Hundred and seventy-fourth session

Item **28** of the provisional agenda

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

ANNUAL REPORT 2005

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 fifth annual report produced by the Service since its establishment in February 2001.

Decision proposed: paragraph 48.

Introduction

1.   By the end of 2005, IOS had been established for almost five years. IOS has the objective of providing 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. As part of its accountability mechanism, IOS submits an annual report to the Director-General which is shared with the Executive Board unchanged.

Oversight Strategy 2004-2005

2.   During the biennium IOS have sought to promote a culture of accountability and to build an understanding that oversight is a shared responsibility. The activities included capacity-building and learning, provision of support to strengthen the quality of programme evaluations and to improve the effectiveness of internal control. A follow-up of the results of the activities during the first five years was undertaken in 2005 to assess the impacts achieved. This is being supplemented by an internal quality assessment of IOS audit operations and of the implementation of the Evaluation Strategy which was in progress at the year end.

Observations and challenges

3.   During the first five years of IOS's operations there have been many significant improvements made by the Organization that can be attributed to the functioning of the oversight mechanism. This was confirmed by the External Auditor who concluded in her long-form reports (165 EX/29 Add. and 170 EX/22 Add.) that "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" and " We relied on their work and can see that … IOS has had a significant impact in strengthening the control environment in UNESCO".

4.   However, the improvements made by the Organization are not consistent for all programme or functional areas and there are parts of the Organization that have been slow in making progress. In this fifth annual report, IOS takes the opportunity to draw attention to those areas which have been a focus of its work in 2005 and will continue to be in the current biennium. This report does not make specific recommendations to management. However, management is encouraged to take actions in areas where improvements are needed.

5.   The observations and challenges presented in this report are grouped under three main sections and each section consists of several issues. They are:

Section A.   *The need to further improve the culture of learning*
  * Learning from external evaluations
  * Capacity-building of programme and administrative staff
  * Capacity-building which benefits Member States

Section B.   *The need to further improve the culture of accountability*
  * Evaluation as an accountability tool
  * Accountability for results achieved in document 32 C/5
  * Management performance indicators as a monitoring and accountability tool
  * Accountability for improving internal control

- Accountability of Headquarters to support and monitor the field
- Securing accountability
- Accountability for risk-management

Section C. Governance of the oversight function
- Effectiveness of the oversight function
- The Oversight Committee
- IOS resources
- The new External Auditor
- Comprehensive review of governance and oversight with the United Nations, funds, programmes and specialized agencies
- Supporting a network
- Supporting the Joint Inspection Unit (JIU)

A. The need to further improve the culture of learning

Learning from external evaluations

6. During 2005 IOS managed 32 external evaluations, putting great emphasis on the appropriateness of the terms of reference set, the competence and independence of the evaluation teams selected and on the quality of the reports produced before they were finalized. Fifteen external evaluations reports were released, and eight presented to the Executive Board (171 EX/17 and 172 EX/22). To encourage the use of the evaluation reports as learning tools, all 15 external evaluations released are available on the IOS website [http://www.unesco.org/ios/]. In terms of promoting a culture of learning it is important to be able to show that those responsible for managing the programmes evaluated have taken action on what the evaluations suggest are key issues that need to be addressed. IOS have closely monitored the action plans produced by those responsible, starting with the evaluations released in the last biennium. IOS is also monitoring the action taken in response to evaluations released in previous biennia. The results are shown on the IOS website. IOS concluded that satisfactory progress was being made in addressing only four of the eight evaluations considered by the Executive Board in 2004 and more efforts are needed with the others. That said, there are encouraging signals of action being taken in response to some of the evaluations released in 2005 and also other signals that lessons are being learned:

(a) Learning from evaluations of all eight Major Programme I education institutes and centres.
    The outcome is reported in document 174 EX/20. By managing the evaluations as a package IOS was able to ask the evaluators to draw out a number of key issues that need to be addressed which affect most if not all of the institutes and centres. This made the exercise a particularly valuable learning exercise. In response, the Director-General established a Steering Group, under the chairmanship of the Deputy Director-General, to advise him on the action that needed to be taken in response to the key issues emerging from the evaluations. The Steering Group will report to the Director-General and the Executive Board will be informed of the action taken.

(b) Ensuring that publications and other materials released from UNESCO meet appropriate quality standards.
    This evaluation was presented in document 172 EX/22 and raised concern over the uneven arrangements that exist in UNESCO for ensuring that consistently high quality material is released. The evaluation provided a major input to a reformulation of the UNESCO publications policy, with a priority being given to ensuring that effective peer

review arrangements are in place before publications are released. The draft policy has been considered by the College of ADGs and is awaiting approval by the Director-General. While the finalization and implementation of the policy are still to be seen, this initial step shows that the Organization is learning from the results of evaluations.

(c)   <u>Learning from the evaluation of the Slave Route Project</u>.
This was presented in document 172 EX/22 and also to a meeting of delegates during the 33rd session of the General Conference. It has informed the work of the Inter-sectoral Task Force, chaired by the Director-General, and been influential in shaping a new strategy which is now being developed for subsequent phases of the project with a particular emphasis on the need to expand the project's geographic coverage.

(d)   <u>Using the language training evaluation to reformulate language training policy</u>.
This evaluation presented in document 174 EX/19 is already being used to develop updated policies on language training, including the need to introduce testing to ascertain progress in attaining the required levels of proficiency. IOS is also advising the Learning and Development Commission on how evaluation can be built in to all major training initiatives generally (i.e. not just language training) to provide assurance that the training provided is having a beneficial impact.

(e)   <u>UNESCO's role in post-crisis and post-disaster situations</u>.
The Director-General has established a Task Team to assess UNESCO's recent experiences in such situations to refine the Organization's role and develop a strategy to strengthen and focus its contributions. The work of the Task Team, in which IOS participates, is being informed by a number of recent evaluations (for example, the one on the Programme of Education for Emergencies and Reconstruction presented in document 169 EX/22) and studies. This demonstrates the important role that evaluations are now playing in helping to formulate future programme direction.

(f)   <u>Disseminating lessons learned from the Iraq Oil for Food Programme</u>.
The report of the Independent Inquiry Committee into the United Nations Oil for Food Programme was critical of certain aspects of UNESCO's management of the programme in the period up to 2000. Following an information session with the Executive Board, IOS has prepared a paper on the lessons learned which is being shared with all staff so that management can ensure that lessons are learned to improve UNESCO programme delivery more generally. In terms of oversight, some of the important lessons learned have been applied in relation to the implementation of the UNDG Iraq Trust Fund (ITF) programme, the purpose of which is to support the reconstruction and development of Iraq. IOS audited UNESCO's ITF operations in the first year of operation (when only 17% of the funds allocated had been expended) so that early corrective action could be taken. The results were shared with UNDP (the administrative agent of the ITF) to provide assurance to donors. A further audit in 2006 is planned as well as an IOS mission to help and work with the Office staff in establishing effective monitoring and evaluation processes and tools.

What next

The need to take action to address key issues arising from evaluations is one of the key management performance indicators proposed by IOS. Non-achievement will be reported in the EX/4 and C/3 documents, and IOS will draw particular attention to this in regular reports to the Director-General and to the newly reconstituted Oversight Committee (para. 33).

In 2006 IOS will pay particular attention to disseminating key lessons from evaluations (and related reports) and to working with management teams to help to guide and steer the action that needs to be taken to address the key issues raised in evaluations.

Capacity-building of programme and administrative staff

7.   Capacity-building has been one of the IOS priorities during the year.

(a)   Encouraging self-evaluation.
For staff to learn from the programmes they are managing it is important for them to have a good training in self-evaluation. Such training has been a priority for IOS in 2005 and will continue to be in 2006. Ninety-two staff in Headquarters and the field (Windhoek, Beijing and Tehran) have participated in such training facilitated by IOS. This is a practical and case study based training. It is based on real programme and project cases, selected by the participants from among their own portfolio of activities. The advantage of this approach is that the outcome from the hands-on exercises on the cases can be applied directly to the ongoing work of the participants. The feedback received showed clearly that some of the programme staff participating have been applying what they have learned in their ongoing management of the programmes/projects for which they are responsible. The best example to date comes from the Windhoek Cluster Office which decided to use self-evaluation to conduct a mid-term review of the implementation of its cluster strategy. This included identification of those activities for which base line data needed to be collected as a matter of urgency. A challenge in this initiative is for management to encourage and to ensure that the results from the training is applied and utilized as in the case of the Windhoek Office.

(b)   Understanding administrative policies and procedures.
As reported in the previous IOS annual reports, the results of the first round of field audits (2001-2005) were generally unsatisfactory and internal control in most offices was not effective. In many cases the audits identified the need to enhance the capacity of the administrative staff, in particular their knowledge of UNESCO's rules and procedures, and best practices. Several initiatives have been undertaken by management in the last biennium such as training for Administrative Officers, FABS training, etc. In addition, at the completion of each field audit a training session facilitated by the IOS audit team is undertaken to explain the proper procedures or policies that should be applied in those areas where the audit identified issues. Since this initiative started in 2004, a total of some 280 staff participated in such training. IOS have also produced a CD consolidating the training which has an in-built test package and is being distributed to all field offices. However, more effort is required. Training provides basic principles and guidelines but what is required is day-to-day practice supported by adequate tools and support mechanisms e.g. updated and easy-to-use manuals and reference material, clarification on some policy issues, a help-desk in Headquarters that provides prompt

replies to queries from the field. Increasingly, the IOS audit teams find that field offices refer to them for advice. It is for management to ensure that proper support and the necessary tools are available for efficient and effective operations to support UNESCO programme delivery.

What next

IOS will continue to conduct training and other capacity-building initiatives for programme and administrative staff.

Capacity-building which benefits Member States

8.   With financial support from the United Kingdom, five fellows from the southern cone of Africa (South Africa, Namibia, Swaziland, Malawi and Lesotho) worked with IOS for six months (June-December 2005) and have now returned to their home countries to apply what they learned. They worked on specific evaluation and audit assignments under the guidance of IOS mentors as well as participating in a number of in-house workshops, and a field mission. A plan to evaluate the effectiveness of the fellowship has been prepared and agreed with the fellows. They will provide a report in June 2006 so that IOS can assess how they have applied the results obtained from the programme. IOS hopes to repeat this initiative in 2006, subject to donor support. It has also shared its experiences with other United Nations agencies, encouraging them to initiate similar programmes.

9.   IOS has also been active in engaging interns from Africa who have been studying in France (Guinea, Cote d'Ivoire, Algeria and Mali). Some have continued on short-term contracts with IOS before returning to their home countries to apply the new skills they have acquired.

What next

IOS will monitor and evaluate the application of the results achieved by the participants of the IOS fellowship programme in order to maximize the effectiveness of the programme.

IOS will continue engaging interns with a particular focus on interns from developing countries.

B.   The need to further improve the culture of accountability

Evaluation as an accountability tool

10.   Evaluations are important tools of accountability. To develop the 33 C/5 Evaluation Plan, IOS requested programme sectors and central services to commit to evaluations of their principal priorities, especially mid-term reviews of the results achieved, so that lessons learned could inform future programming in the next Medium-Term Strategy. The response to the request was disappointing from most sectors and suggested that there is a need for senior staff to better recognize the importance of evaluations in helping to demonstrate results achieved and lessons learned. IOS identified significant gaps in evaluation coverage based on an analysis of which main lines of action had been subject to evaluation coverage in recent years. The Director-General, following the suggestion of IOS, asked the respondents to think again and to commit to further evaluations. Six new proposals were forthcoming which improved the overall evaluation coverage

and IOS invited the Director-General to approve the revised Evaluation Plan. Furthermore, the respondents were required to provide adequate funding for the evaluations. Some had been reluctant to do so, and some had not been prepared to stand by commitments to fund evaluations included in previous Evaluation Plans. This reluctance is a signal that a lot more effort is needed from management so that staff, in particular senior staff, appreciate and take practical action to invest in programme evaluation and this culture is embedded in the Organization.

11.   The same concern applies to many extrabudgetary projects where few are subject to independent evaluations which need to be planned at the design phase of a project. IOS is often not consulted at this stage, particularly by field offices. IOS advice has always been that for major projects a separate budget line should be established for such evaluations and offers its support in managing the evaluations. This needs to be formalized by management as part of the standard process for approval of extrabudgetary projects.

What next

IOS needs to continue to advocate the importance of evaluations so that evaluation is integrated into good management practice. In the current biennium IOS will increase the frequency of its meetings with programme sectors and central services to help them identify the need for evaluations, particularly mid-term evaluations. It will also offer its services at the design stage of programmes and extrabudgetary projects to help develop an evaluation plan for each programme and to advise on what data to collect to inform subsequent monitoring and evaluation. IOS has proposed to the Director-General that programme sectors should be invited to identify a percentage of their regular programme budgets for evaluations which IOS would then manage. Extrabudgetary donors should also be encouraged to provide a budget line for evaluation in major projects.

Accountability for results achieved in document 32 C/5

12.   In 2004, to support the implementation of the Table of Authority and Accountability, IOS prepared a concept paper on "Performance agreements and assessment" to serve as an accountability mechanism for senior management in relation to the results achieved by a sector, service, division or field office and to account for responsibilities assigned and the resources entrusted to them. IOS started preparation of document 34 C/3 in late 2005 and a significant development is that of the merging of the fourth EX/4 document in the biennium with document 34 C/3. This concept has now been put into practice in a new and challenging results-based format for the submissions required for the merged EX/4 and C/3 documents. This calls for data on results achieved, results not achieved, lessons learned, success factors and challenges measured against the expected results presented in document 32 C/5. This exercise promotes accountability and learning but needs to be further refined to ensure that in future work plans the appropriate management indicators are also established and used as the basis for subsequent reporting and monitoring.

13.   IOS compiles the C/3 document based on submissions from the programme sectors, the field offices and central services. It was evident from the submissions received for document 34 C/3 that many staff do not have a good understanding of results-based concepts. For example, expected results are not always properly articulated and many managers still report a set of activities that have been undertaken rather than a set of results which can be measured against those expected and the relevant performance indicators. This points to the need to evaluate the effort taken so far in educating staff on the concepts of results-based management and calls for more effective training.

What next

The concepts of accountability for results embedded in the EX/4 and C/3 documents now need to be further developed so that the expected results and performance/management indicators are established in work plans and used as the basis for reporting and monitoring.

As requested by Senior Management in December 2005, IOS is managing an evaluation on RBM training with a view to reporting the results by March 2006.

Management performance indicators as a monitoring and accountability tool

14.   In 2005, IOS developed a set of draft field office management performance indicators which could be used by field offices and Headquarters to report on and monitor all aspects of field office management. These indicators were provided to several offices but they now need to be introduced more widely, although obtaining the required data poses a significant challenge. They can also be easily adapted for use within Headquarters. This is an important topic for the Delegation and Accountability Committee to consider. This Committee was established by the Director-General in 2005 following the preparation of the draft Tables of Authority and Accountability by IOS which have now been further developed by the process owners. The Committee is mandated to strengthen delegation of authority within the Organization and reviews compliance with the principles and implementation of the UNESCO Delegation of Authority and Accountability Framework.

Accountability for improving internal control

15.   When IOS was established in 2001, most of the field offices had not been audited. For many staff members, the IOS audit was the first audit they had experienced. As explained earlier, the findings from the audits were generally unsatisfactory. In 2005, 20 field audits were undertaken and by the end of 2005 all field offices had been audited. In the period 2001-2005 IOS undertook 69 field audits in 55 field offices (some offices were audited more than once). Four Headquarters audits were undertaken in 2005 bringing the total number in the period 2001-2005 to 23 Headquarters audits.

16.   The discussions and interactions between management and the audit team on the audit findings and recommendations, and the training provided by the audit team at the completion of field audits helped to improve the understanding of staff members on the importance of internal control and accountability. This understanding leads to action to implement the audit recommendations. However, action is not taking place consistently across the board. Some offices and Headquarters units take this seriously while some need to pay a lot more attention to applying established rules and processes and to implementing audit recommendations.

17.   One area where more effort is needed is in the management of unliquidated obligations (ULOs). Despite similar audit findings in previous biennia, issues were still observed in 2005 when IOS undertook another audit at short notice at the request of management to assess the validity of the unliquidated obligations. The findings were not encouraging and demonstrated that some members of the management team in both Headquarters and the field were not taking accountability for their responsibilities seriously. The Deputy Director-General has expressed his concern over this issue during a College of ADGs. The External Auditor in her long-form report (170 EX/22 Add.) also commented "In our opinion, the setting up of valid ULOs is the responsibility of sectors and field offices. A regular monitoring mechanism has to be developed and implemented throughout the

biennium and the recurring need for an extensive audit by IOS and cleaning operations by DCO at the end of the biennium is a highly inefficient and inappropriate use of resources".

18.   To assess overall improvements in internal control, during 2004-2005 IOS undertook a comprehensive review of the implementation of all audit recommendations through detailed desk review of the imprest accounts and supporting documentation requested from field offices. This important activity consumed more than 30% of IOS audit resources in 2005 and was linked with the FABS rollout to the field. Offices have to be accredited in order to receive FABS and in addition to several other requirements, the percentage of implemented audit recommendations is one of the accreditation criteria which can be used as performance indicators to measure the effectiveness of internal control. Once an office has been fully accredited, it will discontinue sending monthly imprest accounts to Headquarters and will enter and post its transactions directly into FABS.

19.   There is a need for Headquarters to establish an effective mechanism to monitor these postings. This additional delegated authority also raises concern over the sustainability of the improved situation. In reviewing the audit recommendations, IOS found cases where the apparent improvements that had been made in implementing the recommendations had not been sustained for various reasons: changes in office management, changes of office staff, and sometimes for no obvious reason. This strengthens the need for continuous monitoring by Headquarters management, together with an improved culture of accountability in all level of staff.

20.   At the end of 2005, of the audit recommendations raised in 2001-2002 to field offices, 19% are still outstanding and not yet implemented. Of the 2003-2004 recommendations, the figure is 32%. IOS, working closely with BFC, have taken various initiatives to encourage field offices to implement recommendations such as dissemination of a memo to all heads of office during a meeting with them in October 2005 called by BFC. This showed the percentage of audit recommendations for each office which had not been implemented. The Director-General, in opening the meeting, drew attention to this issue.

21.   The figures for outstanding audit recommendations in Headquarters are much higher. Of the 2001-2002 recommendations addressed to Headquarters, 35% had not been implemented in January 2006 and for the 2003-2004 recommendations the figure is 68%. It is of considerable concern that 35% or 178 recommendations raised more than three years ago (in 2001-2002) are currently still open. The review also showed that some systemic issues raised during field audits which require Headquarters actions have not been acted upon. Implementation of audit recommendations is one of the key performance indicators that IOS identified to hold management to account for the controls within their units and application of these indicators would be one of the mechanisms that can be used by management, or the Oversight Committee in particular, to address this issue.

What next

While there has been some improvement in the functioning of internal control, given the findings of the first round of field audits which were generally unsatisfactory and given the need to sustain improvements already secured, IOS will, subject to resources being made available, shorten the field audit cycle (2001-2005 or four years) to three years which means each office will be audited at least every three years.

The issue of delays in implementation of audit recommendations and a mechanism to ensure sustainability of improvements already made in implementing the recommendations will be considered by the newly reconstituted Oversight Committee (para. 33).

Accountability of Headquarters to support and monitor the field

22.   This applies to both programmatic and administrative issues. As explained in IOS reports on the findings of Field Office Evaluations (167 EX/14 and 174 EX/19), Headquarters support and monitoring needs to be improved. The needs cover a wide area including programme planning, monitoring, evaluation, reporting, and for both regular programme and extrabudgetary activities. For example, securing an effective linkage between extrabudgetary activities and UNESCO's overall priorities continues to be problematic. The offices had not been asked to prepare resource mobilization strategies and did not have the training to do so. As a result, fund-raising was done on an ad hoc basis. Positioning all extrabudgetary resources and activities within a cluster strategy approved by Headquarters would allow for proper monitoring and reporting of all such activities and ensure coherence with UNESCO's overall objectives.

23.   The largest UNESCO field office, Brasilia, provides an important case study. In the past years, Headquarters sectors had not been properly monitoring the activities of the Office. Projects had been implemented by the Office without serious review by Headquarters sectors. Detailed criteria had not been established as the basis for the review of project proposals submitted by the Office. The extrabudgetary projects implemented by the Brasilia Office are currently being reviewed by a special mission established by the Director-General in the last quarter of 2005 working closely with Headquarters central services and programme sectors. All ongoing and pipeline projects have been reviewed, with support from IOS, against a set of established criteria to ascertain whether they are consistent with UNESCO mandates and government policies, and that the Office adds value and has the required capacity to implement them. The outcome is reported in document 174 EX/21.

24.   Lack of effective monitoring also applies to other Headquarters units. For example, a systemic audit issue observed in many offices is non-submission of contracts over US $100,000 to the Headquarters Contract Committee for review followed by Headquarters management approval. These contracts were signed and Headquarters did not even know that they were signed. Thus, some offices continue with this practice. The issue has been raised in many audit reports and recommendations were made encouraging Headquarters to address this by establishing a mechanism to enable Headquarters to detect this type of contract. Action on this recommendation is still awaited.

25.   As stated in the individual IOS audit reports, a number of administrative and financial issues identified during audits could and should have been detected earlier if the relevant Headquarters services had effectively exercised their monitoring responsibilities. In many cases when offices were asked by IOS as to why they have not been complying with the established rules and procedures, the response received was quite often "we have been doing this for years and Headquarters are aware of what we were doing and no one told us that this is not correct".

26.   The weak support and monitoring by Headquarters poses a high risk to the Organization given that more authority is now delegated to the field. With the implementation of FABS, field offices will discontinue sending their monthly imprest accounts (which includes receipts, invoices and other supporting documents to support the validity and accuracy of the expenditures) to Headquarters and they will post their transactions directly to the Headquarters server. Urgent action by Headquarters is needed to address this risk by establishing a rigorous and effective monitoring system, coupled with efforts to improve understanding and recognition on the importance of accountability by all level of staff.

Securing accountability

27. In 2005, three cases of financial irregularities were investigated. Between 2001-2005 there were some 22 cases investigated by IOS including those without financial implications. These involved current and former heads of offices, administrative officers and other staff members. Sanctions were imposed by the Director-General against those accountable for the irregularities. Relevant staff are also requested to reimburse the Organization for any unaccounted funds identified. This promotes a culture of accountability and signals that when irregularities are identified they are investigated and that sanctions are imposed if they are found to be substantiated. Of the 45 audit reports prepared in 2004-2005, the audits identified financial recoveries that needed to be made in 33 of them totalling to $848,000. However, at the end of 2005 only $96,000 (11%) had been reimbursed to UNESCO and the relevant offices now need to give priority to recovering the outstanding amounts. These recoveries were requested from staff members, former staff members, contractors, suppliers and the National Commissions. IOS investigations also focused on the underlying control weaknesses that allowed the irregularities to occur in order to learn lessons that can be disseminated to help to prevent a recurrence elsewhere. These lessons need to be disseminated as part of a package of initiatives to strengthen the ethical working environment in the Organization.

28. In 2005, to secure full accountability for Participation Programme (PP) funds, IOS continues to include coverage of the PP in field audits. Since 2004 IOS has undertaken reviews of PP projects in 24 of its field audits and has covered PP projects implemented by 36 Member States. In addition to satisfactory findings on the utilization of the funds, the audits identified significant funds which could not be accounted for. These cases were followed up with the individual implementing entities and most of the unaccounted funds have already been reimbursed. The audit results are being consolidated with the outcome of an evaluation of the Participation Programme.

What next

There is a need to develop an ethics policy for the Organization to help improve the ethical working environment. Staff need ethics training to ensure that they understand and apply Codes of Conduct, they need a facility to enable them to report suspected irregularities confidentially and for there to be the appropriate protection established for those that report irregularities. In early 2006, IOS and HRM will be working together on a package of initiatives related to ethics and will be giving consideration to the need to establish an Ethics Office.

IOS will continue the audit of the Participation Programme to ensure full accountability of the implementing entities.

Accountability for risk management

29. In 2001, an Organization-wide risk assessment was initiated by IOS which involved senior management. The results underpinned the IOS strategy for the subsequent biennia. Another risk assessment exercise planned for 2005 was started and will be completed in 2006. This activity is now "owned" by management and initially this risk assessment focused on UNESCO's response to post-crisis and post-disaster situations. Completing the Organization-wide risk assessment is an important priority for management to identify the emerging risks or factors that can threaten the achievement of the Organization's objectives and identify which risks are already being effectively addressed and what mechanisms need to be established to address the remaining risks.

C.   *Governance of the oversight function*

30.   During 2005 there were a number of developments related to the governance of the oversight function that could potentially strengthen its effectiveness which are described below.

Effectiveness of the oversight function

31.   The Professional Standards of the Institute of Internal Auditors (which have been adopted by UNESCO and all other United Nations agencies) require all internal audit units to undertake an external quality assessment to monitor the overall effectiveness of the function and assess conformance to the International Standards for the Professional Practice of Internal Auditing at least once every five years. A review of the IOS audit function led by the Institute of Internal Auditors will take place in 2006. To prepare for this, an internal quality assessment by an IOS team led by a member of the Oversight Committee (a respected audit professional) was conducted at the end of 2005. The review also included oversight governance issues, reporting, and benchmarking with best practices. The review identifies opportunities for improvement and will provide inputs to further enhance the effectiveness of the function.

32.   Following consideration of document 165 EX/19, the Director-General was mandated to review the Evaluation Strategy in 2005 and to propose to the Executive Board a longer term evaluation strategy. IOS commissioned a respected independent evaluator to undertake this review, under the guidance of an expert panel, and the outcome will be reported to the 175th session of the Executive Board. This review will also identify opportunities for improvements in the evaluation function in order to facilitate the effective implementation of the long-term strategy.

The Oversight Committee

33.   The Oversight Committee was only able to sit once in 2004 and once in 2005. It was chaired by the Deputy Director-General, supported by one internal member and two external members. The Committee functioned as an advisory panel to the Director-General and IOS. In 2005, the Director-General, upon advice from the External Auditor, decided to reconstitute the Committee with a membership made up entirely of external members who are respected professionals. This will ensure the full objectivity and independence of the new Committee and is in line with initiatives being taken elsewhere in the United Nations system. The responsibilities of the new Committee will include assessing the adequacy of IOS resources and advising the Director-General accordingly. The Committee will also provide an annual report to the Director-General which will be shared with the Executive Board. The first meeting of the new Committee will take place in April 2006 and the Director-General has invited the following to sit on the Committee: John Fox (Chairperson, United States, a former Joint Inspection Unit Inspector); Emmie Heyn (South Africa, a former head of internal audit in both the public and private sectors and a member of the current Committee); Pierre Spitz (France, former head of evaluation in IFAD and a member of the current Committee); Hans Lundgren (Sweden, head of evaluation and effectiveness in OECD) and Verasak Liengsririwat (Thailand, Special Assistant for Management to the Director-General, IAEA and former Director, Oversight Services, IAEA).

IOS resources

34.   As the text above shows, the services of IOS are in great demand both in terms of audit, the management of evaluations and management support generally. Shortly after IOS was established in 2001 the Service was staffed with 18 professionals. In 2006-2007, IOS is staffed with 17 professional and some senior posts have been replaced with more junior posts.

35. The evaluation unit is currently staffed with six professionals: one senior evaluator, three evaluators (one post is vacant) and two assistant evaluators. The IOS Director has been closely involved in all evaluation activities. The mandate is quite broad involving coordination of evaluation activities in UNESCO Headquarters, field offices and institutes, provision of technical support and backstopping (e.g. to review evaluation terms of reference, the background of external evaluators, to provide quality assurance on the evaluation reports, etc.), managing some evaluations, leading others, conducting training, following up the implementation of the recommendations, reporting to senior management and the governing bodies, etc. Given the scale of UNESCO's programmes/projects, number of staff, the limited capacity in evaluation among programme staff, etc., the efforts and workload of the evaluation unit is tremendous. In addition, IOS has also been actively involved in networking with other agencies. There are also other additional activities such as the fellowship programme, internships, etc. which require guidance and supervision by IOS staff.

36. The audit/investigation unit is currently staffed with 11 professionals: one senior auditor, six auditors (two posts are vacant), one investigator (currently vacant) and three assistant auditors (one is vacant). Two of the current staff who took up post early in 2006 have a strong systems expertise. This will considerably increase the IOS capacity to review and use new management systems. The mandate of the audit unit is also very broad covering audits and investigation of Headquarters, all field offices and other decentralized bodies, following up the implementation of audit recommendations, reporting to management and the governing bodies, acting as UNESCO's focal point with the external auditors and for the JIU. This includes provision of assistance in report preparation and in securing comments from other sectors/services. The audit/investigation observations show that IOS needs to broaden the scope of its work in order to improve the control and ethical environment and to promote accountability such as providing training, develop self-assessment audit tools, etc.

37. The increasing demand for IOS services and the fact that there are many emerging risks that need to be assessed makes it difficult to balance demand for its services with scarce resources. For example, two weeks is currently allocated for each field audit. However, the training at the end of the audit and the need to give coverage of the Participation Programme required IOS to adjust its audit plan to include these two areas since 2004 within the available time allotted. The duration could not be extended as this would have made it impossible to meet its commitment to audit all field offices by the end of 2005. In addition, the evolution of the operating environment in the Organization now calls for more changes in the audit and evaluation coverage which further affects the required resources. Given that more authority is delegated to field offices and the direct posting of their financial transactions by field offices into FABS, IOS needs to shorten the field audit cycle from four to three years. All these would require additional resources. Moreover, during its first five years (2001-2005) the IOS audits had been focusing on assessment of the existence and functioning of basic internal control. Given the risks identified with the extrabudgetary funding and the materiality involved, IOS is committed to expanding the audit scope in this area.

38. In addition to evaluation, audit and investigation activities, IOS is also mandated with management support functions i.e. any activities requested or offered to management which seek to add value by improving the Organization's programme delivery and operations such as the development of Organization-wide table of authority, development of management performance agreements/indicators, participation in management steering committees or other working groups, review of processes, etc. For this function, there is no additional resources allocated and the tasks have been mostly undertaken by the Director of the Service with some IOS senior staff.

39. All in all, the responsibility of the Service and its Director with the support of 17 staff (five of which are vacant) is heavy and demanding. The recruitment of staff had been an issue in the past

given the global shortfall in well-qualified candidates for these specialized posts and the need to comply with geographical distribution and language policies.

40.   During the period 2002-2005 IOS has received $1.45 million in extrabudgetary funding to support its activities. This funding has now been expended. There is an assumption built into the 2006-2007 budget for IOS that it will raise extrabudgetary funding of $800,000 to support its activities generally. However, concerns have been raised by a few members of the governing bodies that IOS's independence could be compromised by IOS accepting extrabudgetary funding. The Director-General does not consider this concern to be well-founded and in the mean time the effort so far to raise extrabudgetary funding has been unsuccessful. A solution needs to be identified to allow the Service to perform its functions effectively.

The new External Auditor

41.   With the submission of two final reports in 2006, the Auditor-General of Canada will be completing her final term as the UNESCO's External Auditor. During the 33rd session of the General Conference, following a secret ballot, France (the Premier President of the Cour des Comptes) was appointed from five candidates as the next External Auditor of UNESCO for the period 2006-2011. At the request of the Nominations Committee, IOS provided assistance in the selection process by tabulating the proposals received. IOS will be collaborating closely with the new External Auditor.

Comprehensive review of governance and oversight within the United Nations, funds, programmes and specialized agencies

42.   This review in 2006 will seek to draw out best practice that could be applied across the United Nations system. The Director-General has commented that it is inappropriate for the review to cover the governance arrangements in the specialized agencies as these are the prerogative of their governing bodies. But he does welcome the review of oversight arrangements, recognizing that potentially we have a lot to learn from the review. He expects the outcome to be considered by UNESCO's governing bodies and has asked that UNESCO be represented by Director IOS on the steering group established.

Supporting a network

43.   IOS recognizes that we have a lot to learn from each other within the United Nations oversight community with a view to further enhancing the effectiveness of the oversight function. It continues to actively participate in the United Nations Evaluation Group (UNEG). It sits on the Board of the Group and co-chairs a Task Force on Evaluation Capacity Development. IOS will host the next UNEG meeting in March 2006 with the theme "Evaluation capacity development" and 60 participants are expected representing all United Nations agencies, multilaterals, bilaterals and evaluation associations. A special feature of this upcoming meeting will be a joint meeting of UNEG and the Evaluation Network of OECD-DAC to discuss quality standards, evaluation systems and capacity development, and proposals for future cooperation between the OECD-DAC Evaluation Network and UNEG. An additional 40 participants from OECD-DAC are expected. A major achievement of UNEG in 2005 was the adoption of the Norms and Standards for Evaluation in the United Nations system. The meeting to be hosted by IOS in March 2006 is expected to adopt a declaration on the competency profile for a professional evaluation against the backdrop of the norms and standards

44.   Likewise, with the comparable network for the audit community, IOS is very active and is taking a lead in helping to build a more effective network drawing on some of the initiatives taken

by the United Nations Evaluation Group. Director IOS also participates in a UNDG working group which is seeking to better regulate the oversight arrangements for multi-donor trust funds.

Supporting the Joint Inspection Unit (JIU)

45.   UNESCO recognizes that the Organization benefits from the system-wide reviews undertaken by JIU. IOS is the focal point for these reviews and has facilitated work on six reviews in 2005. The Director-General's response to the six reports of relevance to UNESCO released by JIU in 2005 is in document 174 EX/33. This report also monitors the implementation of the recommendations from JIU's previous reports of relevance to UNESCO.

What next

IOS will continue to serve as the secretariat for the newly reconstituted Oversight Committee.

IOS will complete the quality assurance review of the functions and the review of the evaluation strategy and provide the report to the Director-General and the governing bodies.

The Oversight Committee will discuss the issue of IOS resources and make proposals to the Director-General.

IOS, with the assistance of the Director-General, will continue to secure extrabudgetary funding to support various oversight activities. Failing this, other options should be identified to secure adequate funding to support effective functioning of the Service.

Strategy for the 33 C/5 period and beyond

46.   IOS's work in the period 2001-2005 has been a building block in developing a culture of learning, effective internal control and accountability. Many educational and capacity building activities were undertaken but a lot of further work is needed. Document 33 C/5 will be a bridge between the first Evaluation Strategy (2002-2007) and the next one (2008-2013), drawing on an evaluation of the first one. Moreover, the results achieved in 2004-2005 and the fact that document 33 C/5 covers the last biennium of document 31 C/4 will influence the strategy. Providing assistance to management on risk monitoring and management, capacity-building, change management initiatives, strengthening the culture of learning and accountability, continuing strong emphasis on the quality and effectiveness of IOS outputs and compliance with professional standards will be part of the wider IOS strategy.

47.   On the audit side, the first round of all field office audits was completed in 2005. In line with the strategy, the focus of this first round of audits was assessing the existence and functioning of basic internal controls. The results show that considerable educational and capacity building efforts are needed. IOS and other Headquarters central services have invested significant resources to address this. The situation has improved in some areas but needs to be sustained. As explained earlier, growing numbers of staff understand the importance of good internal control and accountability. However, this situation is not found across the board and more efforts are required. Specifically the audit strategy will move from assessing the existence and functioning of internal control towards seeking assurance on its effectiveness and value-added in supporting programme delivery.

Proposed draft decision

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

The Executive Board,

1.   <u>Recalling</u> 160 EX/Decision 6.5 and 164 EX/Decision 6.10,

2.   <u>Having examined</u> document 174 EX/29,

3.   <u>Takes note</u> of the contributions made by the Internal Oversight Service (IOS) to improving the management of the Organization as part of its ongoing reform;

4.   <u>Welcomes</u> the membership of the reconstituted Oversight Committee proposed by the Director-General in this document;

5.   <u>Takes note</u> of the further actions that need to be taken by the Secretariat to improve the culture of learning, the culture of accountability and governance of the oversight functions; and

6.   <u>Requests</u> the Director-General to initiate those actions.