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**COMMENTS BY THE DIRECTOR-GENERAL ON THE
IMPLEMENTATION OF THE INTERNAL OVERSIGHT SERVICE
STRATEGY IN 2002-2003: ANNUAL REPORT 2003**

SUMMARY

In accordance with 160 EX/Decision 6.5 and 164 EX/Decision 6.10, the Director-General presents the report on “Implementation of the Internal Oversight Service Strategy in 2002-2003: Annual Report 2003”. The Director-General fully endorses this third annual report produced by the Service since its establishment in February 2001.

Decision proposed: paragraph 42.

Introduction

1. This paper reviews the progress made by the Internal Oversight Service (IOS) in 2003 and also concludes on the results and impacts achieved in implementing the IOS biennial strategy for 2002-2003. It also sets out the strategic direction to be followed by IOS in 2004-2005.
2. Strengthening oversight has been one of the major themes of the UNESCO reform initiatives, the aim being to promote responsibility and accountability within the Organization, in both operational and programmatic areas.
3. The creation of the Internal Oversight Service in February 2001 was underpinned by various reviews and recommendations which informed the decisions taken by both the governing bodies and within the Secretariat.
 - The Joint Inspection Unit (JIU) recommendations to enhance effectiveness of oversight in the United Nations System for both individual organizations and system-wide (157 EX/36).
 - The Institute of Internal Auditors (IIA) recommendations to increase effectiveness of oversight in UNESCO (160 EX/INF.6).
 - The External Auditor's recommendations to strengthen the role of the internal audit and evaluation functions (30 C/34 Add.).
4. IOS's mandates, responsibilities and authorities are formally defined in the IOS's Charter which has been approved by the Director-General and will in due course be annexed to the financial rules of the Organization. The Charter is based on the accountabilities of IOS as defined in documents 159 EX/INF.7 and 160 EX/23 which were endorsed by the Executive Board. The Oversight Committee met six times during the biennium. Monitoring risks faced by the Organization and monitoring implementation of oversight recommendations are key priorities for the Committee.
5. Submission of this paper to the Director-General is one of IOS's main accountability mechanisms (as described in document 160 EX/23). The Director-General welcomes the positive contribution made by IOS to the ongoing reform of the Organization, is committed to act on the results of its work, fully endorses this report, and is pleased to share it unchanged with Executive Board Members and permanent delegates.

Oversight Strategy 2002-2003

6. A major activity undertaken by IOS in the first year of its creation (2001) was an Organization-wide risk assessment. This provided the basis for developing an oversight strategy for the following biennium (2002-2003). The risks were grouped under the following categories: relevance, governance, reform, esprit de corps and resources. Biennial goals were established to address the risks identified and then oversight activities were designed to achieve those goals. These risks also underpinned the development of the UNESCO Evaluation Strategy (165 EX/19).

Goal 1: Ensure proper and timely identification of all factors that could threaten the achievement of the Organization's objectives; relevance of the risk and control framework to the continually changing organizational environment; senior management are fully informed on the status of risks and level of controls that have been established to manage those risks

7. This goal involved following up all five major risks identified in 2001. It was achieved through audits and evaluations and in the provision of management support throughout the biennium. The goal is also in line with the review by the Institute of Internal Auditors addressed to the Secretariat in 2000 which recommended enhancing the processes for defining, measuring and managing risks.

8. In 2003, IOS identified major risks that could threaten the achievement of one of the main goals of the reform process: decentralization. These risks were observed and assessed during 10 field office evaluations undertaken by IOS. They were presented to the Director-General, the College of ADGs, members of the Directorate, and subsequently to the Executive Board (167 EX/14). In response, the Director-General took immediate action by setting up a Senior Management Task Force to identify the actions needed to address the risks. A “Decentralization Risk Register” was prepared by IOS and used by the Task Force to guide its work. One important result from the work of the Task Force, which is still continuing, is a revised Programme Management Cycle which secures greater participation by the field in the Organization’s programme planning process. This process will be implemented in the planning cycle for the 2006-2007 biennium.

9. Changes in the organizational environment flowing from say the implementation of the new financial system (FABS) are closely monitored. A field office audit risk model was established to measure the risks faced by each office based on a set of risk factors which include size of the budget, whether a Head of Office or Administrative Officer are in place, volume of suspense accounts, etc. Offices with higher risks are prioritized for an audit. When the situation in the offices changes, the risk model is updated. The need to respond to the emerging risks calls for flexibility in adjusting work plans so that the work of IOS is timely and relevant. Despite limited resources, IOS has met this challenge by, for example, contracting in specialized expertise when required.

10. A number of mechanisms are used to share emerging risks with senior management, many of which can be linked to the five major risk areas identified in 2001:

- (a) Individual audit/evaluation/investigation reports submitted by IOS to the Director-General and copied to senior management, the relevant sectors and central services. Twenty-six individual audit reports, 7 investigation reports, and over 20 evaluation reports were issued during the biennium. The two IOS annual reports presented to the Executive Board in this biennium also addressed emerging risks;
- (b) Two consolidated audit reports (covering all 2001 and 2002 field audits) which present 49 systemic issues identified in a number of field offices and 33 recommendations to address the issues raised were submitted to the Director-General and shared with senior management, all offices and relevant Headquarters services. In a number of offices, the risks set out in these reports were discussed in office staff meetings and self-assessment checklists attached to these reports were completed to help the offices improve their control environments;
- (c) Communicating risks to senior management through the meetings of the Directorate and College of ADGs. In March 2003, IOS presented issues related to delegation of authority and decentralization to the College of ADGs. And following the 10 field office evaluations undertaken by IOS in the first nine months of 2003, a list of the key findings was presented to a meeting of the Directorate. The findings related to the risk areas identified in the Organization-wide risk assessment, e.g. the need to make UNESCO programmes relevant to the needs of individual Member States, resourcing and delegation of authority;

- (d) IOS participation in the Committee of Budget and Finance as an observer provides an avenue for sharing emerging financial or budgetary risks identified through oversight activities. For example, the Committee has been monitoring closely the major issues related to the 2002-2003 biennial financial closure. IOS was able to point to the risks associated with outstanding commitments at the end of the biennium and was then invited to undertake a review of those commitments before the closure of the accounts;
- (e) IOS participation in task forces to inform management of relevant risks that need to be addressed and to provide advice on the controls that need to be established to manage those risks;
- (f) Reports to the Oversight Committee on emerging risks and the actions taken to manage them are now a regular item on the agenda of Committee meetings.

Results/Impact achieved

Management have taken action to:

Address major “Decentralization” risks. Twenty-nine strategic risks related to decentralization were identified. As paragraph 8 shows, the Director-General has acted swiftly to initiate action in response to emerging risks.

Address operational risks of field offices. Risk factors that play a major role in the effectiveness of internal control in field offices are identified and used to determine which offices should be audited. Seventy per cent of the top 15 “high-risk” field offices have been audited. Results from IOS field office audits were disseminated by the Director-General to all Headquarters/field offices through Consolidated Audit Reports. It is evident from subsequent audits that the use made by the offices of these reports has positive impacts in terms of improvements in internal control.

Respond to IOS audits of the new financial system (FABS). Four areas of risks were identified: security, new processes, data migration and the transitional period. IOS undertook three of these audits in 2003 and, in response, action has already been taken to strengthen a number of controls.

Address risks related to new business processes. In 2003 IOS provided inputs on the control requirements for the new field financial management and Medical Benefit Funds systems and processes. The inputs were taken into consideration in the design of the new systems and processes.

Address risks related to the financial closure. The Oversight Committee was informed of risks related to the high volume of the unliquidated obligation at the end of the last biennium (2001-2002). IOS undertook an audit in this area. As a result, the unliquidated obligation figure was adjusted to reflect a more accurate amount in the financial statements. IOS has undertaken a similar audit for the 2003-2004 biennium given the similar risks involved.

Address financial risks. The Committee of Budget and Finance has been established. To ensure a proper channel for reporting and managing major risks, IOS drafted possible Terms of Reference and suggested regular management monitoring requirements for the Committee. These have since been adopted. The Committee closely monitors financial risks. In 2003 risks related to the management of the Funds-in-Trust Overhead Costs Account (FITOCA) were identified and IOS was requested to undertake an audit. Following the audit, a working group led by the Bureau of the Budget has been established by the Committee of Budget and Finance to take forward the recommendations.

Goal 2: Strengthen collaboration with the United Nations Joint Inspection Unit and other United Nations agencies

11. This goal is in line with the JIU recommendations that United Nations agencies need to encourage further networking, information sharing, professional development and to foster a stronger professional oversight community. A close collaboration is also beneficial to ensure application of common standards.

12. IOS collaboration with JIU during the biennium included:

- (a) provision of support to the various teams of JIU Inspectors and their staff in the fieldwork for the preparation of eight JIU reports;
- (b) coordinating comments from within the Secretariat on six draft JIU reports covering administrative as well as programmatic issues;
- (c) monitoring and regular follow-up on the implementation of recommendations from 16 JIU reports issued in 2001-2002 by various Headquarters units and field offices;
- (d) submission of 13 JIU reports/notes of relevance to UNESCO to the Executive Board;
- (e) conducting two meetings with the JIU and the External Auditor to reach a common understanding of the risks facing the Organization and to share respective work plans;
- (f) initiating an inter-agency meeting on “Support costs of extrabudgetary activities” in collaboration with the JIU and the United Nations Chief Executives Board for Coordination (CEB) in which 17 organizations participated with a view to moving to a common United Nations position on the principles involved;
- (g) submission to the Executive Board (165 EX/40) of proposals for handling JIU reports within UNESCO to ensure that the best use is made of them.

13. Collaboration with other United Nations agencies included:

- (a) participation in annual meetings of Representatives of Internal Audit Services of United Nations Organizations and Multilateral Financial Institutions and the United Nations Evaluation Group have helped to build an effective network for subsequent contacts;
- (b) in December 2003 IOS participated in the discussion, led by the Bureau of the Budget, with other United Nations agencies on the issue of extrabudgetary support, cost recovery policies and procedures;
- (c) IOS organized “Investigatory interview training” in June 2003 in which 12 staff members from other agencies participated;
- (d) a joint risk assessment of International Centre for Theoretical Physics activities in 2003 with IAEA (International Atomic Energy Agency) and a joint review of spouse allowances with OECD.

Results/Impact achieved

Applying common auditing standards helps to improve the quality of outputs. In 2002, all participants in the annual meeting of Representatives of Internal Audit Services of the United Nations Organizations and Multilateral Financial Institutions agreed to adopt the IIA auditing standards.

Quality Assurance Reviews help to improve the quality of the audit function. IOS has initiated a workshop to train colleagues from a number of United Nations organizations on how to perform quality assurance reviews. This will be conducted by the Institute of Internal Auditors in June 2004. As a result, audit professionals from a number of United Nations organizations will be equipped to perform quality assurance reviews of other United Nations organizations.

Establishing a common United Nations position on support costs on extrabudgetary activities. The results of a meeting in Geneva in December 2002 organized by IOS and other relevant meetings (New York, December 2003), coupled with the findings from the funds-in-trust support costs audit helped to inform senior management on how best to improve existing policies and procedures. A working group has been established by the Committee of Budget and Finance to work on this.

Goal 3: Provide assurance on the soundness, adequacy and functioning of internal controls including efficient and effective use of resources in Headquarters and field offices, fulfilment of accountabilities, accuracy of internal and external reporting and compliance with rules and procedures

14. This goal was established to address major risks related to resourcing (e.g. risks related to inefficient utilization of thinly spread resources) and reform areas (e.g. risks related to the implementation of the new financial system and lack of delegation of authority and understanding on accountability). Activities related to the achievement of this goal consumed a large part of IOS audit resources:

- (a) Field office audits: Fifteen field audits were undertaken in 2003 bringing the total to 28 field audits completed in the biennium. Sixty per cent of field offices have been audited since IOS was established in 2001. The challenging target of auditing the remaining offices in 2004 has been set, but this depends on the availability of resources within IOS. Subsequently, a standard three-year audit cycle will be followed for all field offices. The scope of the field office audits includes a review of extrabudgetary projects to test compliance of the expenditure with the budget approved by the donor and various aspects of the donor reporting. Ten large extrabudgetary projects were reviewed during the biennium;
- (b) Headquarters audits: Nine Headquarters audits were undertaken in the biennium covering a wide range of issues such as: information technology (SAP security), business processes and compliance (travel administration and processes, the transitional process during the migration of the legacy system to FABS), procurement (international procurement for Iraq Oil for Food Programme), financial (unliquidated obligations, Funds-in-Trust Overhead Cost Account), and administration of the UNESCO art collection.

15. As reported in the first two IOS annual reports, a weak control environment was observed in most offices audited. The results of field audits in 2001 and 2002 showed an unsatisfactory level of controls in almost all five areas audited (financial control, contracting, travel, administration, supply

procurement and general office administration). Most of the offices had not been audited since they were established and lack of training and support from Headquarters were the main reasons for this situation. Joint efforts have been made by Headquarters central services in the biennium to address this issue. In 2003 four Administrative Officer/Assistant workshops were organized covering 160 from about 45 field locations from all regions. IOS participated as a resource person in all four workshops with a focus on accountability and lessons learned from prior audits. In total, 38 days of training on operational and management issues were provided by IOS to the management and staff of field offices as part of IOS's capacity-building strategy. In the last quarter of 2003, IOS prepared material that will be used by the auditors to conduct one or two days training in each office audited at the completion of every audit. The focus of the training will be on the areas where weaknesses on internal controls are observed during the audit. As noted in paragraph 10, the use made by field offices of the self-assessment checklists attached to the consolidated reports of field office audit findings had helped them to improve their control environment.

16. One of the mechanisms used by IOS to monitor the improvement in internal control is through close follow-up to the implementation of the audit recommendations. Offices are requested to submit a status report every six months. Currently 60% of overall field offices' recommendations issued in 2001-2002 have been implemented and 45% of recommendations addressed to Headquarters have been implemented. While it is still a continuing challenge to get a satisfactory level of control in all offices and all areas, in 2003 improvements have been noted in a number of areas (notably general administration and in some aspects of financial control). These improvements have been confirmed through the review of the monthly imprest accounts submitted by the offices to Headquarters. As part of its strategy to ensure proper and timely implementation of audit recommendations, and to monitor and sustain improvements achieved, in 2003 IOS reviewed two months' imprest accounts at random for most offices that were audited in 2002. The results were communicated to the offices in the form of a management letter. The letter contains the results of the IOS review of the implementation of previous audit recommendations as well as other new issues captured through the review of the imprest accounts. This initiative is part of IOS's capacity-building strategy.

17. One major breakthrough in improving the control environment in the Organization is the establishment of an accreditation process as part of the roll-out of the new financial system for field offices. IOS developed a set of criteria which need to be met by the offices before they receive the system. This was approved by senior management in November 2003 and the process got under way in early 2004. It seeks to provide reasonable assurance that field offices have the basic capacity, including internal controls in place, to allow delegation of authority for posting transactions to the new financial system. The criteria includes management/operational capacity, oversight criteria (the offices should have been audited and have implemented at least 80% of the audit recommendations) and technical capacity (adequacy of hardware and telecommunication connectivity). Working together with BFC and DCO, IOS plays a major role in this process by, for example, reviewing field office imprests and bringing forward the timing of field office audits. This process is not simply a prerequisite for the implementation of a field office financial system. It is intended to improve overall internal controls in field offices and to promote the culture of accountability. The target is to accredit 15 field offices in 2004 and if all are accredited this would cover 76% of field expenditure.

18. In line with the JIU recommendation to increase dialogue among oversight partners, IOS worked closely with the External Auditor to provide assurance on the adequacy and functioning of internal controls. Joint activities were undertaken in auditing the Brasilia Office in August 2003 (the fourth IOS audit in the last three years) where the External Audit team undertook a financial attest audit while the IOS audit concentrated on assessing the effective functioning of the internal controls within the Office.

19. Another effective and efficient collaboration between the two oversight partners was the financial attest audits undertaken by IOS in six field offices between January and June 2003. Because of delays in recording field transactions and the heavy workload experienced by Headquarters during the initial stage of the implementation of the new financial system in 2002, the External Auditor decided to perform the attest audit of field office financial transactions, which forms part of the overall UNESCO financial audit, in the field offices themselves. For this purpose, a set of audit tests was prepared and a sample of transactions was selected by the External Audit team for those offices that were going to be audited by IOS. The financial attest audits were carried out by IOS auditors at the same time as the internal audits in the six field offices. The results and supporting documents were subsequently reviewed by the External Auditor who concluded that they could rely on IOS's work, with regard to the field office accounts, in formulating their opinion on UNESCO's 2002-2003 accounts. Encouragingly, no major critical issues arose from these financial attest audits undertaken by IOS.

20. While there is a clear distinction between the roles of internal and external oversight, these collaborative efforts have not only saved on travel costs, they have also strengthened the professionalism of both parties. Such initiatives were strongly recommended by the IIA in their recommendations to the Director-General (160 EX/INF.7) when they encouraged him to "enhance coordination with the external auditors and their reliance on internal oversight".

Results/Impact achieved

Improved control environment in field offices. IOS reviews of imprest accounts of offices that have been audited show that while more efforts are needed to fully achieve effective internal control, there are encouraging improvements. In many cases, non-compliance issues that were observed during the audits have been corrected. This was evident, for example, in Phnom Penh and Bangkok in relation to financial control.

The use of tools help to improve the functioning of internal controls. In the 2002 Consolidated Audit Report, IOS included several standard forms that can be used by offices to assist them in improving their processes and controls such as a payment request form. This form requires the staff member who approves the payments to certify that service/goods have been received by UNESCO. Many offices now utilize the forms. This has not only improved field office procedures but also strengthened accountability.

Improved field office processes. An encouraging example of the results of practical training conducted by IOS after completion of a field office audit is that as a follow-up to the training offices used the training guidelines prepared by IOS, which contain a summary of all relevant policies and procedures, as guidelines for their office and these were disseminated not just among the administrative/finance staff but to all staff including the programme specialists.

Goal 4: Ensure the soundness, adequacy and application of IOS internal standards and procedures in compliance with international standards

21. One of the IIA recommendations in its 2000 review was for the internal oversight function to apply Standards for the Professional Practice of Internal Auditing and adopt appropriate best practices. Furthermore, in its 2002 meeting, the Representatives of Internal Audit Services of United Nations Organizations and Multilateral Financial Institutions adopted IIA standards. Significant efforts were made by IOS to ensure compliance with these standards. Related initiatives that should be highlighted are:

- (a) Establishment of an IOS Charter in 2002 (as required by the IIA standards) which define the purpose, authority and responsibility of the Service and have been approved by the Director-General.
- (b) The independence and objectivity of the IOS activities (as required by the IIA standards) is assured by the Director of IOS reporting directly to the Director-General (as specified in document 160 EX/23). Furthermore, to improve transparency and serve the information needs of the governing bodies, IOS prepares an annual report which the Director-General distributes to senior management and makes available to the Executive Board Members and the permanent delegates. Document 161 EX/5 further reiterates that the Director-General will make the IOS annual report available unchanged to Executive Board Members and permanent delegates. This is in line with the comments made by the Director-General in response to the JIU recommendations (157 EX/36) on the need for improved transparency and sharing of plans and annual reports of internal oversight with the legislative organs. Furthermore, the sharing of the IOS annual report with the Executive Board was also recommended by the IIA in its review of the oversight function in UNESCO in 2000 (160 EX/INF.6).
- (c) Assurance on proficiency and due professional care in performing oversight engagements (as required by IIA standards). A strict quality control mechanism including two stages of review before a final report is issued has been implemented. Competent advice and external expertise is contracted as appropriate to ensure a credible output. For example, a SAP system security expert was contracted to provide input to the SAP security audit and experts were also contracted for the audit of UNESCO's art collection. Continuous improvement in IOS staff knowledge, skills and other competencies is given high priority. In total, 190 days of training were completed by IOS professional staff during the biennium. Three IOS professional staff undertook the professional certification for internal auditors offered by IIA (Certified Internal Auditor examinations) in 2003. Three IOS evaluation specialists participated in the International Program for Development Evaluation Training (Canada) on specialized evaluation topics. The IOS Information System Specialist undertook training in SAP Basis and Information Security Management System.
- (d) Compliance with various IIA Performance Standards which include: planning of activities based on risk assessment, communication and approval of work plans and resource requirements to senior management through the Oversight Committee, establishment of standard policies and procedures to guide oversight activities, and development of engagement planning before undertaking an oversight activity.

22. One of the main challenges faced by IOS is the timely issuance of individual audit/evaluation reports, given the close attention paid to the quality of both audit and evaluation reports before they are submitted to the Director-General. However, preliminary draft audit reports are made available to management at the time an audit is completed so that they can immediately start to implement the recommendations.

23. An external Quality Assurance Review to assess the effective functioning of the audit function (again in line with IIA standards) is planned for 2006 with an internal quality review in 2004.

Results/Impact achieved

Independence of the oversight function. As specified in the IOS Charter, the Director of IOS reporting directly to the Director-General and all oversight reports are addressed to the Director-General.

Transparency of the oversight activities and results. IOS annual reports are shared by the Director-General with the Executive Board unchanged.

Increased proficiency of IOS staff. The training provided to IOS auditors and evaluation specialists during the biennium has increased the proficiency of IOS staff.

Goal 5: Improve the culture of accountability and ensure that appropriate actions are taken for violations of UNESCO rules/regulations, mismanagement, misconduct, waste of resources or abuse of authority

24. The Oversight Committee has taken the view that implementation of a Voluntary Disclosure Channel (VDC) for reporting potential irregularities that had originally been planned for implementation in 2003 should be deferred until UNESCO adopts a customized code of conduct for its staff and introduces an ethics policy and related training.

25. Nine cases were investigated during the biennium mostly involving staff members and former staff members. Eight cases had financial implications. The Organization was able to recover some of the funds involved and, working closely with HRM and the Legal Adviser, appropriate disciplinary action was taken.

26. In addition to investigating irregularity cases, IOS also analysed the control shortcomings that allowed irregularities to occur and made recommendations to counter those shortcomings. These recommendations were included in the consolidated reports shared with all offices and Headquarters units to prevent similar irregularities from occurring.

Results/Impact achieved

Appropriate actions are taken when irregularity cases arise. While no specific details are mentioned in IOS annual reports which are distributed widely, the fact that all potential irregularities are investigated has a significant impact in signalling to staff members that they will be held accountable for the resources that are entrusted to them.

Improved culture of accountability. Prior to each audit, as part of the standard IOS audit process, the Head of Office is requested to prepare and submit a representation letter stating significant deviations from established policies, rules, and regulations which have occurred in the office and any suspected or actual irregularities. Such transparency promotes a culture of accountability.

Goal 6: Ensuring improved accountability for results and utilization of evaluation results to assist future programme planning and management through the identification of strengths, achievements and lessons learned and also ensuring that governing bodies are informed through evaluation reports about programme implementation progress, improvements and innovations of UNESCO

27. One of the major activities undertaken by IOS in 2003 was the field office evaluations using the basic criteria for the rational implementation of decentralization approved by the Executive Board (156 EX/Decision 5.1) and the General Conference (30 C/Resolution 83). The criteria provide a conceptual and operational frame of reference for the evaluation of field offices, and cover the processes which contribute to the achievement of results. Based on these criteria, the field office evaluations covered the following: strategic planning, integration into the United Nations system and leadership, relations with stakeholders and beneficiaries, decentralized network structures, financial and human resources, and programme results. The outcome of these field office evaluations will feed into the comprehensive review of decentralization to be reported to the Executive Board in 2005.

28. In 2003, 10 field offices were evaluated and the results were presented to the Executive Board (167 EX/14). The Board paper presents achievements as well as lessons learned and risks related to decentralization and shows how these risks have affected programme delivery to Member States. As noted in paragraph 8, the Director-General established a senior management Task Force to address the risks identified. Several major actions have been initiated to manage the 29 strategic risks:

- (a) Holding a senior management symposium and a meeting of all field/Headquarters managers in early 2004 to clarify the roles of Headquarters vis-à-vis field offices. This initiative addresses one of the fundamental issues: a lack of clarity as to the role that UNESCO field offices are best placed to play in meeting the needs of Member States (e.g. helping governments to formulate policies, advocacy or as project implementers);
- (b) Introducing a revised programme management cycle. The aim is to strengthen bottom-up programme planning based on cluster strategies which reflect the needs of Member States;
- (c) Streamlining the staff recruitment process. The aim is to increase involvement of field offices in the selection of field office staff and to avoid long vacancies in established posts, all with a view to improving programme delivery;
- (d) Revising the extrabudgetary project proposal and approval process. The aim is to delegate authority for negotiating and concluding agreements with donors to field offices while at the same time establishing an effective quality control and accountability mechanism;
- (e) Asking IOS to undertake a review of SISTER to identify ways in which it can be adapted so that it is used as a practical programme monitoring tool.

29. This activity is closely related to the reform-related risks as defined in the organization-wide risk assessment exercise, i.e. the risk that decentralization and delegation of authority, responsibility and accountability may be hard to implement due to the lack of clarity inherent in the complex organizational structure that UNESCO has.

30. IOS reviewed the results of 20 external evaluations and presented them to the Executive Board, together with the Director-General's comments on the actions to be taken in response to the evaluations (164 EX/46, 165 EX/44, 166 EX/41, 167 EX/15, 169 EX/22). As document 169 EX/22 shows, management's active participation in the preparation, conduct, and the use they make of evaluation findings is encouraging. There is now an increased interest in evaluation within the Organization in terms of learning lessons to inform future programme planning as the following examples illustrate:

- (a) HIV/AIDS. This evaluation which will be completed in the spring of 2004 provides a unique opportunity to inform the revision of UNESCO's HIV/AIDS strategy;

- (b) ASPnet. The evaluation findings and recommendations have been addressed in the new ASPnet Strategy and Plan of Action 2004-2009 calling on national coordinators to play a more active role in policy formulation, strengthening teacher training and giving priority focus to the achievement of EFA targets;
- (c) Eco-tourism in the Lao People's Democratic Republic. The ADG for Culture gave wide circulation to this evaluation encouraging others involved in developing similar projects to learn lessons in the following areas: the need for appropriate capacity-building activities, sustainable financing mechanisms, partnerships with local authorities and effective coordination mechanisms, and for cultural impact assessment to be integrated into projects;
- (d) PEER (Programme of Education for Emergencies and Reconstruction). As document 169 EX/22 shows the evaluation prompted management to recognize that UNESCO needs to further develop its mechanisms for implementing its mandate in emergencies and post-conflict situations in Africa and also to develop multisectoral interventions;
- (e) APPEAL. This programme in Asia seeks to eradicate illiteracy and promote basic education for all. The significant initiative taken following the evaluation sought to "export" APPEAL to other parts of the world. The evaluation findings, lessons and best practices, APPEAL approaches and materials were shared with six countries in southern Africa during a subregional workshop on post-literacy and lifelong learning held in Botswana in 2003.

31. The sharing of results of these oversight activities with governing bodies is in accordance with the JIU recommendation (157 EX/36) to promote more dialogue between the Secretariat and the Member States.

32. Not all external evaluations have met IOS's high standards. IOS gives the highest priority to its quality assurance role and recognizes that unless the evaluations reach a high standard they will not be recognized as useful as an input to future programme planning. Some have been returned, with success, to evaluation teams for improvement, while others have failed to meet quality standards in their final form and IOS has had to advise the Director-General that they do not provide a sound base for decision-making.

Results/Impact achieved

Revised programme management cycle. Following field office evaluations, a revised programme management cycle was developed for implementation in the 2006-2007 biennium.

High quality evaluations provide credible inputs for future programming. Insistence by IOS that external evaluations should meet high standards ensures that they provide credible inputs for future programming. And as the illustrations in paragraph 30 show, programme managers now use evaluations effectively to inform future programme planning.

Goal 7: Ensure sound evaluation results through the development of evaluation capacity at the sector and field levels, and the development and use of sound evaluation methodologies, guidelines, tools and standards

33. Several major risks identified in the Organization-wide risk assessment exercise relate to this goal: a lack of encouragement to improve as a result of past evaluation exercises, no history of

learning from past experience, and passing this knowledge on to others through coaching, etc., and the difficulty of changing to a results-based culture.

34. The following initiatives were taken by IOS during the biennium to address the above risks:

- (a) Development of an evaluation training plan for the 2004–2005 biennium. The plan includes a set of customized training modules to be delivered to the various sectors, field offices and institutes. This initiative will address the key support needs in the area of evaluation capacity-building identified in the UNESCO Evaluation Strategy (165 EX/19). The plan also includes workshops over a 5-month period aimed at strengthening capacity for self-evaluation.
- (b) Completion of the following training:
 - A training in evaluation in Bangkok in September 2003 to approximately 75 UNESCO staff from the Asia-Pacific region. The training was conducted jointly with BSP and highlighted important linkages between results-based management and evaluation;
 - A training to Education staff in October 2003 during the Education General Assembly on various guidelines and tools to improve the management of evaluations (TOR guidelines, contracts management checklist, template for formulating “evaluation questions”, and templates for evaluation plans). During 2003 IOS had given priority to refining and strengthening the various guidelines and templates.
- (c) As part of its role to ensure the quality of the evaluation process, IOS provided direct support to the planning and implementation of evaluations. This capacity-building came in a number of forms: provision of direct assistance in the development of terms of reference; source information on how to develop a TOR; advice on the selection of evaluation teams; joint review and approval of evaluation plans; joint review of draft and final reports. Over the course of the biennium, IOS provided backstopping to no less than 36 evaluations commissioned by various sectors/field offices.
- (d) The establishment by IOS of a Task Force for the thematic evaluation on UNESCO’s response to HIV/AIDS has, *inter alia*, fostered among Headquarters staff an increased awareness of evaluation as a management tool. The Task Force has participated actively in the evaluation process, including the provision of inputs to the TOR, feedback to the inception report and on the emerging evaluation report.
- (e) There are promising signs of an increased “appetite for evaluation” from the field offices. In 2003, three of the evaluations submitted to the Executive Board were commissioned by field offices (Bangkok and Guatemala).

Results/Impact achieved

The wide use made of evaluation guidelines and tools improves the quality of evaluations. The various evaluation guidelines and tools produced by IOS are being widely used by sectors and field offices and help to improve the quality of evaluations.

Evaluation training has strengthened the receptivity of programme staff to the importance of evaluations. As noted earlier, there is an increasing “appetite for evaluation”.

Overall results/Impact achieved

35. Oversight involves a continuing process of change. In the last few years, progress in strengthening the oversight function in UNESCO has materialized. This was confirmed by the External Auditor (165 EX/29 Add.) *“The Internal Oversight Service (IOS) has made a positive contribution to management improvement efforts in a short time. The oversight function has been reorganized and strengthened. Audit work is planned, implemented, and reported in accordance with recognized standards. A strategic plan for evaluation has been developed and improvements to the function are under way”*. This was also supported by positive comments from the Executive Board (165 EX/Decision 8.8) *“Expresses its satisfaction at the further progress achieved by the Internal Oversight Service (IOS) and at the results of its activities and the improvements made to its strategy for 2003”*.

36. As specified in various parts of this report, many of the recommendations related to strengthening the oversight functions which were made by JIU, the Institute of Internal Auditors and the External Auditor and which informed the establishment of IOS, have also been implemented.

37. Effective oversight should help to secure positive change within an organization. The results/impacts achieved against each of the goals established for IOS show that significant results and impacts have been secured from the oversight activities undertaken.

The strategic direction for IOS in 2004-2005

38. An internal challenge within IOS relates to resources and the difficulty in recruitment because of the specialist skill requirements for both audit and evaluation professionals. At the end of 2002, six out of 18 professional posts were vacant. At the beginning of the current biennium (32 C/5), the vacancies from the last biennium plus the newly established posts bring the total vacancies to nine. IOS is giving high priority to filling these vacancies in the first half of 2004. In the meantime, IOS is obliged to contract in staff on a temporary basis.

39. As for IOS’s overall strategy, a key element is the need to promote further the culture of accountability and learning from both audit and evaluation activities across all units in the Organization (Headquarters and field offices) and to sustain improvements that have already been made. More effort is needed to build the understanding that oversight is a shared responsibility and the Organization should not place over-reliance on oversight mechanisms (internal or external) as the remedy for performance shortcomings.

40. Therefore, the strategic direction for IOS in 2004-2005 is geared towards capacity-building.

- (a) Evaluation training to address the area of evaluation capacity-building identified in UNESCO Evaluation Strategy (165 EX/19) is planned for the 2004–2005 biennium (paragraph 34 refers).
- (b) Implementation of the accreditation process for field offices to receive FABS through review of imprest accounts and communicating the results of the review through management letter is expected to raise the level of control awareness in these offices (paragraph 17 refers).
- (c) One to two days of practical training to be conducted by IOS auditors at the end of each field office audit to assist the offices in remedying the issues observed during the audit and to help them to implement the audit recommendations.
- (d) Involving existing and potential field office staff in audit and evaluation activities. Several candidates have been identified and this “induction” programme will start in the

second quarter of 2004. This initiative will draw on the experience of existing staff and help to build their capacity by exposing them to other offices. For prospective field office staff (say Young Professionals) participation in oversight activities will provide a valuable training opportunity.

41. Other major activities planned include:

For evaluation

- (a) Further field office evaluations will cover national offices, some Member States without UNESCO offices, some Member States with offices that had been closed and some cluster offices and regional bureaux. The evaluations will focus on the roles played by offices in meeting the needs of Member States; achievement of programme results; the effectiveness of the existing decentralized network including the institutes; the added value of the decentralized network/strategy to Member States without UNESCO offices; assess interactions with National Commissions; assess the core staffing and resourcing capacity and requirements; and assess the fund-raising potential and effectiveness of the management of extrabudgetary resources;
- (b) Advising on the clear articulation of expected results and performance indicators in the C/5 document to ensure that sound criteria exist for assessing results (together with BSP);
- (c) Continuing to give high priority to quality assuring evaluations in progress;
- (d) Initiatives to further disseminate the outcome of evaluations so that they are used effectively for programme planning purposes.

For audit

- (e) Audit coverage of the remaining 40% of field offices that have not been audited since 2001;
- (f) Audit coverage of several high risk areas in Headquarters.

For management support

- (g) As part of the continuing reform process, provide support to management in the development and implementation of new/revised processes to ensure that adequate controls are established;
- (h) Finalization of a table of delegation of authority for the Organization as a whole;
- (i) Strengthening accountability by developing appropriate formats for “performance agreements” between senior management and sectors/divisions/field offices and the means to report on progress in implementing the agreements;
- (j) Helping to facilitate initiatives to customize a code of conduct for UNESCO staff and to introduce an ethics policy and related training;
- (k) A commitment to continue to identify and track the risks faced by the Organization.

Proposed draft decision

42. Having considered the above, the Executive Board may wish to adopt a decision along the following lines:

The Executive Board,

1. Recalling 160 EX/Decision 6.5 and 164 EX/Decision 6.10,
2. Having examined document 169 EX/28,
3. Takes note of the contributions made by the Internal Oversight Service to the ongoing reform of the Organization and expresses its satisfaction with the results achieved and its strategic direction for 2004-2005.