

Agenda Item 132

Activities of the Independent Audit Advisory Committee for the period 1 August 2014 to 31 July 2015

Report of the Independent Audit Advisory Committee (A/70/284)

Statement by J. Christopher Mihm Chairman, Independent Audit Advisory Committee

13 October 2015

Mr. Chairman, distinguished delegates

I have the honour to introduce the annual report of the Independent Audit Advisory Committee (the Committee), A/70/284 on its activities for the period 1 August 2014 to 31 July 2015. This report was prepared in accordance with the Committee's terms of reference as set out in the annex to the General Assembly resolution 61/275. This is the Committee's eighth annual report.

The report before you contains the detailed views, observations and recommendations of the Committee which, in the interest of time, I will not enumerate here. Nevertheless, there are some issues that I will highlight in this statement:

The first aspect of the Committee's mandate is to advise the Assembly on measures to ensure **compliance of management with audit and other oversight recommendations of United Nations oversight bodies.**

The quality of recommendations, the level of follow-up to the same, and the rate at which Management implements oversight body recommendations are critical elements of an effective internal control system. If the weaknesses identified in the internal control systems and program performance are properly addressed by management, one should expect to see a more accountable, effective, and responsive organization.

The trend analysis for the Board of Auditor's recommendations with respect to peacekeeping operations shows continued improvements. The Committee welcomes this positive trend and agrees with the Board that management has made significant progress in its implementation of the Board's recommendations.

With respect to the Office of Internal Oversight Services (OIOS), past due critical recommendations showed a declining trend since the second quarter of 2013 (save for the first

quarter of 2015). However, recommendations related to peacekeeping missions and the Office of the United Nations High Commissioner for Refugees (UNHCR) rose sharply. The rising trend was attributed to the increase in the number of unsatisfactory reports in the peacekeeping missions and UNHCR. Management noted the relationship between the number of unsatisfactory reports and hardships in the field. The Committee recognizes the challenges the field poses. However, since field operations account for the largest amount of the organizations transactions, the rise in the number of unsatisfactory reports is an issue of concern that calls for a concerted effort to address the weaknesses identified.

The implementation rate of JIU recommendations also has improved. The JIU, however, indicated that the rates of acceptance and implementation of the Secretariat's recommendations was lower than the averages of the twelve major entities of the UN system. The Committee was informed that this was mainly due to the recommendations addressed to the General Assembly for which the Secretariat did not have the authority to accept and/ or implement in the absence of direction from the General Assembly. In its resolution 69/252, the Assembly endorsed the recommendation of the Committee that the JIU separately account for the recommendations addressed to the General Assembly and Chief Executives Board. The Committee will review the impact of this resolution in subsequent reports.

Mr. Chairman, distinguished delegates

Turning to the second aspect of the mandate of the Committee, **risk management and internal control framework**, the Committee reported last year that the Secretary-General identified six critical risks that needed to be brought to the General Assembly. Since then, the Secretary-General has come up with risk response strategies, corporate risk owners and a governance structure for enterprise risk management (ERM). The Committee plans to delve more deeply over the next year into specific projects and plans that the Organization is putting in place to manage enterprise risk. Specifically, the Committee will select one or more of the six identified enterprise risks for detailed assessments of what is being done and what can be done to manage the risk. The Committee also will review and document concrete examples of how enterprise risk management is being used in specific ways to manage organizational risks and better achieve results.

The critical risks identified are cross cutting, closely interrelated, and require close coordination of efforts across the organization. For this to occur, the Committee believes that top management will need to ensure that systematically identifying and managing risks becomes a standard way of doing business across the organization. The Committee also reiterates its previous

recommendation that the Secretary-General must ensure that his Office and the departments have the capacities they need to effectively sustain ERM, or it could become a paperwork exercise. The Committee will follow up on this and other ERM issues at its subsequent sessions.

Mr. Chairman, distinguished delegates

Allow me now to turn to the third aspect of the mandate of the Committee: **Effectiveness, efficiency and impact of the audit activities and other functions of the Office of Internal Oversight Services**

The Committee's comments regarding the effectiveness, efficiency, and impact of OIOS were made pursuant to paragraph 67 of resolution 69/307, in which the Assembly invited the Committee to examine the operational independence of OIOS, in particular in the area of investigation. The Committee focused its assessment on the operational independence, effectiveness, internal management and efficiency of OIOS.

Mr. Chairman, distinguished delegates,

The Committee believes that operational independence of OIOS is vital in ensuring that stakeholders view the work and result of OIOS as credible, factual and unbiased. It is therefore important that all involved, namely OIOS, management, the General Assembly and other interested parties, have a common and clear understanding of how OIOS operates across the full range of services that it offers and the important contributions that it makes. The Committee also believes that progress needs to be made in clarifying policies and procedures in two areas: advice and public comments, and the investigation process.

With respect to **advice and public comments**, the Committee noted that OIOS, like most internal oversight bodies, has a unique position in the organization which can create tension, in that internal oversight staff are employed by the Organization but are expected to report on the conduct of management. As an example of the way in which that tension is manifested, under internationally accepted internal audit standards, advisory services are a widely accepted and proper part of the mandate of internal audit. However, such services must be carefully managed so as not to undermine the reality or the perception of the independence of the internal audit office.

In that regard, the Committee found that OIOS lacked agreed-upon and clearly defined guidance and protocols on “the how and why” of striking the appropriate balance between advising management and the need to maintain its operational independence. The lack of agreed upon protocols could result in OIOS inadvertently compromising its independence.

The Committee believes that OIOS should work with management to develop guidelines and protocols that it will use when advising management and making statements about situations which may be subject to audit or investigation. Such guidelines and protocols, at a minimum, should include a discussion the justification under internal audit standards OIOS will use to provide such services, the types of services that it will offer and how they will be provided, and steps that OIOS will take to safeguard its independence when offering such advice or making public statements.

Turning to the **investigation process**, the Committee examined whether OIOS had issued guidelines that governed the investigation process. The Committee was informed that the Investigation Division did not have an official investigation manual and that the manual on its website was provisional. The Committee is concerned that this could create confusion both within OIOS and among stakeholders outside of OIOS. The Committee recommends that OIOS finalize the manual without delay.

According to the provisional OIOS investigation manual, intake is considered the first step in a comprehensive process that will be affected by how the initial information about possible misconduct, referred to as source information, is received and handled. The proper receipt and handling of source information at intake is, therefore, essential and includes:

- i) Clear and distinct means of receiving source information
- ii) Systematic recording of source information
- iii) Consistent review of source information for action
- iv) Transparent and verifiable management of source information”

According to the provisional manual, predication is an important element of the intake process, and it provides that “reports of possible misconduct will be predicated. The predication process includes formal registration, evaluation and decision on appropriate disposition of the matter.” The provisional manual requires that a case be properly registered and evaluated and a decision made on the appropriate steps. However, it does not clearly describe the internal process in OIOS for predicating reports of possible misconduct, including who has the authority and at what point in the intake process to predicate a matter for investigation.

More generally, the Committee was informed that although the current system procured by OIOS could in theory handle a Secretariat-wide intake process, it is not currently scoped for such an arrangement. As noted in its prior recommendation, the Committee believes that a central intake system is essential in ensuring the completeness of reporting of all potential and actual investigations. A central intake system also will contribute to more accurate reporting of fraud and presumptive fraud, an issue which oversight bodies have raised as a serious problem. On that note, the Committee recommends that the Administration finalize the scoping of the central intake system.

Mr. Chairman, distinguished delegates,

The Committee notes that all three divisions of OIOS have gone through several peer reviews in recent years. However, the Committee is not aware of any formal reviews, other than the Committee's own work, that have systematically examined OIOS as a whole and the working relationship across the divisions.

As a way forward, therefore, the Committee recommends that the General Assembly mandate a holistic review of OIOS. The review should have a strong implementation mandate to strengthen and streamline the operations and structure of all three divisions of OIOS. It should assess long standing issues, namely: opportunities to improve collaboration across the investigation, audit and evaluation functions; the high vacancy rate; and inter and intra-office dynamics, particularly in the Investigation Division, including employee morale, engagement, and working relationships. The terms of reference for the review should be written in such a way as to obviate the need for the long-awaited terms of reference for strengthening the investigation function.

Mr. Chairman, distinguished delegates,

Turning to the fourth aspect of the Committee's mandate, concerning **financial reporting**, the Committee looked at the International Public Sector Accounting Standards (IPSAS), Umoja, and the internal control system and anti-fraud policy.

With respect to **IPSAS**, the Committee welcomed the progress made by the Secretariat on IPSAS implementation, including receiving an unqualified audit opinion on both the peacekeeping and non-peacekeeping financial statements.

With regards to **enterprise resource planning**, the Committee was informed that progress had been made on Umoja implementation albeit with some continuing challenges. The launching of Umoja Cluster 3 and the production of financial statements for peacekeeping operations for 2013/14 represents real progress. The Committee called upon management to continue to rigorously monitor key milestones and the overall timeline for implementation by identifying and managing current and any emerging key risks to the achievement of the objectives of the Umoja project.

With respect to **Internal control system and anti-fraud policy** the Committee was informed that a system was being set in place to document the internal control framework of the Organization and develop management assurance systems to test understanding and compliance, and a statement of internal control will be appended to the financial statements by 2018. The Committee commends this progress and stresses the significance of educating managers and all affected staff on the importance of strong internal controls. The Committee also urges management to draft a manual on internal control that will provide guidance to UN managers and staff on implementing and maintaining the forthcoming framework. The Committee will follow up on this issue at subsequent sessions.

Regarding **fraud**, Management informed the Committee that it was working on an anti-fraud policy. The Committee believes that anti-fraud policy is an important first step. The key will be ensuring that the anti-fraud policy and internal control framework are effectively implemented.

Mr. Chairman, distinguished delegates,

Allow me to turn to the fifth and final aspect of the Committee's mandate--**Coordination among United Nations oversight bodies.**

While respecting their individual mandates, the Committee believes opportunities exist for oversight bodies to collaborate and coordinate on monitoring and assessing the progress made in implementing the sustainable development goals (SDG). The Committee urges OIOS to reach out to other internal audit and evaluation entities across the UN to develop such collaborative and coordinated approaches that center on the UN's role in implementing the 2030 Agenda and thereby contributes to the broader SDG follow-up and review efforts. A coordinated strategy could bring the collective work of the oversight bodies in one place so decision makers would have a more complete picture on the progress made towards implementing the seventeen SDG's.

This should strengthen the oversight regime of the UN and contribute to improvements in effectiveness, transparency and accountability.)

More broadly, the Committee believes that opportunities may exist for United Nations internal audit and evaluation organizations to coordinate with the International Organization of Supreme Audit Institutions (INTOSAI) and interested member institutions so that the individual reviews that they each may undertake will, over time, provide the United Nations and national decision makers with a more complete picture of progress towards the 2030 Agenda for Sustainable Development and what more can be done.