risk management system laid out in the planning framework.

7. Reviewing the results of UNOPS first internal risk maturity self-assessment, conducted as a joint effort of UNOPS management and internal audit, the Committee commended the methodology applied; noted the self-assessment's indication of a solid baseline for further embedding of UNOPS risk management system, and a reasonably encouraging level of maturity. The Committee recognized UNOPS progress in, and approach to, embedding its risk management system. It was further noted that internal audit, through constructive engagement with management, could play a proactive and significant role in supporting the process of further embedding the risk management system.

8. Noting the importance of a focused and appropriately sequenced path to introduction of structured and disciplined approaches to risk management, the Committee concurred with the importance of integrating risk management into the organizational culture and making appropriate tools available. In this context, UNOPS strengthening of its engagement acceptance process was noted as an example of targeting and prioritizing effort in view of exposure. Furthermore, the Committee recognized the importance of UNOPS Implementation Support Practices (ISPs) in strengthening management of product/service specific risks through knowledge management and quality assurance, throughout the project lifecycle. The Committee particularly noted the value-add of ISPs in screening projects prior to finalizing agreements with clients, and encouraged establishment of thresholds triggering ISPs' targeted review of projects based on their risk profile. The Committee further noted that establishment of peer-review mechanisms between regions would be a practical and strong risk mitigation measure. UNOPS launch of comprehensive business continuity and disaster recovery planning was noted as another example of the targeted approach.

9. Cautioning that roll-out of enterprise-wide risk management in some organizations had failed to deliver the expected benefits, the Committee reiterated the importance of an integrated and phased approach, and encouraged enhanced dialogue of internal audit and management of functional areas to identify specific operational risks, as a basis for ensuring prioritized mitigation through continuous improvement of business processes and tools.

D. Financial Regulations and Rules and IPSAS

10. Pursuant to section 6.2.3 of the ToR, the SAAC reviewed information provided to it regarding the implementation of UNOPS revised financial regulations and rules (FRR) approved by the Executive Board by decision 2009/04 with a view to their further improvement.

11. The Committee's deliberations focused particularly on UNOPS preparations for transitioning from United Nations System Accounting Standards (UNSAS) to International Public Sector Accounting Standards (IPSAS). It was noted that major definitions in UNOPS Financial Regulations and Rules (Organizational Directive No. 3) already are aligned with IPSAS. Furthermore, it was suggested that the aptness of UNOPS current formula for the operational reserve should be assessed in view of IPSAS.

12. Overall the Committee took note of the progress achieved in preparing the transition to IPSAS, particularly UNOPS articulation of policy positions on IPSAS standards, and documentation of as-is processes were noted as an important milestone creating a platform for the transition. The Committee noted that the shared Enterprise Resources Planning system, and the inherent dependency on ATLAS partners, posed a potential risk for UNOPS ability to achieve the IPSAS transition deadline of 1 January 2012. Furthermore, the Committee noted that appropriate time and consideration need to be given to the new external audit team as they familiarize themselves with the special nature of UNOPS fully self-financed business model, while for the first time auditing against IPSAS.

E. Internal and External Audit

13. Throughout the year SAAC was kept abreast of the activities of the Internal Audit and Investigations Group (IAIG), through the Report of IAIG Activities to the SAAC. The report, *inter alia*, provides status of implementation of recommendations segmented by internal audits and project audits, as well as various workload and personnel statistics for internal audit function. Pursuant to SAAC's request, statistics on investigations workload, case types and status were added to the report.

14. Discussing IAIG's 2010 work plan and activity reports the Committee, *inter alia*, noted the alignment of the audit universe with UNOPS organizational structure, and the audit function's clear distinction between internal audits and project audits. Furthermore, efforts to increase awareness of implementation of audit recommendation through making real-time statistics on implementation rates available on UNOPS intranet, and the inclusion of implementation measures in UNOPS corporate balanced scorecard and its cascading to regions, were noted as examples of good practices. By enhancing monitoring, these measures are expected to stimulate timely audit recommendation implementation thus improving statistics.

15. With regard to IAIG's support for UNOPS strategic initiatives the Committee noted that internal audit, in an advisory capacity, is a member of the project board for the IPSAS project. Furthermore, the Committee noted the proactive and significant role of internal audit in supporting the strengthening of UNOPS risk management system.

16. SAAC reviewed and endorsed the revised Charter of the Internal Audit and Investigations Group (Organizational Directive No. 25), *inter alia*, reflecting the inclusion of the new mandate for investigations, and clarifying roles and responsibilities *vis-à-vis* UNOPS ethics function. Furthermore, SAAC noted the Director's view that the resourcing of UNOPS internal audit function is adequate, and approximately average when compared to external benchmarks of the Representatives of Internal Audit Services of the United Nations Organisations and Multilateral Financial Institutions (RIAS).

17. Briefed on the internal audit strategy, the Committee noted internal audit's risk based planning approach to ensuring adequate coverage of high, medium and low risk areas; and the envisioned shift towards conducting more performance audits. The Committee further noted the effort devoted to strengthening standards and procedures for investigations, and acknowledged the function's focus on ensuring appropriate preventative measures.

18. In reviewing the result of the United Nations Board of Auditors (UNBOA) audit for the biennium 2008-2009³ the Committee noted the increase in UNOPS organizational maturity it indicated, particularly when compared to the UNBOA audit opinion in the two prior biennia. The Committee particularly noted the fully unqualified audit opinion, with no qualifications or emphasis of matter, 90% address of recommendations raised in prior biennia, and full replenishment of the operational reserves as of 31 December 2009, one biennium in advance of the target agreed with the Executive Board. Furthermore, SAAC noted that UNBOA had confirmed its ability to place greater reliance on UNOPS internal audit, based on the external quality assessment of the function; and complemented the concerted effort of UNOPS management to ensure recurrent review and implementation of audit recommendations as an essential means of mitigating the operational risks they indicate.

19. At its 10th meeting the Committee invited representatives of the UNBOA to further discuss the outcome and implications of the audit for the 2008-2009 biennium. As part of the deliberations it was noted that the concept of audit committees is relatively new in the UN system, and that their specific nature varies considerably. In this context it was highlighted that, in view of UNOPS fully self-financed business model, SAAC's specific mandate to engage in deliberation of strategy and its advisory nature was considered particularly important. Concluding the meeting the Committee expressed interest in participating in the entry conference for the next UNBOA audit cycle.

F. Other strategic and policy matters

20. During 2010 SAAC further refined its processes and enhanced the breadth and depth of its substantive engagement with the organization on strategy and policy matters. Key items are summarized below.

21. Throughout the year the SAAC was briefed and deliberated the outcome of 2010 sessions of the Executive Board; and to further enhance its overall strategic advice to the Executive Director, the Committee aligned its annual schedule and forward agenda to include review of relevant draft official reports prior to their submission.

22. When briefed on the conclusion of UNOPS 2009 Change Programme, SAAC found very impressive the significant results it had delivered. The Committee noted that it, in the initial briefing on the programme, had found the scope very ambitious. The success of the programme was attributed to strong executive sponsorship, the globally inclusive approach, and a capable change team appreciating the importance of clear articulation of the scope and organization of each of the five change projects. The Committee emphasised the importance of continued follow/up and training to help embed the changes. In view of the results the Committee recommends that a similar approach be applied for implementation of future strategic initiatives. The Committee further commended the introduction of UNOPS Practice Approach, which in conjunction with the change programme had been introduced as an overlay to UNOPS Global Structure (Organizational Directive No. 15), to facilitate the organization's longer-term strategic integration and operational alignment. The Committee expressed its keen interest to follow the further evolution of this approach to connecting the inherent matrix of a global organization.

³ Financial report and audited financial statements for the biennium ending 31 December 2009, Report of the United Nations Board of Auditors, United Nations Office for Project Services (A/65/5/Add.10)

23. To further raise the wider organization's awareness of SAAC the Chair participated in UNOPS 2010 Global Management Meeting (GMM), in which 85 managers and practice advisors representing field and headquarters locations had congregated for strategic deliberations under the theme of "Leadership, Growth and Innovation". The participation had left an impression of a young and capable team of managers who are fundamentally aligned with UNOPS strategic direction. This impression was further reinforced through visits to UNOPS field locations, where also the benefits of implementing the practice approach were evident.

24. Throughout the year SAAC invited regional and headquarters directors for briefings and deliberations on specific items. Prior to its 8th meeting the Committee was briefed by UNOPS directors for finance, human resources, procurement, internal audit and investigations, and corporate performance and management. Through the exchanges the Committee, inter alia, noted significant alignment with UNOPS 2010-13 Strategic Plan. Briefed on the composition of the project portfolio of UNOPS Europe, Middle East and CIS Regional Office, the Committee noted the strategic drive to further rationalize organization of the portfolio, and the focus on enhancing proactive engagement with key partners at both country and global levels.

25. Briefed on UNOPS procurement and supply chain strategy, the Committee commended its dual focus on (a) increasing the cost-effectiveness of support in the context of UNOPS project implementation; and (b) development of new service offerings to enhance value-add in the areas of capacity building, common user items and sustainable procurement. In this context the Committee further noted the mutually beneficial partnership established with the Chartered Institute of Purchasing and Supply (CIPS) as a potential model for emulation in other areas.

26. SAAC was briefed on the establishment of the Outreach and Partnerships Group (OPG), which although relatively modest in monetary terms, constitutes one of UNOPS key strategic investments in 2010. The Committee noted the OPG's central role in management of reputational risks through support for building strong partnerships at the regional and country level; assurance of specific product and service quality; and strengthening result-based management within UNOPS five Implementation Support Practices (ISPs). It was suggested that the authority and role of ISPs in UNOPS matrix structure be further clarified. Furthermore, the Committee noted that the ISPs' responsibility for facilitating knowledge management, through strengthening of the global networks of practitioners, and documentation of specific products and services as an important measure to mitigate the risk of loss of capacity as ongoing engagements are closed.

27. Reviewing UNOPS draft Recognition, Rewards and Sanctions Policy (Organizational Directive No. 37), the Committee noted that the policy is firmly anchored in the provisions of UNOPS Financial Regulations and Rules (Organizational Directive No. 3). The Committee expressed appreciation of UNOPS diligence in preparing the policy, which in addition to review and feedback from all UNOPS personnel and the UNDP/UNFPA/UNOPS Staff Council, had been reviewed by the International Civil Service Commission. The Committee noted the ICSC's favourable review of the policy, and the Commission's indication that UNOPS initiative would be considered a pilot for the rest of the UN system. The Committee endorsed the general direction of the policy, which would be valuable for attracting future personnel. It represents a shift in approach to solving partner's problems in addition to providing traditional services.

28. When briefed on the strategic outlook for 2011 it was indicated that two key priorities would be development of more value-add Management Advisory Services and ISO 9001 certification of UNOPS quality management system. The latter, inter alia, would be a basis for enhanced management of operational risks through prioritized continuous improvement of UNOPS operational infrastructure, an approach endorsed by the Committee. Recognizing that successful delivery of Management Advisory Services would require investment in policy, tools and people, the Committee expressed strong support for this drive to increase the organization's value-add and support for capacity building. At the same time the Committee particularly cautioned that success in this area would depend on the organization's ability to further refine policies and procedures to attract, roster and retain advisor profiles, complementing the existing workforce.

G. Conclusion

29. UNOPS has proven the viability of the self-financing business model, and achieved considerable strategic alignment and operational integration of its policy, tools and people. The tremendous progress, and scope of change, has been achieved over a short period of time. Through its enhanced interface with UNOPS Senior Management Team and the organization at large, the SAAC has found an organization of capable people with a strong sense of common purpose and commitment to UNOPS drive for operational excellence for results that matter.

30. The Committee strongly supports the organization's overall strategic direction, particularly the strategic drive to further diversify the organization's portfolio of services, and harness Management Advisory Services as means of enhancing value-add and building national and UN system capacity.