

OAC Presentation to UNESCO Member States

Scope and Purpose of Audit and Risk Committees

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Context - External Audit

External Audit - defined by the UNESCO Financial Regulations, Article 12 as:

“The External Auditor shall issue a report on the audit of the annual financial statements and relevant schedules, which shall include such information as he deems necessary in regard to matters referred to in Financial Regulation 12.4 and in the Additional Terms of Reference”

Context - Internal Audit

Internal Audit - defined by the Institute of Internal Auditors, the IIA, as:

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”

Context – Enterprise Risk Management (ERM)

Enterprise Risk Management is defined as a process that may bring the following benefits to UNESCO:

- an increased likelihood of successfully delivering on UNESCO's goals and objectives,
- allows for increased preparedness before adverse events occur (minimize surprises and losses),
- provides a holistic view of risks and interdependencies,
- helps align and allocate resources,
- improves operational effectiveness and efficiency,
- reduces decisions based on risk aversion,
- improves stakeholder confidence and trust.

Audit and Risk Management in UNESCO today

- **External Audit** – compliant with Financial Regulations, focus also on “performance audits” which risks overlap with IOS responsibilities
- **Internal Audit** – generally conforms to IIA standards – the highest rating given by IIA
- **Enterprise Risk Management** – at a relatively early stage of development

Relationship between Enterprise Risk Management and Internal Audit

- Internal Audit is an **oversight** mechanism to assist the Director-General in management of UNESCO.
- Enterprise Risk Management is a **management** function that assists all managers to manage their resources more effectively and efficiently.
- Internal Audit carries out **risk based** audit planning which ideally uses the UNESCO Enterprise Risk Management reports as an input to planning – Internal Audit is **not responsible for risk management**.

Functions of Audit & Risk Committees

- Good corporate governance ensures there is oversight of External Audit, Internal Audit and Risk Management.
- Functions are complimentary as audit is a risk based activity.
- Member States have oversight, not management responsibility.
- An Audit and Risk Committee exercises oversight.

Functions of Audit & Risk Committees (1)

Financial Statements

- Review significant accounting and reporting issues.
- Review with management and the external auditors the results of the audit, including any difficulties encountered.
- Review the annual financial statements, and consider whether they are complete, and reflect appropriate accounting principles.

Functions of Audit & Risk Committees (2)

Internal Control & Compliance

- Consider the effectiveness of the internal control system, including information technology security and control.
- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.
- Review the process for communicating the code of conduct to company personnel, and for monitoring compliance therewith.

Functions of Audit & Risk Committees (3)

External Audit

- Review the external auditors' proposed audit scope and approach, including coordination of audit effort with internal audit.
- Review the performance of the external auditors, and advise on the appointment or discharge of the auditors.
- Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the Organization, including non-audit services, and discussing the relationships with the auditors.

Functions of Audit & Risk Committees (4)

Internal Audit

- Advise on the internal audit charter.
- Advise on the appointment and removal of the Director IOS.
- Review the internal audit budget, resource plan, activities, and organizational structure of the internal audit function.
- At least once per year, review the performance of the chief audit executive.
- Review the effectiveness of the internal audit function, including conformance with The Institute of Internal Auditors' the Definition of Internal Auditing, Code of Ethics and the *International Standards for Professional Practice of Internal Auditing*.

Functions of Audit & Risk Committees (5)

Enterprise Risk Management

- Review Risk Policy periodically, normally annually.
- Review risk tolerance.
- Review all categories of risk, the likelihood of occurrence, severity of impact and mitigating actions for risks.
- Review accountability and responsibility for managing risks and the quality thereof.
- Review risk mitigation treatment and policies and procedures, including periodic reporting protocols.

Functions of Audit & Risk Committees (6)

Oversight of Risk Management Policy

- Is the policy appropriate for the Organization?
- Does it cover the whole Organization?
- Is there an organization-wide management system to implement the policy?
- Does it cover an adequate range of risks e.g.:
 - Strategic
 - Reputation
 - Governance
 - Financial
 - Operational
 - IT
 - Security
 - Business Continuity

Composition of Audit & Risk Committees

- Independent members.
- Qualified in audit, financial management and risk management issues and practices.
- Advises the Director-General and provides a report to the Member States.
- Has no executive authority.
- Does not manage audit or risk.
- Has oversight of external and internal audit and risk management.

Thank you!

Q&A