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Organización
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Организация
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منظمة الأمم المتحدة
للتربية والعلم والثقافة

联合国教育、
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**Internal Oversight Service
Audit Section**

IOS/AUD/2016/06

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**Quality Self-Assessment with
Independent Validation:
UNESCO's Internal Audit Service**

July 2016

Quality Assessment Team:

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EXECUTIVE SUMMARY

Key Results

In June 2016, UNESCO's Internal Oversight Service completed a quality assessment of its Internal Audit activity in accordance with the methodology and standards of the Institute of Internal Auditors (IIA). The assessment concluded that UNESCO's Internal Audit activity generally conforms to the *International Standards for the Professional Practice of Internal Auditing*. This is the highest rating as per the IIA methodology. The assessment also notes areas where improvements can be made and presents recommendations in this regard.

The IIA nominated an accredited external validator to review and independently conclude on the results of this self-assessment and on UNESCO's level of conformance to the *Standards*. The independent validation was conducted on-site at UNESCO and consisted primarily of a review and testing of the procedures and results of the self-assessment and also included surveys of internal audit clients and staff and interviews of key representatives of UNESCO management, external auditor and Oversight Advisory Committee. Based on this work, the validator concurred with the conclusions and recommendations of the self-assessment as presented in this report.

Background, Objectives and Methodology

1. As per the *International Standards for the Professional Practice of Internal Auditing*, external assessments must be conducted at least once every five years by a qualified independent reviewer, or review team, from outside the organization. Self-assessment with independent validation is an acceptable methodology to fulfill this requirement, which is the approach taken for the current quality assessment.
2. The UNESCO Internal Oversight Service (IOS) last conducted an external assessment of its Internal Audit activity in 2011.
3. A team of two professional auditors conducted the assessment in May and June 2016 using the methodology and tools and prescribed by Institute of Internal Auditors (IIA). The team leader completed relevant training on Internal Audit Quality Assessment.
4. The objectives of the review were to:
 - determine the Internal Audit activity's conformity to the *International Standards for the Professional Practice of Internal Auditing (Standards)*;
 - assess the efficiency and effectiveness of the Internal Audit activity in the light of its charter and the expectations of the oversight committee, executive and operational managers; and
 - offer advice and recommendations for improvement, where appropriate.
5. The quality assessment was performed based on detailed review of the Internal Audit charter, policies, procedural manual, plans and work practices. It included detailed examination a sample of six Internal Audit engagements to assess conformance with the *Standards* relating to individual engagements from the planning stage through to reporting, quality assurance and recommendation monitoring. The quality assessment and validation process also included two online surveys, designed and administered by the IIA, to gather relevant stakeholder input from (i) UNESCO's senior managers and Internal Audit clients and (ii) the Internal Audit staff.



6. IOS engaged the IIA to review and independently validate the conclusions of this internal quality assessment. The IIA nominated Mr. Alfredo Dautzenberg to conduct the external validation in June 2016.

Opinion

7. The IIA's compliance rating system provides three levels of conformance to its *Standards*. The highest (best) level is "Generally conforms", the next level is "Partially conforms" and the third level is "Does not conform."
- "Generally Conforms" (GC) means that the Internal Audit activity has a charter and policies and processes that are judged to be in accordance with the *Standards*. However, some opportunities for improvement may exist.
 - "Partially Conforms" (PC) means the evaluator has concluded that the activity is making good-faith efforts to comply with the requirements of the individual standards as indicated in the evaluation but that some significant opportunities for improvement exist.
 - "Does Not Conform" (DNC) means deficiencies in practice are judged to be so significant as to seriously impair or preclude the Internal Audit activity from performing adequately in all or in significant areas of its responsibilities.
8. In our opinion, the Internal Audit activity of IOS **Generally Conforms** to the *Standards*. The rating for both of the two main *Standards* categories, namely Attribute and Performance, and for the *Code of Ethics*, is Generally Conforms.
9. A detailed list of IOS conformance to the individual standards is presented in Annex I.

Achievements of the Internal Audit Service

10. UNESCO's Internal Audit activity generally conforms to the International Standards for the Professional Practice of Internal Auditing.

11. The purpose, authority and responsibility of Internal Audit are clearly established in the Internal Audit Charter.
12. The Director of IOS, as Chief Audit Executive, has appropriate access to senior management and governing bodies, which supports the requisite independence.
13. Transparency needs of stakeholders are addressed through publication of an IOS Annual Report, which is presented to the governing body and available on UNESCO's public internet site, as well as summary Internal Audit reports which are also available on the public internet site.
14. The Oversight Advisory Committee, comprised entirely of external members with appropriate expertise, has been formally established by the governing body, meets regularly to inter alia oversee the plans and performance of the Internal Oversight Service, and reports annually to the governing body.
15. All Internal Auditors are professionally qualified auditors with experience and skills consistent with their responsibilities.
16. Internal Audit plans are prepared applying a risk-based methodology including consultations with management.
17. Individual engagements are generally planned, performed and reported in accordance with the Standards.
18. The number of management requests for Internal Audit services, together with the generally high client survey scores, reflects confidence and trust in the Internal Audit function.
19. An IOS Internal Audit Manual is maintained setting forth the policies and procedures for the management and performance of the Internal Audit function.
20. The Internal Audit Charter is subject to review and endorsement of the governing body.
21. The Internal Audit service has fulfilled the requirement for periodic external quality assessments of its conformance with the Standards and Code of Ethics.
22. The Internal Auditors coordinate and cooperate with the external auditors in order to avoid gaps and duplicative coverage in the respective audit plans.
23. IOS maintains and monitors a range of Internal Audit performance metrics.
24. As part of its Quality Assurance and Improvement Programme and in light of budget constraints, Internal Audit has undertaken a number of initiatives to cost-effectively increase the assurance it provides. These include:
 - Remote audits of some Field Offices to expand geographical coverage while providing a limited assurance on the design and operations of internal controls.
 - Data analytics and control monitoring providing baseline information and trends on the effectiveness of key controls, such as segregation of duties, across the organization.
 - Improved assurance on costs incurred by implementing partners through third-party audits funded by the respective donors and supported by IOS quality assurance.
 - Strengthened anti-fraud controls through joint assessments by the IOS Internal Audit and Investigation services.
25. For the period under review, the Internal Audit activity has substantively contributed to improving risk management and control processes, and to reducing risk exposures, across the Organization.

Opportunities for Improving the Internal Audit Service

26. Preparing a biennial audit plan that is designed to provide **reasonable assurance on UNESCO's overall risk management and control**, including a clear presentation of the resources required to provide such assurance and **highlighting the funding gap** between the fully costed plan and the resources currently allocated to IOS.
27. Developing a more structured and consistent approach for providing assurance on **the performance of UNESCO's programmes and projects**, including specific audit objectives and detailed methodologies.
28. Incorporating a limited set of **key performance indicators** into the individual performance management of the Chief Audit Executive and the Internal Audit staff to facilitate overall team delivery.
29. Undertaking and reporting on **periodic internal assessments** of the Internal Audit activity to provide stakeholders with regular assurance on conformance to the *Standards* and *Code of Ethics*.
30. Revising the **Internal Audit Charter** for further clarity and full conformance with the *Standards*, and resubmitting it for review and approval by the Director-General and Executive Board, after consultation with the Oversight Advisory Committee.
31. Improving monitoring of staff time and delivery dates to facilitate **timely communication of engagement results**.
32. The above opportunities are addressed in more detail in the Observations and Recommendations presented in Annex II of this report. We believe that the implementation of these recommendations will (i) improve the value of the services provided by Internal Audit, (ii) advance the implementation of the initiatives already underway and (iii) contribute to the continuous improvement of UNESCO's Internal Audit function towards its goal of conforming, in all respects, to the Standards and to associated best practices.



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**ANNEX I
IOS INTERNAL AUDIT FUNCTION
STANDARDS COMPLIANCE SUMMARY**

		IIA's decision		
		GC	PC	DNC
OVERALL EVALUATION		X		
ATTRIBUTE STANDARDS		X		
1000	Purpose, Authority, and Responsibility	X		
1010	Recognition of the Definition of Internal Auditing	X		
1100	Independence and Objectivity	X		
1110	Organizational Independence	X		
1111	Direct Interaction with the Board	X		
1120	Individual Objectivity	X		
1130	Impairments to Independence or Objectivity	X		
1200	Proficiency and Due Professional Care	X		
1210	Proficiency	X		
1220	Due Professional Care	X		
1230	Continuing Professional Development	X		
1300	Quality Assurance and Improvement Program	X		
1310	Requirements of the Quality Assurance and	X		
1311	Internal Assessments		X	
1312	External Assessments	X		
1320	Reporting on the Quality Assurance and	X		
1321	Use of "Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> "	X		
1322	Disclosure of Nonconformance	X		
PERFORMANCE STANDARDS		X		
2000	Managing the Internal Audit Activity	X		
2010	Planning	X		
2020	Communication and Approval		X	
2030	Resource Management	X		

		IIA's decision		
		GC	PC	DNC
2040	Policies and Procedures	X		
2050	Coordination	X		
2060	Reporting to Senior Management and the Board	X		
2070	External Service Provider & Org. responsibility	X		
2100	Nature of Work	X		
2110	Governance	X		
2120	Risk Management	X		
2130	Control	X		
2200	Engagement Planning	X		
2201	Planning Considerations	X		
2210	Engagement Objectives	X		
2220	Engagement Scope	X		
2230	Engagement Resource Allocation	X		
2240	Engagement Work Program	X		
2300	Performing the Engagement	X		
2310	Identifying Information	X		
2320	Analysis and Evaluation	X		
2330	Documenting Information	X		
2340	Engagement Supervision	X		
2400	Communicating Results	X		
2410	Criteria for Communicating	X		
2420	Quality of Communications		X	
2421	Errors and Omissions	X		
2430	Use of "Conducted in conformance with the <i>International Standards for the Professional Practice of Internal Auditing</i> "	X		
2431	Engagement Disclosure of Nonconformance	X		
2440	Disseminating Results	X		
2450	Overall Opinions	X		

IIA's decision

	GC	PC	DNC
2500 Monitoring Progress	X		
2600 Management's Acceptance of Risks	X		
IIA Code of Ethics	X		

ANNEX II OBSERVATIONS AND RECOMMENDATIONS

ISSUES SPECIFIC TO THE UNESCO INTERNAL AUDIT SERVICE

1. PROVIDING REASONABLE ASSURANCE

The Chief Audit Executive is to communicate the Internal Audit plans and resource requirements, including significant interim changes, to senior management and the governing body for review and approval. This should include communication of the impact of any resource limitations. (Standard 2020)

The biennial IOS Internal Audit plan is prepared on a risk basis following a systematic methodology including assessment of risks by IOS, consultations with management and consideration of the risks identified and assessed by UNESCO's Risk Management Committee. Through this methodology, the priority internal audit engagements are identified, and the plan is developed including those engagements that are within the available resources and identifying those engagements that are desired but not within current budget. In preparing the plan, the resources are determined through an analysis of total staff time, including estimates of direct and indirect activities, with standard staff times allocated for each type of planned audit (e.g., field office, major functional area or focused engagement). Budgetary decisions involving the Internal Oversight Service are made separately from the Internal Audit planning process, and the plan is reactive to the approved budget level; thus, the plans are resource driven rather than assurance driven.

Internal Audit plans are updated annually and presented to the Director-General and the Executive Board in the IOS Annual Report as a one-page list of audits without presentation of (i) detailed information on the human and financial resource needs and (ii) contextual information on the audit universe disaggregated by risk levels. In presenting the plan, there is no substantive discussion between the Internal Oversight Service and the executive management regarding (i) the resultant risk exposure of not fully funding the plan, nor (ii) the value of funding an Internal Audit plan providing reasonable assurance on the Organization's risk management, control and governance processes. As such, the executive management is not presented with a strategic decision regarding the level of assurance and corresponding costs.

The Internal Oversight Service notes that, following a significant and sustained organization-wide budget shortfall since late 2011, there have been resource constraints across UNESCO. For Internal Audit, this has meant a reduction in staffing as well as in funding for travel on audit missions and for specialized consultancies in such areas as information technology risks.

Staffing has been partially restored, with the auditor positions totaling 9 at the time of the quality assessment compared to 11 in 2011; the activity funding remains at less than 50 percent of its 2011 level.

The Quality Assessment and the Oversight Advisory Committee have both identified the need for IOS to improve the communication of the Internal Audit plan by providing more comprehensive information and presenting it as a decision document specifically relating resourcing of Internal Audit to the overall level of assurance desired in order to facilitate a clear understanding and informed decision in the allocation of resources and acceptance of residual risks.

Recommendation 1: **We recommend that Internal Audit prepare a biennial internal audit plan that is designed to provide reasonable assurance on UNESCO’s risk management, control and governance processes. The planning document should include a summary of the audit universe, disaggregated into auditable entities and their risk levels, with a sufficiently detailed presentation of the resources required to provide reasonable assurance and highlighting the difference between the fully costed plan and the resources currently allocated to IOS. The risk implications of not fully funding the plan should be clearly articulated and the plan should be presented – on a schedule allowing timely budget consultations – to the Director-General and Executive Board in order to facilitate their understanding of the sufficiency of the assurance to be provided and the associated human and financial resource implications. Further, the plan should be (i) subject to their formal approval, which would reflect their “audit risk taking” decision, and (ii) updated and presented at least annually (Standard 2020, Practice Advisory 2020-1.2).**

IOS Response:

The Internal Oversight Service will implement this recommendation for the 2018/2019 budget cycle. This will include presenting an assurance-based audit plan and requesting appropriate financial and human resources. Resource consultations are to begin in late 2016.

2. ASSURANCE ON THE PERFORMANCE OF PROGRAMMES AND PROJECTS

Internal Audits of field offices provide important information on the operations of these offices, normally encompassing financial management, human resource management, contracting, asset management, security and the procedures for managing projects and programme activities. Stakeholder feedback and internal IOS planning discussions have highlighted the opportunity for Internal Audit to expand its assurance regarding the performance of UNESCO’s programmes and projects.

The Quality Assessment team believes that, with little additional

investment, Internal Audits can often deliver important assurance information on the performance of specific programmes and projects and on the programmatic portfolios of individual field offices. This should include assessment of the efficiency and progress in achieving planned milestones and outputs, as well as sustainability plans where appropriate. Putting greater focus on this aspect of UNESCO's operations will bring the Internal Audit plan into closer alignment with the objectives of the Organization.

Recommendation 2: **We recommend that Internal Audit prepare and pilot an improved approach for providing assurance on the performance of programmes and projects, including specific audit objectives and detailed methodologies applicable to internal audits of field offices and major programmes and projects.**

IOS Response: *The Internal Oversight Service agrees with this recommendation and will pilot and progressively evolve this methodology during 2017.*

3. KEY PERFORMANCE INDICATORS

Overall performance objectives of the IOS Director and the Head of Internal Audit are aligned with the Results Based Management for IOS as set forth in UNESCO's Programme & Budget (C/5) approved by the General Conference. IOS performance towards these objectives is updated semi-annually in SISTER throughout the biennium with transparency to the Member States. However, individual performance indicators underlying these higher level results are not sharply defined and included in the individual performance assessment of the IOS Director, the Head of Internal Audit and the other Internal Audit staff. Such objective and readily measurable indicators would facilitate staff management and overall team delivery.

Recommendation 3: **We recommend that Internal Audit adopt a limited set of key performance indicators to be incorporated into the performance management of the IOS Director, the Head of Internal Audit and all Internal Audit staff.**

IOS Response *The Internal Oversight Service agrees with this recommendation and will develop such indicators to be used internally during 2017 and to be incorporated into the formal performance management system for the 2018/2019 performance cycle.*

4. PERIODIC INTERNAL SELF-ASSESSMENTS

The *Standards* require that internal audit services maintain a Quality Assurance and Improvement Programme (QAIP) that contains both internal and external assessments (Standard 1300). An Internal Audit service must undergo external assessment at least every five years by an independent reviewer to maintain conformance with the *Standards*. Internal

assessments are (i) ongoing internal evaluations of the Internal Audit activity coupled with (ii) periodic self-assessments. The Chief Audit Executive is to communicate the assessment results to senior management and the governing body.

The IOS Internal Audit service conforms to the requirements for a five-year cycle of independent external assessments and to the ongoing internal evaluations of its Internal Audit activity. However, following budget reductions in 2011, IOS took a decision to focus its internal assessments on ongoing evaluation and deferred the periodic self-assessments pending appropriate resourcing. To fully conform to the *Standards*, this interim situation needs to be addressed notwithstanding the resourcing question.

Recommendation 4: **We recommend that Internal Audit reinstate its periodic internal quality assessments, and reporting thereon.**

IOS Response

The Internal Oversight Service agrees with this recommendation and will include periodic self-assessment in the 2017 workplan.

5. INTERNAL AUDIT CHARTER

Although the Internal Audit Charter was recently updated and found to be comprehensive, the following three statements should be further expanded and/or clarified:

- 1) Under Definition and Purpose of Internal Auditing: "... It assists UNESCO in accomplishing its objectives by bringing a systematic and disciplined approach to assess and improve the effectiveness of the Organization's risk management and internal control."
- 2) Under Organization: "The Director of IOS reports to and is accountable to the Director-General and has a functional reporting line to the Oversight Advisory Committee."
- 3) Under Internal Audit Plan: "At least annually, the Director of IOS will submit to the Director-General and the Executive Board, after consultation with the Oversight Advisory Committee, an internal audit plan. The internal audit plan will consist of the audits planned as well as the impact of resource limitations."

Recommendation 5: **We recommend that Internal Audit revise the Internal Audit Charter to achieve further clarity and full conformance with the Standards, and resubmit it for review and approval by the Director-General and the Executive Board, after consultation with the Oversight Advisory Committee. Specifically:**

- 1) **Revise the paragraph under Definition and Purpose**

of Internal Auditing to incorporate the “corporate governance” component in line with the worldwide accepted Definition of the Profession (“...It assists UNESCO to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”).

- 2) Further document in the Charter what IOS' dual reporting lines entail (Interpretation of Standard 1000, Standard 1110 and Practice Advisories 1110-1). Typically, the administrative (hierarchical) reporting line: (a) provides overall support to the Internal Audit activity by positioning the Chief Audit Executive (CAE) with appropriate stature within the organization, (b) facilitates the accomplishment of the Internal Audit mission, day-to-day operation and the CAE’s open and direct communications with management at all levels, (c) enables adequate flows of information for the CAE to keep abreast with the activities, plans and business initiatives of the organization, (d) reviews and approves the Internal Audit activity charter and annual plans prior to the Board’s final approval, (e) administers Internal Audit’s human resources including personnel evaluations and compensation aspects, in line with company policy and (f) exercises appropriate accounting and budgetary controls.

In turn, the CAE’s functional reporting line to the Board ensures his / her full independence by having the latter: (a) approve the Internal Audit Charter, (b) approve the risk based internal audit plan, (c) approve the Internal Audit budget and resource plans, (d) receive communications from the CAE on the Internal Audit activity’s performance relative to its plan and other matters, (e) endorse all decisions regarding the appointment, performance appraisal, remuneration and removal of the CAE, (f) make appropriate inquiries of management and the CAE to determine whether there are inappropriate scope or resource limitations and (g) request the CAE to confirm, at least annually, the organizational independence of the Internal Audit activity.

- 3) Expand the text referring to the Internal Audit plan to read: “At least annually, the Director of IOS will submit to the Director-General and the Executive Board, after consultation with the Oversight Advisory Committee, an internal audit plan for their review and approval. The internal audit plan will address not only the activities being planned for, but also the human and financial resources needed for their execution” (Standard 2020).

IOS Response:

The Internal Oversight Service agrees in principle with this recommendation and will proceed to propose revision to the Internal Audit Charter. It is important to note that the role of the governing body, and the Director of IOS' functional reporting line thereto, will require consideration by the executive management and consultation with the governing body.

6. MONITORING OF STAFF TIME & DELIVERY DATES

Timely communications are opportune and expedient, depending on the significance of the issue, allowing management to take appropriate corrective action (Standard 2420).

IOS maintains a timekeeping system for all audits and a performance standard of 60 days for issuance of the final audit report following the completion of field work. Nevertheless, the Quality Assessment noted that three out of six reports examined were not issued timely. Various reasons were noted for the delays; however, given the reasonably achievable timeframe of 60 days, such a high rate of delays requires action.

Recommendation 6:

We recommend that Internal Audit improve monitoring of staff time and accountability for delivery dates in order to facilitate timely communication of engagement results.

IOS Response

The Internal Oversight Service agrees with this recommendation and will disseminate internally a dashboard report to establish better ongoing accountability for staff time and achievement of milestones for each engagement.

The Validator was engaged to conduct an independent validation of the United Nations Educational, Scientific and Cultural Organization - UNESCO internal audit (IA) activity's self-assessment. The primary objective of the validation was to verify the assertions made in the attached quality self-assessment report concerning adequate fulfillment of the organization's basic expectations of the IA activity and its conformity to The Institute of Internal Auditors' (The IIA's) *International Standards for the Professional Practice of Internal Auditing (Standards)*. Other matters that might have been covered in a full independent assessment, such as an in-depth analysis of successful practices, governance, consulting services, and use of advanced technology, were excluded from the scope of this independent validation by agreement with the chief audit executive (CAE).

In acting as Validator, I am fully independent of the organization and have the necessary knowledge and skills to undertake this engagement. The validation, conducted from Paris, France, consisted primarily of a review and testing of the procedures and results of the self-assessment. In addition, interviews were conducted with the President and Chief Executive Officer, the Chief Financial Officer, the Chief Information Officer, the Audit Committee Chair, and the external audit partner.

We concur with the IA activity's conclusions in the self-assessment report attached. Implementation of all the recommendations contained in the self-assessment report will improve the effectiveness and enhance the value of the IA activity and ensure its full conformity to the *Standards*.



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