

Agenda Item 133

Activities of the Independent Audit Advisory Committee for the period 1 August 2015 to 31 July 2016

Report of the Independent Audit Advisory Committee (A/71/295)

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

30 September 2016

Madam Chair, distinguished delegates

I have the honour to introduce the annual report of the Independent Audit Advisory Committee (the Committee), A/71/295 on its activities for the period 1 August 2015 to 31 July 2016. 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 ninth 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. The Committee continues to believe that 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 implementation rate of the Board of Auditors recommendations pertaining to peacekeeping operations continues to show improvement, from 32 per cent in 2006/07, to 52 per cent for the period 2013/14.

With respect to the Office of Internal Oversight Services (OIOS), the total number of outstanding critical recommendations decreased from 59 at the end of the fourth quarter of 2015 to 56 as at the end of the first quarter of 2016. The largest share of past due critical recommendations continued to involve peacekeeping missions. The Committee appreciates the progress made in reducing the number of past due critical recommendations. However, the Committee also reiterates its view on the importance in addressing critical recommendations in a timely manner.

Furthermore, Committee noted that the number of unsatisfactory reports relating to field operations continued to rise. Though the Committee is cognizant of the challenges faced by field operations, given the importance of such operations, the Committee continues to call for a concerted effort to address the weaknesses identified by OIOS. The Committee recommends that OIOS reach out to stakeholders to ensure that there is a clear understanding as to how reports are rated and recommendations developed.

The implementation rate of Joint Inspection Unit (JIU) recommendations also has improved. The average implementation rate has increased to 86 per cent for the 2007-2014 period, compared to 70 per cent for the 2006-2013 period. In addition, according to management, the JIU acknowledged that the implementation of some of the accepted recommendations might take several years, as the recommendations addressed structural issues, challenged established policies and proposed new directions, requiring cross-departmental and senior management or legislative body decisions.

Madam Chair, distinguished delegates

Turning to the second aspect of the mandate of the Committee, **risk management and internal control framework**, the Committee continues to see steady interest by management in the implementation of enterprise risk management. The Committee reiterates its previous recommendation that the Secretary-General ensure that his office

and the departments have the capacity they need to effectively implement and sustain enterprise risk management. The Committee will continue to follow-up on those and other ERM issues as a major priority. Specifically, the Committee will focus on reviewing and documenting concrete examples of how enterprise risk management is being used to manage organizational risks and better achieve results.

As noted in its previous annual report, A/70/284, the Committee planned to delve more deeply into one or more of the six enterprise risk identified by the Secretariat for a detailed assessment of what is being done and what can be done to better manage the risk. For this period, the Committee selected extrabudgetary funding and management. The Committee looked at three elements of the extrabudgetary funding and management risk identified by the Secretariat, namely:

- i. The inability to obtain extrabudgetary funding which may impact the ability of certain departments to achieve their objectives;
- ii. The reliance upon extrabudgetary funding may jeopardize or appear to impact the independence of the United Nations as projects that obtain earmarked funding may be given higher priority; and
- iii. The inability to identify, establish and maintain the optimal structure and controls for trust funds resulting in a loss or misuse of assets.

With respect to the **risk of the inability to obtain extrabudgetary funding**, the importance of managing extrabudgetary funding is apparent when one looks at the non-peacekeeping budget trends in figure V of the report. The growing gap between voluntary contributions and assessed and other contributions illustrate that enterprise risk management needs to be effectively managed.

The Committee also notes that the majority extrabudgetary funding dependent entities have some form of resource mobilization strategy and an office dedicated to raising funds. Consistent with the Joint Inspection Unit's findings and recommendations in its report on resource mobilization strategies, the Committee recommends the establishment of a Secretariat wide mobilization strategy. In developing a strategy, the Secretariat could

draw upon lessons learned and good practices identified by the JIU; such as maintaining relationships with donors and demonstrating performance, efficiency and effectiveness.

Regarding the **risk that relying on XB funding could or may appear to jeopardize the independence of the UN**, according to the Secretariat risk register, relying on extrabudgetary funding may be perceived as potentially influencing the Organization to focus on donors' priorities as opposed to the broader priorities of Member States. However, management recognizes that most of the XB resources that departments/offices receive have been framed within their specific mandates and programmes of work. The Committee urges the Secretariat carefully monitor the effects, if any, of donor influence in framing the Organizations' programme priorities.

Finally, on the **inability to identify, establish and maintain the optimal structure and controls for trust funds**, the Committee notes that managing risks under extrabudgetary funding calls for dedicated capacity which may not be available from the working group that is currently addressing this risk.

Against this background, the Committee reiterates its previous recommendation, in its report A/66/299, that given the reality of the need to rely on extrabudgetary funding, the Organization needs to fully assess and manage the risks associated with extrabudgetary funding. Part of that assessment should include new organizational arrangements and capacity within the Secretariat that may be needed. The Committee will continue to monitor this risk and may select an additional enterprise risk for a detailed assessment in the coming year.

Madam Chair, 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 focused on three areas: operational independence and effectiveness; organizational enterprise risk management and oversight work planning; and performance auditing and the 2030 Agenda for Sustainable Development.

Madam Chair, distinguished delegates,

The Committee reiterates its prior observation that **operational independence** of OIOS is vital in ensuring that stakeholders view the work and results of OIOS as credible, factual and unbiased.

Accordingly, with respect to **advice and public comments**, the Committee was informed that progress had been made with respect to the recommendation on advice and public comments, in that no public statements would be made unless an assignment had been completed; and that each Division would ensure that their respective manuals have relevant sections dealing with advisory services. The Committee welcomes these initiatives and urges that OIOS finalize the guidelines without delay.

Regarding the central intake mechanism, the Committee strongly regrets that its recommendation continues to remain unimplemented. The Committee calls on OIOS to implement a central intake mechanism as expeditiously as possible. Implementing a central intake mechanism will also require concerted effort from the Management Committee. The Committee will continue to remain invested in this issue.

Madam Chair, distinguished delegates,

Turning now to the **response of OIOS into the allegations of sexual exploitation and abuse in the Central African Republic**, the Committee joined many others in being distressed by the situation and took careful note of the report of the external independent panel on the UN response to the allegation of sexual exploitation and abuse in the Central African Republic (the Panel). The Committee notes that the risk of sexual exploitation and abuse in peacekeeping operations and the need for the protection of civilians more generally are issues where OIOS, in each of its three divisions, has done important work.. The Committee therefore recommends that OIOS pull together that work to identify the

specific set of management controls that need to be put in place from the outset of a peacekeeping operation. OIOS could then audit the strength of these controls as new operations are formed. This way, the Organization would be in a better position to stop abuses before they occur, and reduce the need to investigate cases.

Furthermore, the Committee was cognizant that the Panel built on the Committee's recommendation for a comprehensive review of OIOS, with special emphasis on the Investigation Division. The Committee continues to believe that such a review would be helpful in efforts to ensure that the widespread and significant concerns about the operations, internal working relationships of the Investigation Division are resolved.

Moving now to the **organizational enterprise risk management and oversight work planning**, the Committee is pleased that OIOS is taking the initiative to demonstrate the link between the organizational enterprise risk management strategy and its programme of work and is using this as a vehicle in further integration across its divisions. This initiative will help strengthen the integration among OIOS' workplan, its budget proposals, and the major risks facing the organization. The Committee will follow up on this matter in its subsequent session.

Finally, with respect to **performance auditing and the 2030 Agenda for Sustainable Development**, the Committee is encouraged by OIOS' initiatives to develop a detailed oversight strategy related to the implementation of the 2030 Agenda and its commitment to provide management and the General Assembly with information that they will need to gauge progress and pinpoint improvements opportunities in the Secretariat's efforts. The Committee will continue to monitor OIOS' efforts on these critical issues.

Madam Chair, 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 the finalization of the benefits realization plan and the articulation of the major expected benefits. The Committee looks forward to receiving details of those and other documented benefits from IPSAs, which are to be realized in conjunction with the full implementation of Umoja.

With regards to **enterprise resource planning**, the Committee noted that as Umoja moves into the stabilization phase, the key issues now centres on ensuring that the organization consistently develops the capacity to manage Umoja and use its outputs to make decisions.

With respect to **internal control system and anti-fraud policy** the Committee was informed that progress had been made to improve the internal control system and stresses the importance of educating managers and all affected staff on the importance of strong internal controls. The Committee will follow up on this issue at subsequent sessions.

Regarding **fraud**, the Committee examined the Organization's anti-fraud policies of other United Nations entities and agrees with the JIU that entities such as UNDP appear to have some good practices that the Secretariat could consider in implementing its policy framework.

Furthermore, as I previously mentioned, the Committee reiterates its recommendation that a central intake be implemented in the Secretariat. As mentioned by the Board of Auditors and the JIU, this should help with the completeness and accuracy of reporting fraud and presumptive fraud.

Madam Chair, distinguished delegates,

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

The Committee notes the positive relationship fostered through the tripartite coordination meetings of the oversight bodies and the sharing of workplans in an effort to avoid duplication.

With respect to the 2030 agenda, the Committee understands that the Board of Auditors is exploring opportunities to examine the organization's efforts to support the 2030 Agenda as part of its audit work. The Committee is very encouraged by these developments. A coordinated strategy could bring the collective work of the oversight bodies in one place so decision makers can more easily see the key matters that need to be addressed. This should strengthen the oversight regime of the organization and contribute to improvements in effectiveness, transparency and accountability.

Madam Chair, distinguished delegates,

On behalf of the members of the IAAC, I thank you for the opportunity to present the IAAC's annual report and I look forward to answering any follow up questions you may have during the deliberations.

Thank you.