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**COMMENTS BY THE DIRECTOR-GENERAL ON THE IMPLEMENTATION OF THE
INTERNAL OVERSIGHT SERVICE (IOS) STRATEGY IN 2004-2005:**

ANNUAL REPORT 2004

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 2004-2005: Annual Report 2005”. The Director-General fully endorses this fourth annual report produced by the Service since its establishment in February 2001.

Decision proposed: paragraph 55.

Introduction

1. This paper reviews the results achieved by the Internal Oversight Service (IOS) in 2004, the first year of implementation of the IOS biennial strategy for the 2004-2005 biennium. It also presents the plans for 2005 and the strategic direction to be followed by IOS in 2006-2007 (33 C/5).

Background

2. IOS provides a consolidated oversight mechanism which covers internal audit, evaluation, investigation and other management support to evaluate and improve the efficiency and effectiveness of UNESCO's risk management, control and governance processes. It is charged with providing objective assurance that programmes and plans are delivered effectively, that strategic management information is reliable and timely, and that continuous improvements are fostered in methods and procedures so as to enhance the quality of UNESCO's operations.

Implementation of IOS Strategy 2001-2003

3. Since its establishment in February 2001, as part of its accountability, IOS has submitted three annual reports to the Executive Board. The 2001 Annual Report presented activities initiated by IOS during its first year and the overall strategy for the 2002-2003 biennium which was based on the organization-wide risk assessment initiated by IOS in 2001 with a view to it forming an integral part of managing for results. In its 2002 and 2003 Annual Reports, IOS discussed the results achieved during the biennium against each of the IOS long-term goals covering all four IOS functions: audit, evaluation, investigation and change management (management support).

4. During its first three years, IOS activities were therefore based on risks identified through the Organization-wide risk assessment exercise. This was followed by designing and implementing an oversight (audit, evaluation and other management support) strategy supported by activities to address or manage those risks. This included establishment of the UNESCO Evaluation Strategy (2002-2007). These activities sought to institutionalize the concept of oversight, control and accountability to all Headquarters and field office programme activity and operations. For example, most field offices had not been audited since their establishment and were not familiar with assessment of internal controls and there was no evaluation strategy for the Organization to underpin Results Based Management. Cooperation with other United Nations agencies was also established. During these first years, various tools were prepared (e.g. audit/evaluation guidelines and methodology) to support the implementation of the oversight activities. The outcome of these activities informed the evolution of IOS's strategic direction for 2004-2005.

Strategic direction for 2004-2005

5. In 2001-2003, most of the oversight activities were initiated or undertaken by IOS. A strategic focus for 2004-2005 is to build the understanding that oversight is a shared responsibility and that the Organization should not place over-reliance on oversight mechanisms (internal or external) as the way to solve performance shortcomings. Therefore, the IOS 2004-2005 strategic direction which was presented in its 2003 Annual Report (169 EX/28) is geared towards capacity-building covering evaluation training, practical training on financial/administrative issues, guiding field offices in implementing audit recommendations, involving field office staff in audit/evaluation activities and disseminating lessons learned and good practices. To support the capacity-building initiatives, various tools that were originally used by IOS staff were adapted so that they can be utilized by other Headquarters and field office staff as self-assessment tools.

6. The 2004-2005 strategy also includes initiatives to further promote the culture of accountability, 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. IOS has been active in further strengthening cooperation with other agencies to help improve the effectiveness of oversight mechanisms within the United Nations system generally. As explained later, IOS took leadership of some joint oversight activities.

7. The IOS 2004-2005 strategy also addresses major risks (risks being factors that can prevent the Organization from achieving its objectives) identified in the earlier biennium. These include: evaluation of the UNESCO decentralization strategy, evaluation of the achievement of expected results of major programmes/projects, strengthening the quality of programme evaluations commissioned by sectors/field offices, assessing and providing assistance in improving the effectiveness of internal control in field offices, assessing the utilization of UNESCO resources in several high-risk areas of Headquarters, and providing support to management for change management initiatives.

Progress in 2004

8. In the first year of the biennium 2004-2005 IOS has made considerable progress in implementing its 2004-2005 strategy. The following highlights the progress made.

Capacity-building

9. Efforts were made by IOS in building capacity within UNESCO and within Member States. On the latter, IOS took forward an initiative whereby evaluators and auditors from the “South”, in particular from the Southern Cone of Africa will join IOS, or another United Nations agency, as interns (on evaluation and audit) for six months. Proposals have been prepared and shared with some Member States for funding. Fifty per cent of the funds required to fund 10 interns have been secured from one Member State but an additional US \$120,000 is still required to materialize this initiative. This initiative was shared with other agencies during the meeting of Representatives of Internal Audit Services (RIAS) in June 2004. They are eager to participate in the on-the-job training for these interns and the United Nations Board of Audit fully support this initiative.

10. With regards to capacity-building within UNESCO, on the evaluation side 104 staff members have participated in the various IOS capacity-building events which were conducted through presentations, participatory workshops, discussions, reviews and expert opinion. The topics covered include: improving the quality of external evaluations, self-evaluation and specific topics such as Theory-Based Evaluations and Logic Models and practical evaluation techniques.

11. On the audit side, two major new initiatives were taken. 15 field audits undertaken in 2004 concluded with a practical training session conducted by the IOS auditors to the field office staff and management to address issues identified during the audit. In total, 153 field office programme and administrative/finance staff, including the heads of offices, were trained in this way. By following this approach, the office is equipped, as soon as the audit is completed, with the knowledge required to implement most of the audit recommendations. Another major initiative is the development of a CD-ROM containing material covered during these 15 training sessions to address issues that are commonly found during audits, which will be shared with all other UNESCO offices. This is one of the IOS mechanisms to disseminate lessons learned and good practice across UNESCO offices, to improve capacity of field office staff and to improve the culture of accountability and discipline in complying with UNESCO policies and procedures.

12. Another initiative started at the end of 2004 is participation of field office staff in IOS audits whereby an Administrative Officer from one office participates in an IOS audit of another office. Both offices learn from each other and this was confirmed by the participating staff members. All these initiatives will be continued in 2005.

Managing and improving the quality of external evaluations

13. During 2004, 17 field offices evaluations were conducted. In addition to the evaluations foreseen for 2004 in document 32 C/5, IOS was involved in providing substantial support to approximately 25 further evaluations. Overall, including 32 C/5 scheduled evaluations, field and other evaluations, 29 evaluations were completed during 2004. The support of IOS to work with sectors and field offices to develop and take forward evaluations is now in great demand. Significant effort was invested in assisting sectors to improve the quality of external evaluations and in provision of methodological support throughout the evaluation process. The following are examples of progress achieved: (i) improved transparency, objectivity and credibility of evaluations through transparent and objective recruitment of evaluators with clearly elaborated recruitment criteria; (ii) more complete and clear Terms of Reference based on IOS Guidelines; (iii) establishment of Steering Groups to better anchor the evaluation with stakeholders; (iv) rigorous analysis of the final report prior to acceptance; (v) regular follow-up of implementation of the recommendations.

Promoting self-evaluation

14. IOS has also taken forward initiatives to promote self-evaluation. An example of self-evaluation was demonstrated by the Bangkok Office in the Evaluation of Culture Heritage Management and Tourism. The assessment of this extrabudgetary project employed a very strong component of self-evaluation conducted at the eight project sites. The findings were then jointly examined by independent experts, stakeholders from all project sites, and UNESCO staff which is a fundamental requirement for “ownership” of the recommendations and hence an ingredient for action towards results. The final assessments given in the evaluation report reflected agreement among the various parties on the achievements and challenges associated with the project.

Promoting a culture of accountability

15. One major achievement is the completion of a draft Organization-wide Table of Authority and Accountability. This table contains detailed list of authorities and for each authority the table specifies who has been entrusted with the authority, the relevant accountabilities and what accountability mechanisms need to be established to monitor implementation effectively. The Table is applicable for both Headquarters and field offices. In addition to listing authorities and accountabilities, IOS itemized issues that need to be addressed by management in order to implement the delegation of authorities properly. This Table was presented to the Decentralization Task Force in November 2004 following which it was handed over by IOS to management who need to assign the appropriate sector/service as the “owner” of the Table who will be responsible for finalizing and maintaining it. Management has decided that an Accountability Committee should be established to ensure that the Table of Authority and Accountability is implemented effectively and to address any issue that may arise in relation to its implementation. This is an example of an effective acceptance by management of their responsibility to manage risks.

16. To support the implementation of the Table of Authority and Accountability, there are a number of accountability mechanisms that need to be developed. One major accountability mechanism is for senior management of a sector, service, division or field office to account for achievement of the results expected of them, and to account for responsibilities assigned and the

resources entrusted to them. IOS, as requested by the Decentralization Task Force, has established a concept paper on this accountability mechanism in the form of a “performance agreement and assessment” to accompany the implementation of the Table of Authority and Accountability.

17. The focus of this “performance agreement and assessment” is accountability between the Sector/Service/Division/Field Office as an organizational unit and the reporting officer of this entity in achieving the planned expected results and in utilizing the financial/human resources entrusted to them. This can be distinguished from the existing performance assessment of each individual staff member which does not capture the overall performance of a given unit. The newly designed performance agreement comprises four major components: responsibilities, expectations for each responsibility, a performance indicator for each expectation, and resources and authorities needed to meet the expectations.

Learning from investigations

18. During the year, IOS completed several investigation cases. A consolidated report on financial irregularity cases identified during audits and investigation by IOS has been prepared and will be issued in the first quarter of 2005. This report analyses the control shortcomings that allowed these serious irregularities to occur and makes recommendations in terms of lessons learned to counter those shortcomings which should be applied throughout the Organization to prevent similar irregularities from recurring.

Addressing major decentralization risks

19. As a follow up to the ten field office evaluations undertaken in 2003, in 2004 IOS undertook a further round of evaluations covering six clusters. For each cluster, the evaluation covered the cluster office and several Member States within the cluster where there is no UNESCO office or where the UNESCO office had been closed as part of the implementation of the existing decentralization strategy. Where there was a national office within these clusters, IOS also evaluated the national offices. By doing so, the evaluations were able to assess the functioning of the overall decentralization structure and its impact on the Member States. Overall, within these six clusters, 17 field evaluations were undertaken in 10 field offices, three Member States with closed offices and four Member States without a UNESCO office.

20. The purpose of the evaluations was to review the implementation of the decentralization strategy which was initiated in mid-2001 as part of the UNESCO reform process and to review the performance of these offices. The results of the evaluations were shared with the Decentralization Task Force to inform the Director-General in reporting to the Board on the functioning and effectiveness of the decentralization strategy in programme delivery to the Member States (171 EX/6). The results will also be used as input to the IOS biennial report to the Board at its 174th session on the activities and results of all decentralized bodies applying the criteria approved by the Executive Board.

21. The field office evaluations show some positive results and good progress in addressing issues identified by IOS in the first round of evaluations undertaken in 2003 (167 EX/14). A new programme management cycle has been finalized and is being introduced in the 33 C/5 planning round. The aim is to provide for a better involvement of cluster offices and stakeholders at the country level. In relation to this, cluster consultation meetings were undertaken by all cluster offices.

22. However, there are remaining risks that need to be addressed. One consistent observation in most of offices evaluated is that UNESCO is trying to do too much with too little resources.

Offices, regardless of their place in the decentralization structure (regional, cluster or national office), play a broad range of roles or implement activities through a broad range of delivery mechanisms which require comprehensive skill sets among the office's staff and large financial resources.

23. Another key observation is lack of systemic monitoring and evaluation of progress and results. In most offices evaluated, reported results are most often synonymous with successfully implemented activities and documented outputs such as a list of activities completed, policy documents produced, people trained, and so forth. The evaluations faced constraints in documenting change because of the lack of baseline data, given the prevalence of "one-off" outcomes.

24. The process followed in identifying, analysing, addressing the risks related to decentralization observed through these field office evaluations, again, show how seriously management take the ownership of risks identified and analysed by IOS, and how UNESCO has made considerable progress in terms of sharing oversight responsibility.

Disseminating results of evaluations for programme planning purposes

25. Four new initiatives in dissemination of results were initiated in 2004:

- (a) New format of the C/3 document: To attract readers and facilitate decision-makers, this report was presented in a radically improved format with a printed synthesis containing the essentials (in less than 50 pages), and a more extensive and detailed version provided on a website. This approach was readily acknowledged by the Executive Board as being user friendly and very supportive of decision making on governance issues.
- (b) Meetings on Evaluations Reports: IOS has initiated a series of "report-back" meetings with senior management and delegations, allowing the evaluation teams to present evaluation findings and to provide opportunities to discuss how best to take forward the outcome of the evaluations in future programming. This strengthens the appreciation of the information contained in the report. This was started with the report of the evaluation of UNESCO's response to HIV/AIDS and will be continued for all evaluations considered to be of strategic importance to UNESCO.
- (c) IOS/Evaluation website: it has been redesigned to make it increasingly user-friendly. A process was put in place to post evaluation reports on the site. It is expected that around 15 evaluation reports will be available by February 2005.
- (d) Executive Board documents on external evaluations: The format of the documents has been streamlined (169 EX/22 and 170 EX/14) making them easier for readers to use the documents for effective decision-making. The documents now also include a section drawing out important overarching issues emanating from the evaluations. Major themes that came through from the evaluations reported on in documents 169 EX/22 and 170 EX/14 include (i) the need for UNESCO to set priorities, and the adoption of rational approaches for doing this, (ii) the importance of multisectoral/interdisciplinary approaches, and how success depends strongly on successful local partnerships, and (iii) the need for UNESCO to further develop its mechanisms for implementing its mandate in emergencies and post-conflict situations. The Director-General has responded positively to these three evaluation findings by launching appropriate initiatives, such as strengthening the designation of principal priorities, calling for a full

fledged evaluation of cross-cutting themes, and the establishment of a working group for examining UNESCO's actions in emergency and post-conflict situations.

26. The following illustrations show how the results of evaluations have provided important input into future programming and programme management.

- (a) **HIV/AIDS:** The external evaluation of UNESCO's response to HIV/AIDS generated much interest. It highlighted the necessity for UNESCO to dedicate itself even more to the struggle against the HIV/AIDS pandemic. In this context, the Director-General decided to launch HIV/AIDS prevention education as one of the three major initiatives in document 33 C/5.
- (b) **Monitoring Learning Achievement Project (MLA):** The Director-General has decided to phase out the current MLA programme in response to concerns raised in an evaluation as to the technical quality of the guidance and training material provided. These concerns resulted from the long-term absence of appropriate management systems to ensure the quality of the UNESCO outputs provided. Rigorous quality assurance arrangements will be embedded in the programme that the Director-General has asked to replace MLA. As a follow-up, IOS has also commissioned an evaluation of all mechanisms throughout UNESCO which seek to ensure the quality of training materials and publications produced, drawing on a comparative analysis of what other organizations do. The outcome of this evaluation will be a workable framework for establishing appropriate quality assurance mechanisms throughout the Organization.
- (c) **Review of UNESCO programme and budget application system (SISTER):** As a follow-up to one of the issues presented in the IOS report on field office evaluations (167 EX/14), IOS was requested by management to undertake a review of the process of conception, design and implementation of the system. The review identified technical, support and managerial issues contributing to the low utilization of the system for programme monitoring. These findings contributed to the recast of the system.
- (d) **Evaluation of the Division For Freedom of Expression, Democracy and Peace (FED):** In response to the evaluation, the FED division has developed a comprehensive strategy on assistance to media in open and post-conflict areas and is involved in implementing this strategy in Afghanistan, the Balkans, Iraq, Liberia and the Democratic Republic of Congo.
- (e) **UNESCO-IUGS International Geological Correlation Programme (IGCP):** In response to the evaluation, the Secretariat has completely revised the current guidelines for project applications and reporting and guidelines have been developed that outline the role, composition and operation of the IGCP National Committees.

Improving internal control within the Organization

27. One major breakthrough in improving internal control is the accreditation process undertaken by IOS working together with DCO, BFC and DIT. This very important exercise takes the opportunity of FABS rollout to the field to improve the way the offices work and to improve internal control in these offices. Eight offices were selected in the first batch and eight more in the second batch. They have to meet several criteria in order to receive and implement FABS to record and post their financial transactions. The criteria includes implementation of 80% of the audit recommendations. This proves to be a very effective way of improving internal control given that 13 of 16 offices worked hard to meet this criteria. This means that 80% of all 863 audit

recommendations issued to these 13 offices have been implemented. IOS conducted comprehensive desk reviews to confirm that the recommendations have actually been implemented. For this very resource intensive exercise IOS invested about 20 person-months. In 2005, another 25 offices will go through the same accreditation process. The challenge is to sustain improvements that had been achieved. IOS and DCO are working closely together to establish mechanisms to support field offices and to regularly monitor progress.

28. As part of its regular audit activity, IOS completed 15 field office audits and five Headquarters audits including audits of the Coupons Programme, FITOCA (Funds-in-Trust Overhead Cost Account) and Unliquidated Obligations. Following the audit of the Coupons Programme, IOS agreed to undertake an evaluation of programmatic issues to assess the relevance and effectiveness of this programme. This is an example of the benefits of merging the audit and evaluation functions within IOS. The auditors reviewed the functioning of financial and administrative controls, while the evaluators are reviewing the programmatic issues such as the clarity and continued relevance of the objectives, and the effectiveness of the results achieved.

29. It should be noted that the External Auditor in her report presented in August 2004 concluded that since its establishment, IOS has had a significant impact in strengthening the control environment in UNESCO (170 EX/22 Add.).

Supporting change management initiatives

30. In line with the definition set out by internationally recognized internal auditing standards adopted by all United Nations agencies, an internal audit service should provide consulting services to support management functions. IOS undertakes activities to facilitate and promote effective management both at the macro level (i.e. Organization-wide change) as well as at the micro-level (i.e. consulting services to work units). The development of an Organization-wide Table of Authority and Accountability is an example. In addition, IOS also played a major role in revisiting and redesigning the work processes in field offices as part of the FABS rollout in the field. The revised processes were introduced to the relevant offices during training prior to them receiving and implementing FABS for registering and posting their financial transactions.

Strengthening cooperation with other agencies

31. UNESCO has shown leadership in the United Nations Oversight community. In June 2004, IOS hosted the 35th meeting of the Heads of Internal Audit of all United Nations and International Financial Institutions (RIAS: Representatives of Internal Audit Services). The meeting, attended by 55 participants representing 34 organizations, has strengthened cooperation among agencies in (i) establishing a common understanding with regards to application of the international auditing standards; (ii) sharing experience and lessons learned with regards to the role of audit services in improving governance processes within an organization, promoting an ethical environment, supporting risk management, and providing management support. IOS has also been actively involved in working with other agencies on audit issues related to the Oil-for-Food Programme and the ensuing Independent Investigation Committee.

32. IOS evaluators were also active participants in the meetings of the United Nations Evaluation Group. One IOS evaluator is playing a key role in developing a set of evaluation standards for application throughout the United Nations system. IOS evaluators have also been active participants, along with other United Nations colleagues, in the African Evaluation Association and the European Evaluation Society, at the annual meeting of which they presented a session on the participatory way in which the HIV/AIDS evaluation was undertaken and followed through in UNESCO.

33. Continuing close collaboration with the United Nations Joint Inspection Unit is materialized through provision of support to the various teams of JIU Inspectors and their staff in the preparation of eight JIU reports; coordinating comments within the Secretariat on seven draft JIU reports covering administrative as well as programmatic issues; and submitting four JIU reports and one note of relevance to UNESCO to the Executive Board, as well as reporting on the progress in implementing previous relevant JIU recommendations (169 EX/33 and 170 EX/35).

34. IOS organized several training sessions facilitated by external experts and attended by IOS staff as well as staff from other agencies on a cost-sharing basis. The training to prepare for the examinations for certification as an Internal Auditor sought to increase the professional proficiency of IOS staff members and those from other agencies. The purpose of the training on quality assessing the internal audit function was to provide staff with the knowledge and skills required to undertake a Quality Assessment. Internally, continuous efforts were made to ensure that IOS staff skills are up to date. A training on a specific application software to be used during audits to analyse and manipulate data (ACL: Audit Command Language) was conducted at the end of 2004.

Constraints faced in 2004

35. The situation of IOS staff capacity has improved. Five of the nine vacant professional posts at the beginning of 2004 were filled during the year. At the end of 2004 there were four vacant Professional posts. However, two temporary Professional staff (through Appointment of Limited Duration contracts) were recruited to provide the required support while the recruitment of the remaining posts is being completed.

36. The Director-General had increased the IOS budget in document 32 C/5. However, reliance is also placed on extrabudgetary resources which are now depleting.

37. The Oversight Committee was able to meet only once during the year. However, individually, the members of the Committee were informed and consulted when issues arose and on progress made. As suggested by one of the external members, at the beginning of 2005, the Committee will undertake a self-assessment on the functioning of the Committee.

Plans for 2005

38. The work plans of 2005 will cover all outstanding and new activities necessary to complete the implementation of the 2004-2005 strategy. IOS pays serious attention to the quality of its output and one important activity to be undertaken is an internal quality assessment review of IOS performance. This will be undertaken by IOS but will be led by external experts. This exercise will cover both audit and evaluation functions. The outcomes will be used to enhance the functioning of IOS prior to an external quality assessment which will be undertaken by qualified external evaluators in 2006, five years after the establishment of IOS (as required by international auditing standards).

39. Another major exercise which needs to be undertaken in 2005 and will form the basis for the 33 C/5 oversight strategy is an Organization-wide risk assessment. The first Organization-wide risk assessment was commissioned by IOS in 2001 and the results formed the basis for the IOS strategic direction in the period 2002-2005. Even though during the last four years IOS has been closely and regularly monitoring the emerging risks, and reported them to management and the Oversight Committee, it is time to conduct another facilitated risk assessment exercise which will involve senior management, staff representatives in Headquarters and the field, and representatives of Member States. The outcome will help management to identify the current and emerging risks faced

by the Organization, and to help the initiatives that need to be taken to manage those risks as well as identifying oversight priorities for IOS.

40. Capacity-building initiatives will continue to be a dominant goal for audit/evaluation activities. Evaluation workshops and training on administrative/financial areas will continue. There is a plan to work with DCO and BFC on the latter. IOS will also work closely with DCO in revisiting and redesigning work processes and control mechanisms in field offices given that by the end of 2005 about 40 offices will be recording and posting their financial transactions in FABS.

41. On the evaluation side, there will be concentration of evaluation effort on UNESCO priority areas such as follow up to the Education for All (EFA) Strategic Review and UNESCO's post-Dakar role in EFA with two major evaluation exercises to be completed during 2005:

- (a) evaluation of UNESCO's role in the preparation and implementation of EFA national action plans; and
- (b) evaluations of four UNESCO's Education Institutes.

Subsequently IOS is firmly committed, as soon as results begin to emerge, to supporting evaluations of the various initiatives that were set in train by the EFA Strategic Review.

42. Significant efforts will continue to be made to ensure the quality of evaluations released and to promote the use of evaluation outcomes and lessons learned to improve programme design, delivery and results.

43. Following the 2003 and 2004 field office evaluations which were undertaken by IOS in 27 field locations, a further round of IOS field office evaluations in 2005 will focus on post-conflict and emergency locations. The aim is to draw out valuable lessons learned from UNESCO programme delivery in countries such as Afghanistan, Iraq and Haiti. The evaluations will review both programmatic and administrative/financial areas. This will be a joint exercise by the IOS evaluation and audit teams. On the administrative side, the review will cover the work processes in these locations and identify ways to streamline them, while at the same time ensuring adequate basic controls, to allow UNESCO to respond promptly to emergency needs.

44. In addition to evaluating field offices, evaluations in 2005 will cover another type of decentralized body i.e. the institutes (paragraph 41). Terms of Reference for the evaluations have been shared with relevant stakeholders. The results of these field office and institute evaluations will form the basis for the biennial report to the Executive Board to be presented at its 174th session on the activities of decentralized bodies.

45. On the audit side, the plan to audit in 2004 all the 24 field offices which had not been audited since IOS was established in 2001 could not be completed because of other emerging priorities such as the accreditation process (paragraph 27). Twelve of these 24 offices were audited in 2004. In addition, two other offices which were audited in 2002 with very critical results were re-audited. One UNESCO Centre was also audited bringing total field audits completed in 2004 to 15. This means the remaining 12 offices will be audited in 2005. By doing so, all field offices will have been audited by IOS at the end of 2005. Three offices which were audited in 2001 and 2002 with critical results will be audited again to assess their internal controls prior to receiving FABS. At least three institutes will also be audited.

46. The accreditation process covering 25 offices will be a very resource intensive exercise but will be a good investment in helping to improve the control environment in field offices, capacity-building and improving compliance with established policies and procedures.

Looking forward – Strategic direction for 2006-2007 (33 C/5)

47. By the end of 2005 IOS will have facilitated another risk assessment exercise to reflect further the emerging risks or factors that can threaten the achievement of the Organization's objectives, to assess which risks are already being effectively addressed and what mechanisms need to be established to address the remaining risks. The results of this risk assessment will direct the IOS strategy for the 33 C/5.

48. In addition to the results of the risk assessment, IOS's 33 C/5 strategy will draw on the IOS work undertaken and the results achieved in 2004-2005. Some of the work in the past biennium needs to be continued and some point to further risks that clearly should be addressed. The strategy will also be influenced by the fact that document 33 C/5 covers the last biennium of the 31 C/4 period. An interim assessment of the achievement of the UNESCO Medium-Term Strategy (2002-2007) will be a major activity.

49. Ownership of risk management lies with management, while the oversight function will be responsible for assisting management and the Oversight Committee by monitoring the actions taken by management to address the overall risks, to recommend improvements to the adequacy and effectiveness of management's risk management processes and to alert management to new emerging risks so that prompt action can be taken.

50. Enhancement of the audit and evaluation tools so that they can be used by UNESCO staff outside IOS will be a priority for the IOS internal development strategy. There will be a continuing strong emphasis on the quality and effectiveness of IOS outputs and compliance with emerging evaluation standards and the International Standards for the Professional Practice of Internal Auditing. To inform this a Quality Assessment covering all IOS functions will, as indicated in paragraph 38, be undertaken by a qualified independent external review team.

51. Entities outside IOS have been and will continue to be encouraged to take their accountability seriously. In addition to providing the tools, IOS will also continue to focus heavily on a capacity-building strategy. Innovative ways of spreading lessons learned and good practices will be set in train such as through show cases displayed on the intranet and the participation of UNESCO staff from outside in IOS audit/evaluation activities.

52. Another focus of the IOS strategy will be in change management initiatives. Working closely with relevant sectors/services, this will include consulting activities in work process redesign, and helping to develop effective management information systems (e.g. reporting format and processes) based on existing management tools (FABS, SISTER, etc.)

53. Under the US \$610 million budget scenario for document 33 C/5, IOS loses one evaluation specialist post whereas under the US \$635 million scenario the Director-General has proposed that this post be reinstated and that an additional evaluation specialist post be established in IOS to enable the Service to significantly strengthen its support to evaluations in the follow up to the EFA Strategic Review. Under both budget scenarios IOS is called upon to secure US \$800,000 in extrabudgetary funding for the biennium. In terms of audit coverage this will enable IOS to shorten the field office audit cycle from four to around three years, which is needed considering the additional delegated authority given to field offices to post their financial transactions into FABS, to increase Headquarters audit coverage, and to further support the growing demand for evaluation.

54. Expected results at the end of the biennium:

- (a) Following the risk assessment exercise in 2005 and contained identification of emerging risks, major Organization risks are identified and management take the ownership to address these risks.
- (b) Achievement of the IOS long-term strategy and goals (2002-2007) impacted the Organization's culture (e.g. appetite for evaluation, focus on achievement of programme results, culture of accountability, improved internal controls enabling the Director-General to issue an Organization-wide Statement of Risk Management and Systems of Internal Control in his report on the financial statements) and the way the Organization operates (e.g. improved work processes and compliance with established policies and procedures, improved quality of programme outcomes by the relevant sectors/offices drawing on the results of evaluations).
- (c) Completion of an interim assessment of 31 C/4 expected results with the outcome being used by management to inform future UNESCO programme activity (provided sufficient inputs have been received from programme sectors).
- (d) Achievement of UNESCO Evaluation Strategy (2002-2007) is evaluated and the results are used effectively to inform the development of the next UNESCO Evaluation Strategy (2008-2013)
- (e) Participation of IOS staff in capacity-building initiatives (audit/evaluation training and utilization of IOS tools/methodology) impacted the Organization's culture and the way the Organization operates (e.g. sector/field office staff undertake programme self-evaluation or self-assessment of the effectiveness of internal controls within the sectors/offices).
- (f) Improved quality of IOS outputs informed by the results of the Quality Assessment of IOS functions undertaken by a qualified independent external review team.
- (g) IOS long-term strategy 2008-2013 is established which provides assurance that programmes and plans are delivered effectively and that continuing improvements are secured in UNESCO's operations.

Proposed draft decision

55. 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 171 EX/31,
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, its plans for 2005, particularly the commitment to facilitate an Organization wide risk assessment, and the strategic direction to be followed in 2006-2007 (33 C/5)."