



United Nations
Educational, Scientific and
Cultural Organization

Executive Board

Hundred and eighty-sixth session

186 EX/24

PARIS, 21 March 2011
Original: English

Item 24 of the provisional agenda

INTERNAL OVERSIGHT SERVICE (IOS): ANNUAL REPORT 2010

SUMMARY

The annual report of the Internal Oversight Service (IOS) responds to the information needs of UNESCO's Executive Board. It sets out the key achievements and challenges for IOS for the concerned year. The annual report also assists the Executive Board in assuring the adequacy of the overall oversight system.

Key achievements for 2010 were: the establishment of the Oversight Advisory Committee as a standing body; completion of the suite of Strategic Programme Objective (SPO) evaluations; successful stewardship of the Independent External Evaluation (IEE) of UNESCO; a synthesis of systemic issues in regard to field offices as identified through audits and evaluations which contributed to the formulation of a revised field structure; completion of a risk-based audit programme; and introduction of a more effective approach to implementing recommendations.

This annual report is submitted pursuant to a request by the Executive Board (160 EX/Decision 6.5 and 164 EX/Decision 6.10). A summary of findings from JIU reports of interest to UNESCO is attached to this annual report.

All financial and administrative implications of the reported activities fall within the parameters of the current C/5 document.

The summary report of the Oversight Advisory Committee as well as the Secretariat response are contained in document 186 EX/INF.14. This Committee is now established as a standing committee and has already met twice. Its terms call for sharing the OAC summary report with the Executive Board.

Action expected of the Executive Board: proposed decision in paragraph 22.

INTRODUCTION

1. The Internal Oversight Service (IOS) annual report for 2010 sets out the key achievements and challenges for IOS over the year. It aims to assist the Executive Board in its role of assuring that UNESCO has a properly functioning oversight system. The report of the Oversight Advisory Committee (OAC) whose terms of reference call for the report to be shared with the Director-General and the Executive Board is contained in document 186 EX/INF.14. The OAC, which was established as a standing committee in 2010, has met twice.

2. IOS provides a consolidated oversight mechanism covering internal audit, evaluation and investigation. According to its Charter, IOS assists in assuring that (i) programmes and plans are delivered efficiently and effectively; (ii) management information is reliable and timely; (iii) continuous improvements are fostered in programme design and delivery; and (iv) internal controls are functioning effectively. In addition, IOS provides other management support to the Organization when requested. In 2010, this has included advising on organizational issues, acting as Secretariat of the Risk Management Committee, assisting in the consolidation and streamlining of some administrative procedures (including the consolidation of the Administrative Manual), and facilitating the conduct of the Independent External Evaluation and its follow-up.

3. The IOS work programme is presented to the OAC. It is risk-based and geared towards the needs and priorities of the Organization. The evaluation work plan is contained in the C/5 document, but a number of ad hoc evaluations may be added to the evaluation programme during the year. Likewise, the annual audit plan can be adjusted to address emerging risks and new priorities. The audit and evaluation plans for 2011 are attached in Annex II and available on the IOS website.

UNESCO'S OVERSIGHT FRAMEWORK

4. The oversight framework at UNESCO comprises a number of different bodies, including IOS. The table below shows the function of each oversight body.

Body	Function
Joint Inspection Unit	Conducting of evaluations, inspections and investigations across the United Nations system
External Auditor	Auditing of UNESCO's annual accounts and financial statements
Oversight Advisory Committee	Advising the Director-General and sharing its report with the Executive Board
Internal Oversight Service	Conducting internal audits, evaluations, investigations and providing other management support

5. IOS adheres to international professional standards governing the conduct of its internal audits, evaluations and investigations.¹ IOS has continued to reinforce its quality assurance processes by strengthening the role and composition of the Oversight Advisory Committee, commissioning external quality assurance reviews of the audit and evaluation functions, and requiring all staff to be professionally certified in their field in addition to their academic credentials.

¹ Audits follow the International Standards for the Professional Practice of Internal Auditing; investigations, the Uniform Guidelines for Investigations; and evaluations, the Norms and Standards for Evaluation in the United Nations System.

6. In addition to IOS and UNESCO's External Auditor, the United Nations Joint Inspection Unit (JIU) contributes to UNESCO's oversight framework by conducting reviews of United Nations system issues. In accordance with Article 11 of the JIU Statutes, the Director-General is required to transmit relevant JIU reports to the Executive Board. These reports, available on the web at www.unjiu.org, are summarized in Annex C. The status of the related recommendations as they affect UNESCO can be found on the IOS website. The JIU review of UNESCO's management and administration, as announced in 2009, is ongoing and the results are expected to be available and presented to the 187th session of the Executive Board.

INTERNAL AUDIT

7. IOS audits assess the functioning of internal controls, the efficiency and effectiveness of operations and the reliability of management information. During the year, IOS performed audits covering a range of business processes and field locations as summarized in Table 1. These audits led to progress by the Organization in a number of areas:

- **IT governance:** The establishment of a Chief Information Officer post (recommended by IOS in 2008) was approved in 2010 and recruitment is under way. When operational, this role is expected to improve IT priority-setting, resource allocation and project management.
- **Programme/project management:** The need for an effective and integrated programming, monitoring and reporting mechanism was a recurring internal audit observation in 2008 and 2009. Progress in implementing SISTER during the current biennium is proving to be an effective step forward in strengthening the monitoring and implementation of UNESCO's regular programme and extrabudgetary portfolio.
- **Field structure:** Internal audits have shown that the complex and unclear reporting lines between and among UNESCO's field offices and Headquarters impair control monitoring, the setting of objectives and performance management. The Organization is currently re-examining its field structure, and proposals presented to the 185th session of the Executive Board included specific elements to address these issues.
- **Control environment:** Following a comprehensive analysis of UNESCO's Tables of Delegated Authority and Accountability, IOS advised management in 2009 that control of the Organization was impaired by diffused, often complex and sometimes inconsistent procedures and guidelines. In response, internal audit was charged with (i) leading a consolidation of administrative and financial procedures and guidelines into a single updated reference source; and (ii) establishing a governance process to continually update the Administrative Manual. IOS provided the secretariat function to an interdisciplinary working group. Continued progress is being made to strengthen and streamline procedures, and to keep the Manual updated regularly. IOS handed over the coordinating function of the Manual to BFM at the end of 2010.
- **Control self-assessment:** IOS continued to promote the self-assessment of controls by managers and staff in order to increase awareness of control responsibilities. A new initiative by UNESCO, as set forth in the revised Financial Rules, makes such self-assessment an annual requirement for ADGs in support of a certification on internal controls.

Table 1: Summary of key internal audits, 2010

Headquarters
<p>Treasury operations</p> <ul style="list-style-type: none"> UNESCO's liquid funds are well managed and controlled. Access to associated IT systems and payment files should be more restricted and segregated among users.
<p>Management control of art and gifts</p> <ul style="list-style-type: none"> Inventory record of artwork is reliable but UNESCO's framework for receiving gifts should be better defined and reviewed from an ethical perspective with better guidance or procedures on accepting, declining, declaring and managing gifts. The Ethics Officer has made progress in updating the gift policy.
<p>Staff allowances and grants</p> <ul style="list-style-type: none"> Control of staff allowances and grants is effective but highly inefficient due to redundant, manual and time-consuming processes. IOS recommended improvements to save money and simplify administration.
<p>Allocation of Maintenance, IT and Other Common Costs</p> <ul style="list-style-type: none"> Allocation of common costs to programme sectors and central services is too complex and sometimes irrational. A new approach should be taken to increase budget transparency and effectiveness.
<p>Chargebacks for Printing, Translation, Space Rental and Other Services</p> <ul style="list-style-type: none"> Chargeback mechanisms are administratively cumbersome and do not reflect true costs. IOS recommended simplification of procedures and clarification of accountabilities.
<p>Status of IPSAS Conversion Project</p> <ul style="list-style-type: none"> IPSAS standards have been correctly applied for the opening balances as of 1 January 2010. Advance contract payments required further analysis and disclosure, which is under way.
<p>UNESCO's field security framework</p> <ul style="list-style-type: none"> UNESCO has put in place field security accountabilities based on the common United Nations framework. More should be done to monitor office security profiles, prioritize UNDSS recommendations and ensure staff security awareness.
<p>Follow-up Audit of Travel</p> <ul style="list-style-type: none"> The reduction in business class travel noted in the 2009 IOS audit was maintained in 2010, and waivers are now more stringently controlled. There are, however, other opportunities to further reduce travel costs that have not yet been taken up.
<p>Costs Incurred under Emergency Assistance to Palestine</p> <ul style="list-style-type: none"> Participation Programme funds were used for the intended purpose of providing small scholarships to Palestinian students, but better recordkeeping is needed in the future.
<p>Recruitment Process in the CI Sector</p> <ul style="list-style-type: none"> The review showed a number of exceptions to recruitment procedures during the period 2007–2009. This has been addressed through HRM guidance and training in the Sector.

<p>Control Assessment of the Culture Sector</p> <ul style="list-style-type: none"> • Management controls were found to be in place and functioning with no major anomalies noted. However, improvements can be made in contractor selection, travel planning and programme monitoring.
<p>Staff Associations</p> <ul style="list-style-type: none"> • One of UNESCO's two staff associations fell short of the membership required (15% of staff) to maintain representative status.
<p>Data Centre (Information Technology)</p> <ul style="list-style-type: none"> • Both funding and performance of UNESCO's data centre fell short of the industry average. • Outsourcing opportunities, such as to the United Nations International Computing Centre, should be assessed before further investments are made in UNESCO's data centre.
<p>Field offices</p> <p>Audits were completed of UNESCO's offices in Addis Ababa, Brasilia, Dar es Salaam, Montevideo and Windhoek as well as the International Institute for Capacity-Building in Africa and Villa Ocampo. While audit results varied among offices, management controls had generally improved since previous IOS audits in these locations. The following recurring issues support the need for reform of UNESCO's field structure: prolonged vacancies in key posts; insufficient capacity to effectively fulfil programme commitments; and insufficient response to declining extrabudgetary activity.</p>

EVALUATION

8. The 2008-2013 evaluation plan, consisting of strategic, portfolio-based evaluations, has proved cost-effective because of the wider coverage of each evaluation. Under this approach, all strategically important areas have been evaluated within the 34 C/4 period, including all Strategic Programme Objectives (SPOs),² a sample of field offices and category 1 institutes, and key centralized functions.

9. At its 35th session, the General Conference requested an independent external evaluation (IEE) of a comprehensive forward-looking character to complement the current long-term strategy. IOS was entrusted with the initiation and coordination of this project and presented a number of alternative approaches to the Executive Board. The procurement process was transparent and resulted in the selection of a prominent cross-regional team of 11 specialists.

10. The team began work on the IEE in January 2010 and delivered their full report in September 2010. The team visited field and liaison offices, UNESCO institutes and the United Nations in New York and Geneva; attended the Regional C/5 Consultations; conducted case studies of programmes/themes of activity; observed the Executive Board in April 2010; reviewed documentation; met with Permanent Delegations gathered in Electoral Groups and individually when requested; and interviewed Secretariat staff and senior management.

11. The IEE called for a process of "renewal" and presented five groups of recommendations, entitled strategic directions, as follows:

- (a) increasing UNESCO's focus;
- (b) positioning UNESCO closer to the field;
- (c) strengthening participation in the United Nations;
- (d) strengthening governance;
- (e) developing a partnership strategy.

² 185 EX/6 Part IV presented a synthesis of the SPO evaluations.

12. While not providing a detailed recipe for change, these strategic directions provide a framework for reform. A good start has been made in establishing processes to deal with the implications of the report, but momentum must be maintained and followed up with concrete actions. This process is now taking place.

13. In addition to the stewardship of the IEE, IOS managed and completed 12 evaluations in 2010, the findings of which were presented on different occasions to the Executive Board, either individually (for the SPOs) or in aggregate (for the field offices). The thematic evaluation reports are publicly available at <http://www.unesco.org/ios>.

Table 2: Evaluations completed in 2010

Disaster preparedness and mitigation (SPO 5)	<p><i>Achievements</i></p> <ul style="list-style-type: none"> • Effective work in disaster preparedness and mitigation • Comparative advantage in tsunami early-warning systems <p><i>Challenges</i></p> <ul style="list-style-type: none"> • Mainstreaming gender equality in disaster risk reduction • Projects are too small, limiting impact
Research-policy linkages on social transformations (SPO 7)	<p><i>Achievements</i></p> <ul style="list-style-type: none"> • Brings researchers and policy-makers together around the social and human agenda <p><i>Challenges</i></p> <ul style="list-style-type: none"> • Development of a clear strategic focus • Need to forge new partnerships
Culture and development, intercultural exchange and dialogue (SPOs 9 and 10)	<p><i>Achievements</i></p> <ul style="list-style-type: none"> • Recognition as lead agency in culture with extensive experience • Has an advantage in facilitating intercultural dialogue <p><i>Challenges</i></p> <ul style="list-style-type: none"> • Better definition of target groups and of key terms • Intersectoral work to integrate cultural diversity messages
Universal access to information and knowledge, pluralistic, free and independent media and infostructures (SPOs 12 and 13)	<p><i>Achievements</i></p> <ul style="list-style-type: none"> • Significant progress in capacity-building of media professionals, development of Community Media Centres and community radio facilities, normative and standards-setting work in pluralistic, free and independent media and infostructures <p><i>Challenges</i></p> <ul style="list-style-type: none"> • Limited progress in the non-rights and non-legislative aspects of freedom of information • Need to become more focused and clarify areas of work and messages
Eight field office locations covering Africa (Abuja, Bujumbura, Libreville and Yaoundé), Arab States (Doha and Ramallah), Latin America and the Caribbean (Montevideo) and New York	<p>A synthesis report of key systemic themes emerging from the field office evaluations was presented to the Board (185 EX/6 Part V)</p> <p><i>Achievements</i></p> <ul style="list-style-type: none"> • Wide range of activities and contributions to policy development • Wide networks of stakeholders • Active participation in One United Nations processes <p><i>Challenges</i></p> <ul style="list-style-type: none"> • Experience and seniority of international staff • Resource mobilization strategies and communication of results

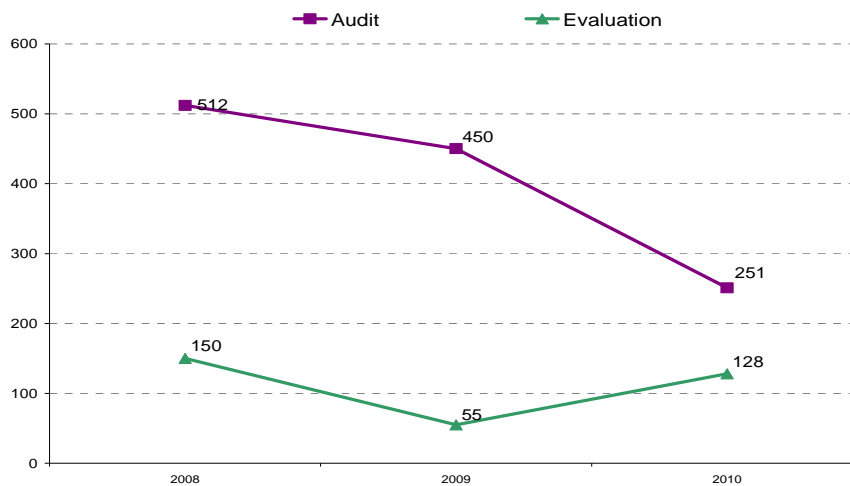
RECOMMENDATION FOLLOW-UP

14. IOS issues recommendations to inform strategic decisions and improve programme delivery, controls and efficiencies. IOS systematically follows up on the implementation of both internal audit and evaluation recommendations. A few examples of the impact of IOS work are as follows:

- An evaluation resulted in better strategic focus in the Education sector, greater focus on knowledge generation as seen in the creation of the Education for Research and Foresight Team and better definition of the EFA coordination role.
- Field visits identified systemic shortcomings and contributed to the debate on the need for a different field structure.
- One audit finding resulted in a reduction of a contract payment by \$2 million.
- A number of recommendations resulted in the improvement of project and programme monitoring and control.
- An audit contributed to a more effective extrabudgetary framework.

15. IOS continued its emphasis on the implementation of recommendations by engaging in discussions and seeking agreement on follow-up actions. In 2010, over 250 audit recommendations were closed, of which 80% were fully implemented. The majority of the high risk recommendations were implemented. In evaluation, the emphasis was placed on discussing and agreeing on action plans with programme managers.

Number of open recommendations at year end



Note: The spike in evaluation recommendations in 2010 is due to the large number of evaluations submitted to the Executive Board for which action plans are pending.

INVESTIGATION

16. IOS is also responsible for investigating allegations of corruption, fraud, waste, abuse of authority and other misconduct by UNESCO staff or third parties including consultants, contractors or suppliers. Towards the end of 2008, IOS created a separate investigation function and engaged one investigator on a contractual basis. The position was subsequently made permanent and financed from IOS's existing staff complement.

17. Allegations and complaints are first screened to establish whether they are credible, specific, material and verifiable. With clearance from the Director-General, IOS then opens formal investigations. After completing an investigation, disciplinary measures are often taken.

18. In 2010, 36 new cases were opened adding to the 19 open cases at the beginning of the year. IOS solved and/or closed 33 cases, of which 16 were at Headquarters and 17 in the field. Out of the 33 cases, two resulted in the termination of staff, eight in recommendations for improvement of internal controls and risk management, and three were referred to a law enforcement agency. As of 31 December 2010, 22 cases were outstanding.

19. The cases handled in 2010 involved alleged procurement or recruitment irregularities (six cases), fraudulent claims and falsification of documents (eight cases), embezzlement, theft or abuse of UNESCO-related assets (ten cases), moral or sexual harassment (four cases), and other abusive conduct (seven cases).

OVERSIGHT ADVISORY COMMITTEE

20. The Oversight Advisory Committee (OAC) was established as a standing committee at the 35th session of the General Conference. Its main purpose is to advise the Director-General on the proper functioning of oversight and related activities. For transparency purposes, its annual report is transmitted to the Executive Board (see document 186 EX/INF.14 for its 2010 report). The OAC is comprised of four external independent members who are appointed for two-year non-remunerated terms. So far, the OAC has met twice: in September 2010 and February 2011.

LOOKING FORWARD

21. IOS aims at building a strong and effective oversight function in the Organization. Both the internal audit and evaluation functions have become more effective over the course of the year and delivered on their work plans. Work plans for 2011 are attached in Annex II and available on the IOS website. A very welcome assessment was the overall conclusion by the OAC following its visit in September 2010 stating that “It is evident that in the last year there has been much positive progress in the development of UNESCO’s internal audit, evaluations, investigations, risk management, ethics and financial control systems and processes”.

Action to be taken by the Executive Board

22. 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 186 EX/24,
3. Taking note of the contributions made by the Internal Oversight Service (IOS) to the improvement of the internal controls and overall functioning of the Organization,
4. Invites the Director-General to continue to maintain a strong oversight function and to continue to report annually on IOS strategies and activities, significant oversight recommendations and follow-up.

ANNEX I

JOINT INSPECTION UNIT (JIU) REPORTS OF INTEREST TO UNESCO

<p>Selection and conditions of service of Executive Heads in the United Nations system organizations (JIU/REP/2009/8)</p> <ul style="list-style-type: none">• Review of the legal and institutional framework and practices in the selection and appointment of the United Nations Secretary-General and other executive heads in the United Nations system organizations, including conditions of service.• The objective was to find harmonized selection criteria to ensure the highest quality of leadership and management.
<p>Environmental profile of the United Nations system organizations: Review of their in-house environmental management policies and practices (JIU/REP/2010/1)</p> <ul style="list-style-type: none">• Assessment of environmental policies and practices of United Nations system organizations' secretariats on their sustainable use of resources in light of their mission to promote relevant internationally accepted environmental conventions.• Best practices, norms and benchmarks were identified.
<p>Review of travel arrangements within the United Nations system (JIU/REP/2010/2)</p> <ul style="list-style-type: none">• Review of existing travel arrangements to identify best practice, improve services and reduce travel costs.• Major changes within the travel industry and advances in information, communications and technology (ICT) have opened new opportunities for organizations to manage and modify existing travel policies and procedures.
<p>Ethics in the United Nations system (JIU/REP/2010/3)</p> <ul style="list-style-type: none">• Follow-up review of an earlier JIU report on lacunae in United Nations system organizations in order to determine progress, lessons learned, and best practices in establishing and implementing the ethics function.• Recommendations intended to ensure a fully operational ethics function in each United Nations system organization.
<p>Review Enterprise Risk Management (ERM) in the United Nations system. Benchmarking Framework (JIU/REP/2010/4)</p> <ul style="list-style-type: none">• Review of ERM policies, practices and experience in the United Nations system to identify best practices and lessons learned.• Information and recommendations on: (a) ERM concept and its relevance to United Nations organizations; (b) assessment of practices; (c) best practices from United Nations system and others; (d) basic definitions of some risk management concepts and implementation methods; and (e) inter-agency cooperation, coordination and knowledge sharing in the United Nations system.
<p>The audit function in the United Nations system (JIU/REP/2010/5)</p> <ul style="list-style-type: none">• Challenges faced are: (a) follow-up and implementation of audit recommendations; (b) resources; (c) auditing "One United Nations"; (d) coordination with other oversight bodies; and (e) independence.• Challenges identified are: authority, centralization/decentralization, structure, planning, reporting and quality assessment of the internal audit activity, auditors' performance/competence, and lack of accountability for non-implemented recommendations.

Preparedness of the United Nations system organizations for the International Public Sector Accounting Standards (IPSAS) (JIU/REP/2010/6)

- Overview of the transition to and implementation status of IPSAS in United Nations system organizations and how this process has been carried out by each organization while focusing on best practices and possible risks.

Policies and procedures for the administration of trust funds in the United Nations system organizations (JIU/REP/2010/7)

- Review of policies, rules and regulations related to trust funds' management and administration as well as major trends in the overall volume and use of trust funds in United Nations system organizations.
- The objective was to identify the specific problems in managing different types of trust funds and best practices.

ANNEX II

WORK PROGRAMMES

AUDIT PLAN – 2011

ENGAGEMENTS	OBJECTIVES
1. Audit of the Project/Programme Management Cycle	Review the adequacy of project/programme design, monitoring and reporting controls and identify opportunities for improvements.
2. Audit of the management and control of UNESCO Chairs	Review the adequacy of the management framework for the Chairs programme and identify opportunities for improvements.
3. Control assessments of the programme sectors	Provide guidance and facilitate self-assessments of each Sector in support of management's 2011 assertions on internal controls.
4. Review of HRM's classification process	Provide assurance on the effectiveness of the process for classifying and re-classifying posts.
5. Review of the contracting and procurement functions	Advise on the structures and roles of contracting and procurement to enhance efficiencies and effectiveness.
6. Audit of the management and control of laissez passer, visas and residence permits	Provide assurance on the effective control of travel and residence documents issued for UNESCO personnel.
7. Audit of the management and control of staff costs savings	Provide assurance on the adequacy of the control programme monitoring controls and identify opportunities for improvements.
8. Audit of the membership status of staff associations	Provide assurance on the membership levels and representative status of the staff associations
IT AUDITS	OBJECTIVES
1. Audit of FABS access	Provide assurance on the adequacy of control of critical authorizations in FABS.
2. SISTER	Assess the development of SISTER to ascertain whether the technical environment used is sound and can be supported and maintained in the long term.
FIELD AUDITS	NUMBER
Cluster offices, national offices, institutes and projects	Nine, some in conjunction with evaluations.

EVALUATION PLAN – 2011

EVALUATIONS	OBJECTIVES
1. SPO 9 and 10 (Culture Sector)	Assess progress made towards achieving the expected outcomes of the SPOs and examine how progress can be enhanced through improving programme policy, design and delivery.
2. National Commissions	Assess the contribution of UNESCO's National Commissions and the Secretariat's way of engaging them with a view to optimizing the Secretariat's interaction with NatComs
3. Prizes	Identify the achievements and challenges in attaining the principal aim of UNESCO's global prize strategy i.e. enhancing the impact and visibility of the various prizes. To advise the Director-General on how to conduct the review of individual UNESCO Prizes and, if necessary, how to update the global strategy for UNESCO prizes.
4. Intercultural dialogue	Assess progress made towards promotion of intercultural dialogue, including analysis of resources utilization, outputs produced and impact achieved.
5. Liaison offices	Identify the strengths and weaknesses of the offices in terms of their effectiveness in acting as the ears, eyes and mouth of UNESCO. The review will provide recommendations on how to enhance their impact and contribution to the wider organization.
6. Publications	Assist Audit Section in regard to the assessment of the monitoring and evaluation systems put in place.
7. ICTP	Assess the relevance, efficiency, effectiveness, impact and sustainability of ICTP scientific activities.
8. Priority Africa	Conduct a stocktake of UNESCO-wide activities with specific focus on Priority Africa, and identify, <i>inter-alia</i> , key flagships and related performance indicators.
9. Category 2 institutes	Assist ongoing audits to ascertain whether the Institutes make significant contribution to the strategic goals of UNESCO; whether activities pursued by the institutes are in conformity with those set out in respective agreements.
10. Advisory services	Review of work practices as requested, in order to identify potential efficiency gains.
FIELD EVALUATIONS	NUMBER
Liaison offices, cluster offices, national offices	Eight, some in conjunction with audits.