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SUMMARY REPORT OF THE OVERSIGHT ADVISORY COMMITTEE

SUMMARY

In accordance with its Terms of Reference, the Oversight Advisory Committee submits this Summary Report to the Director-General of its observations arising from its meetings in 2016 as well as its most recent meeting held from 24 to 26 January 2017.



OVERSIGHT ADVISORY COMMITTEE: SUMMARY REPORT FEBRUARY 2017

INTRODUCTION

1. In the last quarter of 2009 the Oversight Advisory Committee (the Committee) was reconstituted as an initiative of the Director-General, with its Terms of Reference (TOR) approved by the 183rd Executive Board session and adopted by the General Conference at its 35th session (35 C/Resolution 101).

2. The Director-General proposed further revisions to the TOR in 2015, which were endorsed by the 196th session of the Executive Board (196 EX/Decision 24) and reviewed by the General Conference (38 C/Resolution 102) and eventually approved by the 200th Executive Board session (200 EX/Decision 21). The main changes concerned better specifying and clarifying certain aspects of the Committee's responsibilities, for example in the area of evaluation, investigation and ethics, as well as the inclusion of a 5th member and the duration of the Committee members' terms of office from two to three years. These revised TOR are attached as Annex I.

3. The Committee met twice in face-to-face meetings in Paris, in January and June, and held a virtual meeting in October. A face-to-face meeting was held in January 2017. In June 2016, the Committee was invited to an informal briefing with Member States on the "Scope and Purpose of Audit and Risk Committees". The Committee appreciated the opportunity to discuss with Member States the role of audit and risk committees, and found the interactions useful. The Committee has also interacted with both the former and present chairs of the Finance and Administrative Commission, discussing a range of subjects of mutual interest. The Committee values all such opportunities as it serves to broaden our perspective; we trust it is also of value to Member States. As usual, the Committee met with the Director-General at each to face meeting to hear about her plans in the area of oversight and management and to provide feedback and recommendations for her consideration. These meetings are invaluable for the Committee to appreciate the direction in which the Director-General is leading UNESCO as well as to hear her concerns about areas where she would appreciate receiving advice from the Committee. The Committee would also like to express its appreciation for the support provided by many senior staff in UNESCO who attend the meetings to both brief the Committee on matters as well as discuss concerns and issues. Without this active collaboration from UNESCO staff the work of the Committee would be immeasurably more challenging.

4. In accordance with its Terms of Reference, the Committee submits this Summary Report to the Director-General of its observations arising from its meetings in 2016 as well as its most recent meeting held from 24 to 26 January 2017.

OVERVIEW

5. Since 2014 the Committee has noted a concerning recurrence of themes in its observations and recommendations. This indicates to the Committee that there may not be a culture of sustained management activity of several key aspects of UNESCO internal governance and managerial processes. The main areas of concern are the Programme Management Committee, Enterprise Risk Management and Business Continuity Policy and procedure. The Committee has discussed these areas with the Director-General who is also concerned about the lack of sustained activity. In 2016 the Committee has observed a growing degree of operational risk, meaning that certain fundamental support areas are very stretched in terms of their resources, to the extent that the Committee is concerned that some key control functions may be severely weakened. Any such weakening places a greater dependence on the level of assurance than the oversight functions (internal audit, evaluation, investigation) are able to provide. Essentially, in a well-managed and governed organization, there are three levels at which the organization operates. The first level is operational management, the second level is provided by the risk

management and compliance functions and the third level is provided by oversight functions. This structure enables boards to place reliance on information provided to them for decision-making. In the opinion of the Committee there is a significant risk for UNESCO that due to the weaknesses in the first and second levels there is an over reliance on the third level. The Committee understands that the Director-General must operate within the budgetary envelope approved by the Member States. However, the Committee is concerned that these budgetary constraints may result in over reliance being placed on oversight functions at a time when resources for all three levels are under pressure or inadequate. In effect, if the level of resources dedicated to the first and second levels are not adequate, there is a need to invest more in the oversight, or third level functions. As the third level functions, i.e. IOS, are under resourced, the risk to UNESCO is magnified.

6. The Committee reviewed the comprehensive, risk-based approach taken by Internal Oversight Service (IOS) to develop its budgetary requirements for the 39 C5. A robust methodology was adopted to look at the risks and requirements of all three functions: Evaluation, Internal Audit and Investigation. The Committee was informed that the budget guidelines specify that any additional funding above and beyond the ZNG \$507 budget ceiling should be directed to programme activity. Whilst the Committee understands this objective, in theoretical terms, it does not believe that this is a realistic way for UNESCO to deliver sustainable, quality programmatic outcomes. As noted in all previous reports, unless there are appropriately resourced oversight functions, as well as the compliance functions referred to above, UNESCO cannot demonstrate the integrity and quality of the programmatic outcomes.

7. The result of the thorough process undertaken by IOS referred to above has revealed that IOS is more under resourced than had previously been evident. Consequently, the Committee wishes to emphasize in the strongest terms that unless the full resources required by IOS to meet its mandate are made available, the Director-General must determine the level of risk she is willing to assume in not carrying out the full risk-based work plans of IOS, having prioritized these plans, together with Director IOS. In assessing the level of risk the Director-General is willing to accept, the Committee trusts that she will give due consideration to the operational risk noted above.

A Programme Management

8. The Committee was encouraged to hear that the Programme Management Committee (PMC) has not only been revived, but that it has held several meetings under the Chairmanship of the Deputy Director-General. The Committee notes that the scope of the PMC appears to have widened which may be useful, but is concerned this is not in alignment with the PMC Terms of Reference (TOR). This creates a risk to the authority and credibility of the PMC. The Committee has recommended that either these TOR should be updated to reflect the actual scope of responsibility of the PMC, or the PMC should comply with their TOR. In particular, the Committee is concerned that the PMC may not be giving sufficient attention to its responsibilities under the TOR as presently defined at a time of budgetary constraint.

9. The Committee is concerned to learn the PMC appeared to be carrying out a risk management function and advises that this must be clarified vis a vis the Risk Management Committee (RMC) so that the responsibilities of both committees are clear and seen to be followed in accordance with the respective TORs, so that the Director-General can hold these two important committees to account. The Committee notes that Internal Oversight Services (IOS) is an observer member of the PMC, which enhances the value of the PMC to senior management as well as allows IOS to take a proactive role in supporting effective management, and the internalization of lessons learned through evaluation. However, the Committee cautions against over reliance on IOS so that there is a clear differentiation of responsibility between management and the oversight functions of UNESCO.

10. The Committee also notes that regular meetings of the PMC are necessary to support programme management on a dynamic basis so that decisions can be made in a timely manner to support more efficient programme delivery, particularly at a time of budget constraint.

11. The Committee reviewed the first Strategic Results Report (SRR), and notes that this was a comprehensive, yet challenging task for the organization, and that it was effectively led by BSP. The Committee was pleased to hear that the SRR is providing input to the next budget preparation cycle, the C5 for the two next biennia.

Recommendation 1 (2017)

The Committee recommends that:

- **PMC follow its Terms of Reference as promulgated in June 2015, and that if the Director-General wishes it to assume wider responsibilities, these are reflected in revised Terms of Reference**
- **In line with the Committee's recommendation, made in 2015 and re-iterated in 2016, the Committee recommends that the PMC meet regularly in line with a regular monthly schedule, so that it sustains its exercise of oversight over programme management, reporting to the SMT and escalating issues to the Director-General as appropriate across UNESCO.**

B. Evaluation and Internal Audit follow-up

12. The Committee notes that internal audit and evaluation recommendations continue to serve as an important part of continual improvement and learning to increase organizational efficiency and provide useful guidance to management on risk mitigation. Furthermore, whilst internal audit recommendations are mainly concerned with the integrity of internal control processes and thus reliability of information provided to stakeholders, they also contribute to learning and the maintenance of UNESCO's credibility with donors at a time of tight resources. The Committee was pleased to hear that the Director-General has charged a senior member of her team to set up a comprehensive monitoring system for the implementation of recommendations made by External Audit, Internal Audit, Evaluation, the Joint Inspection Unit (JIU) and the Committee. The Committee notes that there is still work to be done to realize this approach into a dynamic tool, and recommends that this is done swiftly as this is long overdue.

13. The Committee notes that the review of implementation of recommendations is now a regular agenda item of the SMT, a process that IOS supports actively by working with Sectors and Offices. Furthermore, leadership from the Director-General helps to ensure that the independence of IOS is not compromised as well as assists her to hold managers to account for the quality and timeliness of implementation of recommendations. IOS role is to verify the quality and effectiveness of implementation through well-established independent validation processes, and not to substitute for weak management.

14. As noted in 2015 and 2016, delayed implementation of recommendations, both audit and evaluation can diminish the value UNESCO can realize from the investment in these oversight functions. Furthermore, it exposes UNESCO to the risk that if recommendations remain unimplemented for a long period, UNESCO may be exposed to unnecessary risk including that of a diminution of the potential to improve programmes.

15. In 2016 the Committee noted that if IOS can systematically frame audit findings in the context of programmatic benefits, drawing out the cost savings that can be generated, this would enhance the value of their work. The Committee is pleased to note that there has been progress in this area and encourages IOS to continue to develop this approach.

Recommendation 2 (2017)

In line with the Committee's recommendation in 2015, reiterated in 2016, namely that reporting on the status of implementation of Evaluation and Internal Audit recommendations be a quarterly standing item on the agenda of SMT, that management provide a report in a simple format as to the action to be taken, the responsible organizational entity, the timeline for that action and the status as at the date of reporting with a justification and root cause analysis for any slippage, so that the Director-General may take action on any cases of particular concern, the Committee recommends that the comprehensive data base and reporting tool under development be urgently completed and used.

C. Evaluation Policy and Reports

16. The Committee has reviewed the implementation of the revised Evaluation Policy, specifically with attention to the decentralized operational procedures. The Committee was pleased to see that further good progress has been made and that a strong emphasis has been placed on communication. The Committee welcomes the Director-General's decision that all programmes funded from both regular budget and extra budgetary resources must allocate 3% of the overall budget for evaluation. However, the Committee is concerned to learn that implementation has been quite weak; many programmes have not yet complied.

17. The Committee reviewed progress on the development and implementation of an Evaluation Strategy as well as Guidelines that operationalize the Evaluation Policy and notes that good progress continues to be made in this area.

18. The Committee discussed IOS plans regarding an external peer review, required under the Evaluation Policy on quality assurance. The Committee supports IOS view that a Base Line Analysis of UNESCO's Evaluation System, including a self-assessment with external validation, is carried out to determine how the new policy has been implemented as this will provide the basis for a full peer review process, in accordance with international standards, in due course.

19. The Committee reviewed the evaluation work plan and was pleased to note the availability of extrabudgetary funds for certain evaluations. This has enabled the evaluation function to cover more programmatic areas and to bring greater value to UNESCO.

20. The Committee has reviewed the Synthetic Review of Evaluations in the UNESCO System and supports the importance of the three overarching recommendations, in particular the importance of ensuring adequate evaluation coverage and deepening of the process. In this respect whilst the Committee was concerned to see the extent of under-evaluated Sectors, it was pleased to see that this has been partially addressed in the 2017 plans for evaluation. The Committee believes this is a useful demonstration of the value that the synthetic evaluation has brought to UNESCO.

21. The Committee notes the high quality of the evaluation work. Whilst recognizing the challenges involved, the Committee notes that IOS uses internationally recognized evaluation criteria, as appropriate, to further enhance the quality of IOS work and organizational performance.

Recommendation 3 (2017)

The Committee recommends that :

- the Director-General's directive that 3% of budgetary resources of both regular and extrabudgetary funded programmes is allocated for evaluation is implemented to the fullest extent possible in 2017, with full compliance by the end of 2019.
- IOS be submitted to a peer review by the end of 2019 based upon the base line analysis to be carried out in 2017
- IOS continue to enhance Evaluation recommendations to be more precise, specific and actionable so that monitoring of the effectiveness of evaluations can be improved

D. Integrity, Internal Control and Compliance

22. In 2015, the Committee noted that the External Auditor regards financial controls and compliance functions in UNESCO as effective. The overall framework of financial control is made up of several elements of work done by BFM and IOS. The Committee had expressed a concern in early 2015 that there is a risk that this sound framework would be diminished if the budgetary situation were to result in a weakening of these activities. The Committee notes that the risk of diminishing the effectiveness of the financial control and compliance functions still exists, and may have increased due to the operational risk referred to in the Overview above. Specifically, there was a risk of weakening the effect of these functions if it is not recognized that the activities are complementary, not substitutive., If one aspect, such as the compliance monitoring in BFM were to be abandoned in the belief that IOS would cover the need, this could result in an unintended consequence – the creation of greater opportunity for internal control breakdowns, error or fraud.

23. At all three meetings in 2016, the Committee reviewed the implementation of the internal audit plan, which is risk-based, using the IOS risk assessment in the absence of a robust ERM process in UNESCO. The Committee noted that whilst the 2016 budget for IOS remained at the same level in nominal terms, it actually represents a reduction in available resources for IOS due to the manner in which the lapse factor is managed in UNESCO.

24. The consequence of this budgetary shortfall, as anticipated in the Committee's Annual Report for 2016, is that IOS can only provide a "limited level of assurance" to the Director-General. For example, certain audits, deemed necessary in the IOS risk-based assessment and included in the plan approved by the Director-General, were noted as "subject to availability of funds". This is a recurring feature of the IOS work plan that means there is fundamental under resourcing of IOS.

25. The 2016 plans were prioritized on a resource basis and involved limited consultation with the Director-General as to the level of risk that she was prepared to accept as a result of the resource level not allowing for a full implementation of a risk based plan. The Committee has recommended that such consultation must take place, the Director-General should decide on the level of assurance she wishes to have as well as decide if she is willing to accept the risk inherent in postponing audits due to budgetary constraints. The full plan is designed to provide a reasonable level of assurance to the Director-General. Should she wish to benefit from this, additional resources, above the level of resources available for 2015 and 2016 for internal audit will be required.

26. The Committee noted that in 2016 two Category 1 Institutes contributed to the cost of internal audit work carried out by IOS. This followed on from a recommendation made by the Committee in its 2015 report that IOS, together with the Director-General explore the possibility that Category 1 Institutes cover the cost of internal audits. Consequently, the Committee recommends that in the light of this experience, the practice be institutionalized.

27. The Committee also notes that the budgetary provision for the OAC is contained within the budget allocated to IOS. This gives an impression that the IOS budget available to meet IOS responsibilities is higher than it in fact it is. The Committee recommends that as the OAC exists to advise the Director-General, with IOS providing the secretariat support to enable the OAC to function, a fully costed (including the costs attributable to IOS support) budget for the OAC should be ring fenced from the IOS budget, possibly as a statutory fixed cost pro-rated across the central services.

28. In 2016, the Committee recommended that it was important that Category 1 Institutes had an appropriate, risk based, coverage of internal audits, and that these audits should be funded by the relevant Institute. These Institutes do not have their own internal audit functions, and thus IOS is the appropriate entity to carry out this function as a service provider for a fee. The Committee notes that this recommendation has been taken up to a limited extent and thus reiterates the importance of securing agreement for the category 1 institutes to both inclusion in the IOS audit universe as well as the Institutes paying the cost of any audits. If this does not happen, UNESCO is exposed to an unknown, and thus unquantifiable, risk.

29. As UNESCO subscribes to the International Internal Audit (IIA) Standards, an external quality assurance review is required every 5 years. IOS took advantage of the option to carry out a self-assessment that was validated by an external assessor. This is a cost effect option allowed under the IIA Standards. It is commendable that UNESCO Internal Audit function has been deemed to generally conform to the IIA Standards. This is the highest rating, and can be considered as an objective measure to provide assurance to stakeholders that the internal audit function of UNESCO meets the IIA Standards. However, there is a growing best practice to regard “generally compliant” as a base line for forward thinking, value adding internal audit functions as they move up the IIA maturity model for internal audit. Furthermore, in 2017, new IIA standards will come into force that will place further demands on IOS. The main effect of these new standards is to make certain previously optional elements will now be mandatory. The assessment noted some areas for improvement that IOS is already implementing. The Committee will be monitoring the implementation of these recommendations.

30. The Committee reviewed both the Internal Audit of UNESCO’S Framework and Capacity for Support to Crisis and Transition Response, which had been undertaken as a result of evaluation findings and the Evaluation of UNESCO’s Role in Education in Emergencies and Protracted Crises. These reports are complementary and demonstrate the value of evaluation and internal audit working closely together to add value to UNESCO operations. The Committee encourages IOS to continue to plan complementary evaluations and audits as appropriate.

31. As noted above, the Committee is concerned about the level of resource available to ensure a robust internal control framework. Not only must staff be available to do the work required to maintain an appropriate internal control framework, they must also be appropriately qualified. Training is a key element of this process. The Committee thus reiterates its recommendation made in 2016 that the Director-General review and ensure that adequate resources are being dedicated to training all staff, on an ongoing basis, in basic policies and procedures. Consideration may also be given to ensuring that all corporate policies are appropriately disseminated and readily available to all staff in an easy to access format.

Recommendation 4 (2017)

- the Committee recommends that the fully costed Internal Audit plan be discussed with the Director-General to seek her views on:
 - a. the level of assurance she would like to receive from IOS
 - b. the prioritization of the work plan if additional budgetary resources cannot be made available; and
 - c. determination by the Director-General whether she accepts the residual risk inherent in the prioritized, partially funded, fully costed work plan, and establishes that this inherent risk is mitigated by other assurance functions and activities.
- the Director-General ensure adequate funding is available to meet training needs in basic operational policies
- the dissemination of corporate policies be reviewed to ensure that all policies are readily available to all staff in an easy to access format
- IOS, with the support of the Director-General, charge an internal audit fee to all category 1 institutes so that IOS may provide a reasonable level of assurance to their governance entities as well as the Director-General for those that are fully consolidated in the UNESCO financial statements
- the Director-General ring fence an adequate budget for the OAC, including the secretariat support provided by IOS, so that the IOS budget is not distorted by inclusion of a function that exists to advise the Director-General

E. Institutional integrity

32. The Committee continues to devote attention to and review several areas that together make up a framework to guide UNESCO's institutional integrity. These include the Ethics function, Investigation function, HR management, Legal Services and BFM in its capacity as guardian of the fraud prevention policy and financial control functions. The Committee notes that UNESCO has an appropriate range of mechanisms to address institutional integrity, but that there are some areas for improvement that would further strengthen this important area of UNESCO's management. As noted above, budgetary constraints appear to be putting these important functions under strain such that there is an increased operational risk of failure caused by dependence on key individuals for whom there is no back up.

33. The Ethics Office has developed a sound approach to training and briefing, and reports a good level of take up by staff, at all levels. However, in the absence of an accurate benchmark of the number of staff and other persons for whom this training is mandatory, it is not possible to determine the extent to which this mandatory requirement is being met. The Committee understands that as face-to-face training is rolled out, the demand for training appears to increase. This is a very good anecdotal reflection of the culture in UNESCO. However, the Committee recommends that regular, annual, surveys be carried out to enable measurement of the overall ethical culture in UNESCO to be objectively determined and analyzed as a basis to ensure that the training remains focused on need as well as to demonstrate to stakeholders the level of integrity in UNESCO.

34. In the context of the importance of the “tone at the top”, the Committee was pleased to see several initiatives in this regard. The Ethics Office developed and held an Ethical Leadership course, specifically designed for senior staff in UNESCO. However, the Committee was disturbed to learn that not all staff at the ADG level and above attended the training in full. This is regrettable, as it does not send the right message from the top of the organization. If Ethics training is mandatory for all staff, this must be seen to happen, from the Director-General down, and thus the Committee recommends that the manner in which mandatory nature of the policy is verified is improved through a systematic approach that would include verification against a comprehensive database of all persons to whom the policy applies. Furthermore, the Committee recommends that consideration be given to making attendance at mandatory training, such as Ethic and IT Security be assessed as part of the regular staff appraisal process so that measures may be taken to address non-compliance.

35. Whilst the Committee recognizes that the Ethics Office is performing a valuable service to UNESCO, it believes that it is now opportune to consider how this function could become more strategic and pro-active in developing a robust ethical culture in UNESCO. Accordingly, the Committee recommends that the Ethics Office develop a strategy, including a communications strategy, and time bound implementation plans with both quantitative and qualitative performance indicators.

36. In respect of the Investigation function, the Committee was pleased to learn that the Director-General has implemented the Committee recommendations to streamline the process and that the decision as to whether to carry out an investigation now rests with the Director IOS. The Committee notes that Director IOS makes this decision on the basis of formal and documented advice from an in-take committee, which the Committee believes provides an appropriate degree of fairness and transparency in such decision-making.

37. The Committee was pleased that the Investigation function has been strengthened by the appointment of a senior investigation professional as head of the unit. An Investigation strategy is in development and working methods are being refined to be more efficient and effective. The Investigation unit has updated the Manual in line with the new investigation responsibilities in respect of opening investigations.

38. The Committee was briefed on the work undertaken by the Investigation unit to develop an organizational Fraud Risk assessment, which the Committee supports as an important element of creating an ethical culture. The Committee also notes that this will also assist the Investigation unit to carry out pro-active investigations, which will add value to UNESCO’s efforts to demonstrate integrity, subject to funding being made available.

39. The Committee has observed that there are natural complementarities between the Investigation and Ethics functions, both receive reports of alleged wrongdoing. The Committee believes that whilst both functions call for a high degree of confidentiality in order to preserve the integrity of their work, it may be useful to consider aligning the categorization of certain types of cases so that analysis of the overall reported allegations and requests for advice may be analyzed and used to deepen the scope of both functions work.

40. Performance management is an integral part of supporting institutional integrity. In 2015, the Committee noted that in the Director-General did not carry out a systematic, formal performance evaluation of senior staff that report directly to her. The Committee emphasized the importance of the Director-General setting the “tone at the top” and leading by example to show that performance management is an important part of the ethical and compliance culture within UNESCO which will support the delivery of its mandated objectives. The Committee was thus pleased to hear that the Director-General has instituted a performance management system for all her direct reports and looks forward to hearing further on the implementation experience of this.

Recommendation 5 (2017)

The Committee recommends that in order to emphasize the importance of the “tone at the top”:

- the Director-General ensure that all staff, from the Director-General down, undertake the Ethical Leadership programme, without exception.**
- the Director-General designate Ethics training mandatory for all staff at all levels and that this be monitored for compliance via a comprehensive database of all persons to whom the policy apply, and that compliance be included in all staff appraisals**
- the Ethics Office develop a more strategic approach to the creation of a stronger ethical culture in UNESCO**
- the Investigation and Ethics functions consider the extent to which categorization of instances of reported allegations and requests for advice may be harmonized so as to deepen the complementarity of their respective responsibilities**
- an annual survey is carried out to assess the ethical culture in UNESCO so that changes in the culture may be assessed and strategies developed accordingly**

F. Clarity of expectations and consequences of misconduct

41. In 2016, the Committee looked at the way in which UNESCO approaches misconduct, largely in follow up to the Committee’s observations and recommendations in 2015. The Committee had noted that the way in which misconduct is handled could be a powerful element to strengthen and maintain the ethical framework of an organization, highlighting the absence of transparency on the consequences of misconduct leading to little clarity on expectations of such consequences.

42. The Committee was also pleased to learn that a circular had been issued to all staff concerning the consequences of proven misconduct, such as fraud. The Committee recommends that this practice be institutionalized on an annual basis and that the communication be issued by the Director-General as a demonstration of her personal commitment to institutional integrity. Furthermore, the Committee encourages the Director-General, in conjunction with the Ethics Office to promote the importance of institutional integrity on a regular basis.

Recommendation 6 (2017)

The Committee reiterates its 2016 recommendation that:

- the Director-General issue an annual communication to all staff in which she:**
 - emphasizes the importance of institutional integrity**
 - confirms the responsibility of all staff to comply with all polices and act with integrity and report any instances of unethical behaviour**
 - provide anonymized examples of the types of proven unethical or fraudulent behaviour that staff has been found to commit and the consequences of their behaviour**
 - together with the Ethics Office leads a more strategic approach to development of an ethical culture in UNESCO**

Recommendation 7 (2017)

The Committee recommends that the Director-General:

- ensure adequate resources are devoted to compliance monitoring of all corporate policies and training all staff in corporate polices**
- ensure that all corporate policies are appropriately disseminated and readily available to all staff in an easy to use format**

G. Risk Management

43. The Committee has followed the development of a Risk Management Framework in UNESCO since 2009. It was most disappointing to hear in 2016 that despite the appointment of a Risk Officer following on from a discussion between the Director-General and the Committee in June 2015 little progress has been made in the development and implementation of a comprehensive Risk Management framework in UNESCO. The Committee had recommended that this Risk Officer should report directly to the Director-General. Although the appointment in 2015 did not have a direct reporting line to the Director-General, it was nevertheless at a senior level. However, the Committee was most concerned to learn that in 2016 the Risk Officer function had been downgraded to a lower level official, and that the Risk Management Committee had not kept up with its regular meeting schedule. The prior work of the Risk Committee had focused on a ‘bottom up’ approach, building on the risk management processes within programme management activity. The lack of any concrete progress on the ‘top down’ elements that would enable UNESCO to have a robust approach to the management of corporate, high level, strategic risks is most concerning for several reasons. These include the value that a robust corporate, strategic risk analysis would assist in the preparation of the next C/5 through provision of useful risk analysis to assist in prioritization of programme priorities, allocation of funds and determination of resource mobilization priorities. Furthermore, by the nature of its mandate, UNESCO is exposed to geo-political risks that may affect funding levels, which risk can be better managed if forward looking and pro-active mitigation strategies are developed in the context of a prioritization of programme priorities. The Committee is concerned that a valuable opportunity to

use a robust corporate risk management framework to inform the 39 C/5 may not be realized.

44. The Committee was pleased to learn at its meeting in January 2017 that the Director-General has mandated the Deputy Director-General to lead the risk management work in UNESCO. The Committee urges the Director-General to maintain her focus on this important aspect of UNESCO's internal governance.

Recommendation 8 (2017)

The Committee recommends that:

- **the Risk Management Committee urgently develop a comprehensive risk management framework that can provide input to the preparation and thus decision making on the 39 C/5**
- **the Risk Management Committee ensure that regular, ideally quarterly, formal reports on enterprise level risks be made to the SMT**

H. Business Continuity

45. In 2016, the Committee recommended that the Director-General assign responsibility for a comprehensive business continuity function to a senior official, reporting directly to her. Whilst the Committee notes that work has continued on the elements of a comprehensive Business Continuity policy and plan, it remains unclear as to which senior official has overall responsibility. The Committee also recommended that the Director-General develop a comprehensive business continuity plan, including a management framework that specifies regular review and testing of the plan and avail herself of external expertise in this area, as this function is not a core function of UNESCO, despite its crucial importance for the effective management of risk to which staff, contractors, intellectual and physical property may be exposed. In the absence of clarity on which senior official has overall responsibility for Business Continuity it appears that whilst some good work has been done on elements of a business continuity policy and plan, the benefits that may be realized from implementing the Committee recommendations in full have not been realized. In particular, the Committee notes that this presents significant risks to UNESCO as efforts may be un-coordinated between different elements, areas may be excluded or included more than once, and in the event of a major crisis there is no certainty that the separate elements will cover the risk to which UNESCO has been exposed. Scarce resources may also be dissipated.

46. The safety and security of staff is fundamental. The Committee was briefed on the introduction of a communication process that aims to ensure that all staff are contactable in the event of a major incident. The Committee understands that not all staff have complied with the requirement to provide their contact details. This puts the staff and their families at risk as well as imposing a burden on their colleagues. The Committee recommends that consideration be given to implementing measures to ensure that provision of this information is mandatory.

47. The Committee also recommended that a robust cyber security policy be developed and implemented. As with the overall Business Continuity plan, several good elements of a robust cyber security plan have been developed and implemented. However, IOS carried out an audit of IT Security in UNESCO that revealed several weaknesses that had not been addressed. KMI has developed a well thought out, costed plan to address these weaknesses over the next year, but without an identification of the necessary budget resources which mean some elements may have to be postponed to 2018. In the absence of an organization wide Risk Management Framework it is not evident to the Committee how the Director-General is able to prioritize the allocation of resources in the current biennium or in the proposals for the 39 C/5 to address the

risks identified from the audit, as well as respond to new and emerging cyber security threats.

48. The Committee noted that an IT security training module has been developed and rolled out, and that whilst mandatory for all staff, many staff, including at senior level have not undertaken this training. In view of the risks exposed by the internal audit of IT security, the Committee recommends that stronger measures be considered to ensure that this training is mandatory in fact, not just in name.

49. The Committee also noted in its 2016 report that there is much expertise available externally, within the United Nations system as well as from commercial organizations, on both policy development and procedures for regular, mandatory testing at intervals that are appropriate to the circumstances of each location where UNESCO operates. The Committee recommended that Director-General should consider tapping into external expertise, as UNESCO should not need to invent policies that have been tried and tested elsewhere. It is disappointing to note that this recommendation does not appear to have been taken up.

Recommendation 9 (2017)

The Committee reiterates its recommendation from 2016 that the Director-General:

- formally assign responsibility for a comprehensive business continuity function to a senior official, reporting directly to her**
- develop a comprehensive business continuity policy and plan, including a management framework that specifies regular review and testing of the plan**
- avail herself of external expertise in this area, as this function is not a core function of UNESCO, despite its crucial importance for the effective management of risk to which staff, contractors, intellectual and physical property may be exposed**

and further recommends that the Director-General:

- ensure adequate resources are available to implement the actions arising from the IT security internal audit as well as maintain a robust cyber security policy that is updated dynamically to reflect emerging threats**
- that measures are introduced to ensure that compliance with the mandatory requirement for all staff to provide contact details, as well as undertake mandatory IT Security training are monitored and steps taken to ensure there is 100% compliance**

I. External Audit

50. The Committee met with the External Auditor in June 2016 and exchanged views on matters of common interest.

51. The Committee notes that the mandate of the present External Auditor will come to an end with the audit of the 2017 financial statements. The Committee has offered its assistance to the Director-General in reviewing and evaluating the technical competencies of institutions that submit a bid to be appointed as the External Auditor for the period 2018-2023. The Committee believes that such assistance could serve to enhance the objectivity of the process, as the Committee is independent from both management and the Member States.

J. OAC matters

52. The Committee noted the revised TOR, and looks forward to the appointment of a 5th member.

53. The Chair of the Committee participated in the first United Nations wide meeting of oversight committee chairs convened by the UN IOAC following a recommendation of the JIU. It was a useful opportunity to share experience and determine areas of common concern that have been raised with the United Nations Secretary General in his capacity as chair of the CEB. Three areas of concern were highlighted:

- the need for management to demonstrate that they understand the risk exposures of their organizations to fraud and corruption. The tone at the top of the organization is vital, and needs to be supported by modern and professional counter fraud systems and resources, alongside a strong culture of compliance and zero-tolerance for bad behavior.
- the need for management to give due consideration to new and emerging risks - in particular, the global and business critical threats posed to cyber-security, and the risks emerging from new ways of working as digital transformation gathers pace.
- the need for a much more systematic and mature approach to enterprise risk management particularly given the high weight of responsibility and risks to which United Nations system organizations are exposed.

CONCLUSION

54. The Committee wishes to thank the Director-General and Deputy Director-General for their availability and to record that these meetings are an invaluable contribution to enabling the Committee to fulfill its mandate. IOS and other departments provided excellent quality pre-meeting materials and presentations. The Committee also wishes to recognize the valuable exchange of views held with representatives of the Member States. The Committee wishes to express its thanks to all those who contributed to the meetings.

Signed:

Mona Bishay

Saad Bounjoua

Jonathan Breul

Hilary Wild (Chairperson)

ANNEX I

REVISED TERMS OF REFERENCE FOR THE OVERSIGHT ADVISORY COMMITTEE

Article 1

The Oversight Advisory Committee, referred to as “the Committee”, is hereby established within the United Nations Education, Scientific and Cultural Organization, referred to as “the Organization” or “UNESCO.”

Article 2 – Purpose

1. The Committee shall operate in an advisory capacity to the Director-General of the Organization to assist him/her in fulfilling his/her oversight responsibilities, including internal audit, evaluation, investigation and with regard to the effectiveness of risk management, ethics, internal control, and other systems, policies and procedures as well as internal oversight-related matters with respect to the Organization’s operations.
2. The Committee shall function as a standing committee.
3. The Committee shall not have any managerial responsibility for any of the functions and responsibilities of the UNESCO Secretariat, in particular those that it has a responsibility to review and advise on under these Terms of Reference.

Article 3 – Responsibilities

The responsibilities of the Committee are:

Internal oversight

1. Advise on the role and effectiveness of the Internal Oversight Service (IOS) and its strategies, priorities and work plans and to make suggestions regarding risk management.
2. Review and discuss with management the internal control and risk management issues that may arise from Internal Oversight Service audits, evaluations and investigations.
3. Review and advice on the Internal Oversight Service charter and policies, authority, operational independence and resources requirements to carry out effectively IOS responsibilities.
4. Provide, at the request of the Director-General, technical/specific expertise to the evaluation of candidates for the Director of IOS, heads of internal audit, evaluation and investigations, on a consultative basis. This may include participation of one OAC member in the respective evaluation panels.
5. Provide input into the performance appraisals of the Director of IOS and advise on the appointment and, if any, the termination of appointment, of the Director, IOS. More specifically:

Internal audit

6. Advise on the adequacy of the IOS Internal Audit assurance strategy, policies, work plans, resources, quality assurance and related matters of the internal audit function.
7. Advise on the adequacy of implementation by management of IOS internal audit recommendations.

8. Advise on the application of professional standards and quality assurance measures in relation to professional standards including any external quality assurance review.

Evaluation

9. Advise on the adequacy of IOS Evaluation Office strategy, policies, work plans, and resources.

10. Advise on the adequacy of the implementation by management of evaluation recommendations.

11. Advise on the application of professional standards and quality assurance measures in relation to professional standards including any external quality assurance review.

Investigations

12. Advise on the adequacy of IOS investigation strategy, policies, work plans, and resources.

13. Advise on the implementation by the Director-General of investigation reports.

14. Advise on the application of professional standards and quality assurance measures in relation to professional standards including any external quality assurance review.

Risk management and ethics

15. Review and discuss with management the Organization's policies and practices with respect to risk assessment, risk management and internal control systems.

16. Advise the Director-General on the quality and overall effectiveness of risk management policies and procedures.

17. Advise on UNESCO's fraud prevention and detection policies and activities, code of ethics, Ethics function and whistle blower protection policy.

18. Review the arrangements for employees to raise concerns in confidence about fraud, ethics, conflict of interest, violations of rules and regulations, and oversight matters and how these are addressed.

19. Advise on adequacy of the Ethics function and application of professional standards; advise on the implementation of ethics reports submitted to the Director-General and to the Executive Board.

External audit

20. Advise the Director-General on the plans of the External Auditor.

21. Review and advise on relevant reports and management letters issued by the External Auditor including reports on UNESCO's financial statements and related internal controls.

22. Review the adequacy of management response to the observations and recommendations of the External Auditor and assess the status of implementation.

Internal controls

23. Review and discuss with management the policies significantly impacting accounting and financial reporting issues, and the effectiveness of the Organization's internal controls.

24. Advise management on potential weaknesses in the internal control system of UNESCO.
25. Review and advise the Director-General on accounting policies and their likely effect on UNESCO.
26. Review and advise the Director-General on the annual financial statements of UNESCO, including any major accounting or presentation issues.

Article 4 – Access

The Committee may request:

1. Through the Director-General, all information and/or documents necessary to perform its responsibilities.
2. To meet individually the Director-General, the Deputy Director-General, the Director of the Internal Oversight Service, the Chief Financial Officer, and other senior managers as well as any UNESCO staff member it wishes in private sessions.

Article 5 – Membership

1. The Committee shall be composed of five members, appointed by the Director-General who will duly inform the Executive Board. Professional competence and integrity shall be of paramount consideration in the selection and appointment of members. The membership of the OAC shall be balanced, in terms of gender and geographical basis as well as public and private-sector experience and professional expertise, to the fullest extent practical.
2. The members, all of whom shall be external to and independent of the Organization, shall reflect the highest level of integrity and professionalism and shall serve in their private capacity. In performing their duties, they shall not seek or receive instructions from any Government. They should not have held a staff and/or consultancy position with the Organization's Secretariat for a consecutive five-year period prior to their appointment and shall not hold any position or engage in any activity that could impair their independence, in fact or in perception, from the Secretariat or from companies that maintain a business relationship with the Organization, while serving on the Committee.
3. The members of the Committee must have the skills, knowledge and experience to fulfil their responsibilities. In particular, they must have recent and relevant senior-level managerial, financial, audit, evaluation and/or other oversight-related experience and competencies, including:
 - (a) experience in preparing, auditing, analysing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues faced by the Organization, including an understanding of relevant accepted accounting and auditing principles and international standards;
 - (b) an understanding of and, if possible, relevant experience in the inspection, evaluation, ethics, risk management and investigative processes;
 - (c) an understanding of internal control, and fraud and corruption prevention policies and procedures;
 - (d) a general understanding of the Organization and of the structure and functioning of the United Nations system;
 - (e) at least one member should be a professionally qualified accountant, auditor or finance professional and at least one other should be an evaluation expert.

4. Each member shall serve for a period of three years, renewable once for the second and final term of up to three years after the initial term, on a phased basis so as to provide continuity. In the event of resignation, incapacity, death or any other circumstance in which the term of office of a Committee member is cut short, the Director-General shall appoint a replacement.

5. The appointed Committee members shall elect their own Chairperson from within their number to serve for the duration of his/her term of office. If the Chairperson is unable to attend a meeting, the members present shall elect an Acting Chairperson for that meeting from among themselves.

6. Former officials of the Organization shall not be eligible for appointment to the Committee for five years following their separation from service. The members of the Committee shall not be eligible for appointment to the Organization for five years following the expiry of their terms.

Article 6 – Meetings

1. The Committee shall meet face to face at least twice a year, and more frequently if required by videoconference or other virtual means. The Director-General, Chairperson, any Committee member and/or the Director of the Internal Oversight Service may request additional meetings. It is expected that members will be present for meetings.

2. Three members present, in person or virtually, shall constitute a quorum. Members may not be represented by an alternate.

3. The Committee will prepare an annual work plan that shall reflect the responsibilities set out in these Terms of Reference.

4. Meeting agendas are prepared based on the annual work plan, and in consultation with the Chairperson, the Committee Secretariat will arrange for the relevant UNESCO staff to attend for relevant agenda items. The Chairperson will approve the provisional agenda of the meeting, which should be circulated together with the invitations to UNESCO staff whose presence is requested at least 21 days prior to the date of the session. All supporting documents will be circulated to Committee members at least 14 days prior to the date of the meeting.

5. The Committee shall function on the basis of consensus. When this is not possible, voting will be used and should the votes be equally divided, the Chairperson shall have the casting vote. Dissenting opinions may be attached to any report if those in dissent so desire.

6. The Director of the Office of the Director-General (ODG) and the Director of the Internal Oversight Service may attend Committee meetings, with the agreement of the Committee. The Chief Financial Officer and other management representatives may attend the meetings or parts of the meeting as requested by the Committee via its Chairperson.

7. The Director-General, Director of the Internal Oversight Service and the Chief Financial Officer shall have unrestricted and confidential access to the Chairperson of the Committee.

Article 7 – Recommendations and reporting

1. After each meeting, the Committee shall submit to the Director-General a report on its work and recommendations.

2. The Committee shall also submit to the Director-General an Annual Report on its activities, issues and results, who in turn will transmit it to the Executive Board, with his/her comments thereon.

3. The Chairperson of the OAC will be in attendance at the session at which the Committee's Annual Report is discussed by the Executive Board.

Article 8 – Performance Assessment of the Committee

The Committee will conduct an annual self-assessment of its performance and report thereon to the Director-General.

Article 9 – Secretariat support

The secretariat service for the Committee shall be provided by the Internal Oversight Service.

Article 10 – Status of members

Members shall act in an independent, non-executive capacity with no managerial powers while fulfilling these Terms of Reference. As such, members shall not be held personally liable for decisions taken by the Committee acting as a whole.

Article 11 – Fees and costs

1. Members shall not receive remuneration for their services.
2. The members of the Committee shall receive a daily subsistence allowance and shall be reimbursed at standard Organization entitlement for travel expenses incurred to attend the sessions of the Committee.

Article 12 – Confidentiality of meetings and minutes

1. All members of the Committee shall sign a statement of confidentiality at the time of appointment.
2. The deliberations of the Committee and the minutes of its meetings are confidential unless otherwise decided. The documents and informational material circulated for consideration by the Committee shall be used solely for that purpose and treated as confidential.

Article 13 – Disclosure of conflicts of interest

All Committee Members will reconfirm, or otherwise update their conflict of interest declaration at the start of each meeting. Where an actual or potential conflict of interest arises during the conduct of a meeting, the interest will be declared and will cause the member(s) to be excused from the discussions and will abstain from voting on the matter.