

Agenda Item 135

Activities of the Independent Audit Advisory Committee for the period 1 August 2016 to 31 July 2017

Report of the Independent Audit Advisory Committee (A/72/295)

Statement by Maria Gracia Pulido Tan Chair, Independent Audit Advisory Committee

5 October 2017

Mr. Chairman, distinguished delegates,

I have the honour to introduce the annual report of the Independent Audit Advisory Committee (the Committee), A/72/295 on its activities for the period 1 August 2016 to 31 July 2017. 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 tenth 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 of 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 Committee looked at the implementation rates of the recommendations of the three oversight bodies, namely the Board of Auditors, the Office of Internal Oversight Services and the Joint Inspection Unit, and noted that overall there had been improvements.

During this period, the Committee urged Management to continue to improve, especially when it comes to timeliness of implementation.

Mr. Chairman, distinguished delegates,

Turning to the second aspect of the mandate of the Committee, **risk management and internal control framework**, the Committee continues to see that management was making an an effort in the implementation of enterprise risk management (ERM). That effort notwithstanding, the Committee reiterates its previous recommendation that the Secretary-General ensure that his office and the departments have the capacity and resources they need to effectively implement and sustain enterprise risk management. The Committee will continue to follow-up on these and other ERM issues as a major priority.

Furthermore, the Committee agrees with the recommendations of the Board of Auditors that the Administration develop a detailed implementation plan for all elements of ERM that set out a clear timetable, milestones, deliverables, resource requirements and accountability. The Committee believes that the timeliness of the risk treatment plans is all the more important given that enterprise risk assessments are living documents that continue to evolve. The action plans developed five years ago could now be in need of significant updating.

As noted in its annual report, A/67/259, the Committee observed that departments and offices which were considered risk champions, such as OIOS and the Department of Management had not fully embedded ERM in their respective offices and remained concerned at the slow process by which entities were embedding ERM. The Committee particularly calls upon OIOS to lead by example.

Mr. Chairman, distinguished delegates,

In its previous annual report, A/71/295, the Committee indicated that it would continue to monitor the risk to extrabudgetary funding and management. The Committee notes the progress made by management in managing the risk, especially as it relates to the

inability to identify, establish and maintain the optimal structure and controls for trust funds, resulting in a loss or misuse of assets. The Committee reiterates its previous recommendation that given the reality of the need to rely on extrabudgetary funding, the Organization needs to fully assess and manage all aspects of the risks associated with extrabudgetary funding.

Furthermore, the Committee spent a significant part of its deliberations this year discussing matters associated with emerging risks. The Committee recognizes the potential scale and impact of the threat to cybersecurity and digitalization and plans to delve more deeply into this risk over the coming year.

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 focused on two broad areas: strategic planning, OIOS effectiveness and performance measurement; and strengthening the investigation function. I will touch on a few key findings in each area.

Strategic planning, OIOS effectiveness and performance measurement

The Committee believes that effective communication of its results and recommendations is one of the requirements of a sound internal audit functions. Like many UN System entities, OIOS embarked on rating of its reports as satisfactory, partially satisfactory and unsatisfactory. Following concerns raised about the lack of objectivity in rating reports, the Committee in its report of last year called on OIOS to revisit the ratings system. The Committee was surprised to learn two weeks after its report was published, that OIOS had decided that it would no longer rate its audit reports. The Committee believes that this decision was premature and recommends that OIOS reviews this matter and, as a first step, improve the transparency and objectivity of the ratings of reports rather than do away with them.

Like any internal audit entity, OIOS Internal Audit Division (IAD) is required to undergo periodic peer reviews—at least every 5 years. The Committee notes that in the most recent external quality assessment review of OIOS, the external reviewer found that IAD “generally conforms” to the standards and code of ethics of the Institute of Internal Auditors (IIA). This is the first time that OIOS obtained such an opinion. The Committee believes that the recent opinion of the external reviewer is a noteworthy achievement for IAD.

Nonetheless, the Committee continues to believe that OIOS needs to make substantial progress in setting outcome-oriented goals and managing its performance on the basis of those goals. The Committee therefore recommends that OIOS establish such outcome-oriented goals and indicators that demonstrate the outcome of OIOS efforts. These performance metrics should include leveraging data visualizations to analyse trends over time, depict progress against targets, identify where actions are required and to determine the details on actions to be taken.

OIOS should also continue to communicate the results of such assessments with all stakeholders in accordance with IIA Standards. Furthermore, the Committee recommends that OIOS expedite the external quality review process for the Inspection and Evaluation Division and the Investigation Division.

The Committee followed up on its recommendation that OIOS ensure that all divisions and the Office as a whole conduct surveys. The Committee notes that no survey have been conducted for the ID or OIOS as a whole and recommends that for OIOS to improve its overall performance, the Office ensure that all divisions, and OIOS as a whole, conduct surveys.

Mr. Chairman, distinguished delegates,

Strengthening the investigation function

Turning now to **strengthening the investigation function**, I will elaborate on two issues that have been long standing issues for the Committee, the central intake mechanism and vacant posts in ID.

Regarding the central intake mechanism, the Committee does not agree with OIOS assessment that the central intake mechanism is not a priority and finds the arguments used for delaying its full implementation unconvincing. The Committee regrets that successive recommendations of the ACABQ, the IAAC, the JIU and the BOA, decisions of the Management Committee and two GA resolutions have not been enough to spur OIOS to develop a much-needed central intake mechanism. Instead of a comprehensive intake mechanism (which was to be a part of the Go-Case System recently developed), OIOS decided that it will only have a central intake for fraud and sexual exploitation and abuse. It further informed the Committee that the all this will be done through the existing hotline.

The Committee is not convinced that a hotline (which has been in operation for several years now) can serve as an effective central intake mechanism—a mechanism which as noted above, was to be part of the Go-Case System. The Committee therefore reiterates its previous recommendation that OIOS implement a central intake mechanism as expeditiously as possible. The Committee will continue to follow up on this critical recommendation in subsequent sessions.

With respect to vacant posts in ID, the Committee acknowledges the efforts of OIOS to address this matter and looks forward to seeing real and concrete achievements in reducing the vacancy rates. The Committee reiterates its prior recommendation that OIOS address this issue as a matter of priority.

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), enterprise resource planning (Umoja), and the internal control system and anti-fraud policy.

With respect to **IPSAS**, the Committee commends the Secretariat for having attained the milestone of bringing the accounting standards of the Organization into line with

international standards. The Committee also commends the Secretariat for articulating the lessons learned that could be a basis for successful implementation of other similar projects.

With regards to **enterprise resource planning (Umoja)**, the Committee believes that given the wealth of valuable data that Umoja is expected to provide, it is crucial that there is a proper audit module. Therefore, the Committee recommends that management work to put in place an audit module that takes into account the needs of OIOS. The Committee believes that having a proper audit module would strengthen the internal oversight regime of the Organization.

With respect to **internal control system**, the Committee commends the progress made in improving the internal control system and stresses the significance of educating and providing guidance through various means to managers and all affected staff on the importance of strong internal controls. The Committee plans to have a more thorough review of the Organization's statement of internal control to ensure that the important elements, such as scope, purpose, risk and effectiveness are in place.

Regarding **fraud**, while commending OIOS for its renewed effort in tackling fraud and corruption, the Committee believes that without an effective central intake system, the concerns raised by several oversight bodies regarding the underreporting of fraud will not be adequately addressed.

Mr. Chairman, 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.