

**Options for the most appropriate model to deliver sufficiently resourced internal auditing,
consolidation with evaluation function; and investigation services
Presentation to Executive Board – 20 July 2017**

OPTIONS CONSIDERED

To respond to various recommendations on the most appropriate model to deliver internal auditing, the following options can be considered.

Option 1: To retain UNDP and renew its SLA. As per the budget proposal for 2018 received from UNDP for internal audit, this will increase the cost by 59.8 per cent next year compared to 2017 i.e. an increase of \$1.25 million. (2 new P3, 1 G6 and 85 per cent increase in general operating expenses)

Option 2: To establish the internal audit capacity in-house. Compared to the UNDP's budget for 2018 if UN Women is to renew the SLA, the in-house option will result in savings of \$0.9 million for 2018, based on the same staffing as 2017 with one new P3 Audit Specialist added to increase audit coverage and general operating costs incremented by 10% from current 2017 level.

Option 3: To establish the audit capacity in-house and consolidate audit and evaluation. If UN Women internalizes and combines Internal Audit and Evaluation function, it will imply the upgrade of the current Director of Evaluation to a new D-2 to head the consolidated department, the upgrade of the Deputy Director, Evaluation P4 to P5 to head the Evaluation Office within the consolidated assurance function, an additional P3 Audit Specialist to increase audit coverage, and general operating costs incremented by 10% from current 2017 level. These changes will result in net savings of \$0.9 million as compared to continuing with UNDP presented in Option 1 above.

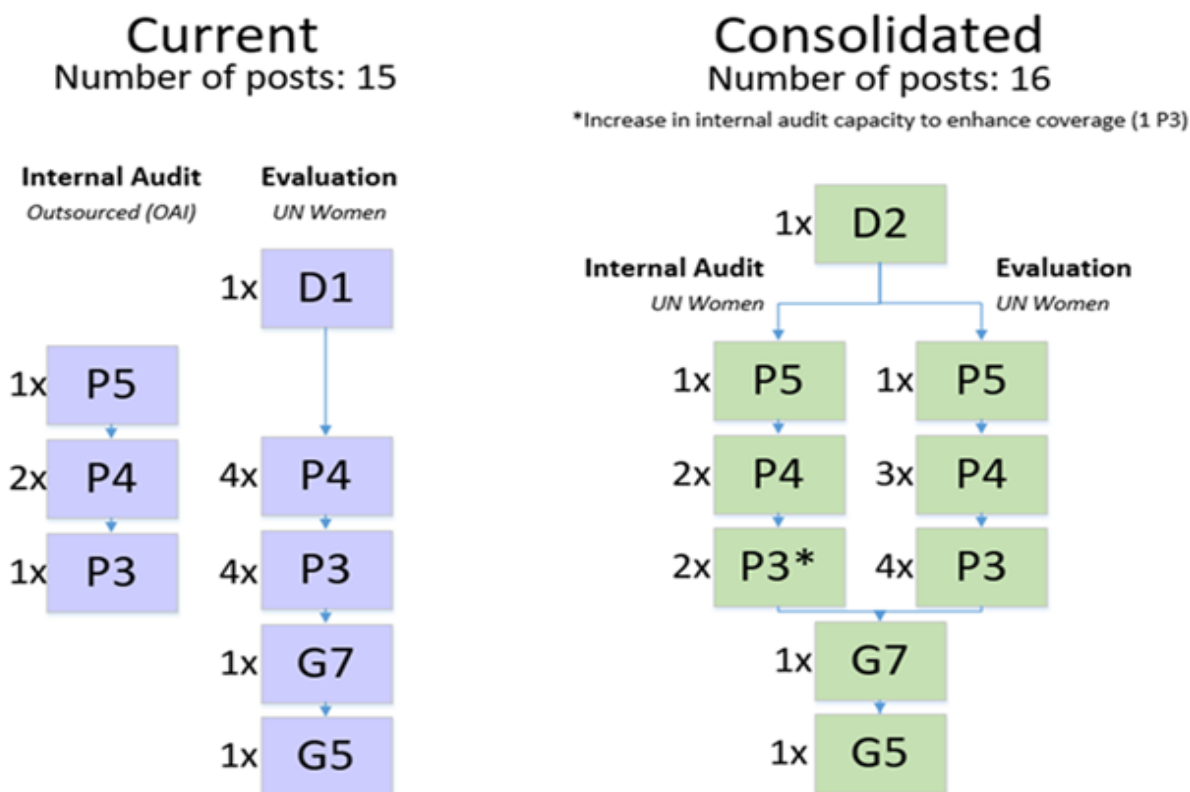
Option 3 is recommended by UN Women. It brings the independent assurance functions of audit and evaluation under an integrated umbrella thereby ensuring that internal audit activities are aligned with, and responsive to the mandate and strategic objectives of UN Women. Most importantly, it addresses various concerns raised by the Audit Advisory Committee (AAC), through the constant and direct interface between the internal audit service and the rest of the Entity while at the same time preserving the independent nature of the function.

Further, guided by the AAC's recommendation to "assess the quality and timeliness of services provided by OAI for its investigation function and determine the appropriate modality to effectively deliver this function with the commensurate resources", UN Women is presently exploring options including with Office of Investigations and Oversight (OIOS), to gain from their global decentralized presence and reach.

Comparison of the current and the proposed consolidated internal audit and evaluation department with the existing structure: Capacity to be established within UN Women will be composed of posts similar to the staff complement that OAI had dedicated to UN Women for the 2017 financial period with an additional P3 post. As reflected in the comparison of the current and proposed structure, the proposed Director will serve as a member of the Senior Management Team, providing independent advice and guidance in real time on high level governance, risk management and control strategies. One new Audit Specialist P3 post is proposed to increase coverage in line with recommendations of the Executive Board.

The proposed consolidation of the internal audit function with the existing evaluation function will enhance efficiency and synergies, holistic understanding of issues and coordinated reporting on the results of assurance activities without any threat on the independence of both functions.

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INTERNAL AUDIT

In determining the size, structure and composition of the proposed internal audit function, the following factors of the Entity were considered: a) size and available resources; b) level of maturity; c) geographic dispersion of operations, and; d) risk profile.

UN Women with total expenditures of \$655 million for the 2015 – 2016 financial period is considered as medium-sized entity within the UN system. Created in 2011, the Entity’s fundamental governance, risk management systems and controls are well in-place and continue to advance enhancing efficiency and effectiveness. UN Women has a decentralized management structure with six (6) regional offices, fifty-three (53) multi-country and country offices, five (5) liaison offices and thirty (30) programme presence around the world. Its programmes and projects are mostly located in developing countries.

In the Joint Inspection Unit’s report JIU/REP/2006/2 – *Oversight Lacunae in the United Nations System*, the range of US \$60 to US \$ 110 million per auditor is the suggested criteria to determine the range for number of auditors an organization should have based on the ratio of total resources managed, considering headquarters and field responsibilities. Following JIU’s suggested criteria as applied on the historical expenditure trend, the Entity should have around **6 Auditors** in place. Applying the weighted average across the UN System of 0.51% (number of auditors relative to number of staff), derived by the Joint Inspection Unit in their report JIU/REP/2016/8 – *State of the Internal Audit Function in the United Nations System*, as the proportion of internal audit service staff to all UN Women’s present total staff of 881 will result in **5 Auditors**.

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In the current proposed internal audit structure, the Internal Audit Office, under the overall leadership of the proposed Director of the consolidated assurance team, is to be headed by a Chief on a P5 level and supported by four Audit Specialists (two P4 and two P3). The administrative support function will be shared from the existing Independent Evaluation Office. Effectively, the Entity will be deploying **five (5) Auditors** to carry out the main internal audit function. This will be an increase of one P3 over the current 2017 staffing.

UN Women has reviewed comparative UN entities in relation to audit spend and staffing. As referenced in Annex 1 taken from the JIU Report (JIU/REP/2016/8), UN Women spends 0.42 per cent of its budget on internal audit which compared to the average of 0.27 per cent of medium sized entities, places it as second highest after UNRWA; and in terms of proportion of internal audit service staff to all staff, UN Women again is placed as second highest after UNIDO with 0.66 per cent compared to an average of 0.41 per cent of medium sized entities. A review of 2017, shows that UN Women's spend on internal audit has increased to 0.53 per cent of expenditure.

In addition, the transition will be well-planned to support moving the internal audit function in-house from Office of Audit and Investigations, UNDP with minimal adverse impact on operational efficiencies that are ultimately intended to be improved.

Immediate Strategies: Steps to implement the smooth transition of the internal audit function from full outsource to in-sourcing are as follows:

- Ensure the rigor of the scheduled review and update of the audit risk assessment model for UN Women scheduled to be carried out this 2017 by the Office of Audit and Investigations, UNDP as per its annual work plan under the existing service level agreement. The review will be objective and benefitting from their accumulated knowledge of the profile of UN Women's audit universe.
- Maintain the risk-based audit planning and reassess the targeted audit cycle.
- Towards increasing assurance while economizing on expenditures on audit, adopt and set-up a co-sourcing internal audit function model where together with the in-house resources, contracted audit resources will be thoughtfully used to complete some aspects of the internal audit plan, which may save on travel costs. This will allow for a degree of scalability and flexibility in the level of audit activities, as required by stakeholders without the burden of maintaining a high fixed overhead.
- Work to retain as much as possible the institutional knowledge of the Entity's business gained from the audit activities carried out to date as well as ensure the independence, quality and integrity of the audits with a sufficient core in-house audit resource.
- Introduce operational efficiencies in the implementation of the risk-based audit plan to minimize high travel costs including by exploring the possibility of remote based auditing and maximize available audit person-days while maintaining compliance with "International Standards for the Professional Practice of Internal Auditing".
- Seize the opportunity for the Entity to benefit from an internal audit staff complement with a mixed background of traditional financial auditing skills and specialized skills , e.g., Programme Specialist auditor, Information System auditor, needed to assess emerging high risk areas for the Entity. These should be complemented with general business competence, critical analytical thinking, and leadership skills.

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Preliminary work plan:

Presentation to the Executive Board of proposal establishing internal audit function within UN Women and consolidating it with independent evaluation function	June 2017
Formulation of Job Descriptions for posts of the internal audit function within UN Women	June 2017
Agreement with UNDP on transition and hand-over	Third quarter 2017
Start recruitment for posts, including long listing, short listing, interviewing, selection, etc.	Upon EB decision on Integrated Budget, Aug. 2017
Use Internal Audit Charter and Guidelines of UNDP and system for tracking audit recommendations	Upon start of operation of internal audit capacity in UN Women
Develop system for tracking of audit recommendations	2018
Staff in place to start internal audit operations within UN Women	1 st Jan 2018
Develop UN Women Internal Audit Charter and Guidelines	2018

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INVESTIGATIONS

Comparison of quality of service and costs has also been conducted in relation to Investigation services The Investigations Division of the Office of Audit (OAI) of UNDP currently provides investigation services to UN Women. As of 2016, OAI's costs have increased substantially and culminated in a request that UN Women fund three P3 posts for 2018. During the same period, UNW concerns regarding quality, timeliness and transparency of the service have not been addressed by OAI.

The Division of Management and Administration (DMA) of UN Women, in consultation with its Legal Advisor, has undertaken a careful review of the services provided by OAI and consulted with the Office of Investigation and Oversight Services (OIOS), who provide investigation services to the UN. DMA has concluded that OIOS may be a more cost effective, faster and more efficient provider than OAI and proposes that UNW transition service provider to OIOS by end-2017.

In its 2016 report, the AAC recommended that UNW “assess the quality and timeliness of services provided by OAI for its investigation function and determine the appropriate modality to effectively deliver this function with the commensurate resources”. This was concurrent with (i) the agreement between UNW and OAI for investigative service ending in 2018 December 2017, (ii) proposed substantial cost increases by OAI, and (iii) concerns regarding quality, timeliness and transparency of the service provided by OAI.

OAI have indicated that the increase in cost is due to the number of reported cases which have increased since 2016 due to awareness raising training with personnel. It is noted that the number of actual investigations has remained constant. OAI are however proposing a four-fold increase in costs. OIOS costs will be lower, given their global reach and presence thus producing significant costs savings for UN Women.

DMA obtained further information from both OAI and OIOS to enable a comparison to be made. The pros and cons are summarized as follows:

Pros

1) Cost

Based on 2016 figures, OIOS is 2.3 times cheaper per hour than OAI.¹ Given that OAI has requested that UN Women fund three P3 posts for 2018, it is difficult to make a comparison of projected costs, as OIOS would operate on a user-pay model. However, the following should be noted:

- a) OIOS only charges for the investigation itself whereas OAI charge for non-investigative services²
- b) OIOS has regional and country offices focused in East, Central and West Africa which would reduce the cost of DSA and travel.

2) Timeliness

- a) OIOS takes half the time to open a case once it has been reported
- b) OIOS is almost eight times faster at assessing a case
- c) OIOS takes less time on average to complete an investigation
- d) OIOS's regional and country presence may reduce the time to complete investigations

¹ OAI's cost is variable depending on seniority of staff used. The average cost per hour \$340 (blending P3, P4 and P5 rates). Although UN Women has now agreed to fund a P3 post, costs will not be limited to this post, as all investigations require a team of 2 investigators and additional quality assurance from more senior posts. OIOS's cost will be \$1000 per investigator per day (based on full cost recovery) irrespective of seniority.

² Non-investigative services include intake and assessment, quality assurance, responding to UNW queries, providing information for reporting purposes, training and attending meetings with AAC and other bodies.

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- e) OIOS have indicated “user-pay” investigations have priority.
- 3) Communication
 - a) Initial communications with staff at OIOS at the working level have been acknowledged on the same day and responded to within 1 day. This contrasts to the slow and protracted communication with OAI
 - b) OIOS have a dedicated existing focal point which undertakes the reporting function to external parties including BOA, JIU and Member States as well as on matters of SEA
 - c) As part of the prioritization of the user-pay cases, OIOS may provide a better customer experience

Cons

- 1) While on paper OIOS may appear to provide a cheaper and more efficient service, there are no guarantees as to how they will perform. Clear KPIs will be agreed with OIOS to address this ask.

























































































Discussions are ongoing with OIOS are ongoing with ASG due back to office end of July and decision pending.

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Annex 1 – UN entities comparatives (JIU/REP/2016/8)

















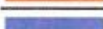

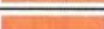

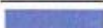

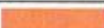





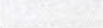
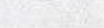
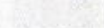



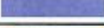


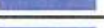
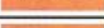



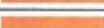


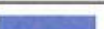




















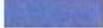




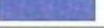


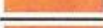






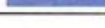

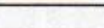


ANNEX V: INTERNAL AUDIT BUDGETS, STAFFING AND OUTPUTS

**A. Proportion of internal audit service budget to total budget, by organization (2015)
(in USD thousands)**

(USD thousands)	Organization			Internal Audit			Total (percentage)
	RB	XB	Total (A)	RB	XB	Total (B)	(B/A)
UN Secretariat			12,189,632			35,159 *	0.29 *
UNHCR			6,234,449			7,232	0.12
UNDP			5,516,014			14,256	0.26
UNICEF			4,954,863			7,600	0.15
WFP			8,428,700			4,384 **	0.05
WHO			3,977,000			3,278	0.08
FAO			1,221,500			3,433	0.28
UNFPA			991,359			3,221	0.32
LARGE (group average)							0.19% ***
UNRWA			744,000			3,888	0.52
ILO			741,350			2,107	0.28
UNESCO			762,500			1,153	0.15
UNOPS			691,354			1,339	0.19
IAEA			620,015			1,116	0.18
WIPO			412,740			895	0.22
UNIDO			381,049			850	0.22
UN-Women			358,467			1,500	0.42
MEDIUM							0.27%
UNAIDS			287,420			660	0.23
ICAO			202,947			555 ****	0.27
ITU			171,617			648	0.38
WMO			96,000			105	0.11
IMO			73,573			340	0.46
UPU			60,981			130	0.21
SMALL							0.28%
Weighted average							0.25%

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B. Proportion of internal audit service staff to all staff, by organization (2015)

	Organization			Internal Audit			Total (percentage)
	Professional	Support *	Total (A)	Professional	Support *	Total (B)	(B)/(A)
UN Secretariat			41,081			196 **	0.48 **
UNHCR			10,753			25 ***	-
UNDP			7,528			59	0.78
UNICEF			12,335			26	0.21
WFP			1,982			20	0.98
WHO			6,237			11	0.18
FAO			2,945			17	0.58
UNFPA			2,609			12	0.46
LARGE (group average)							0.52%
UNRWA			29,371			10	0.03
ILO			2,965			7	0.24
UNESCO			2,073			8	0.39
UNOPS			617			4	0.65
IAEA			1,939			7	0.36
WIPO			1,205			3	0.25
UNIDO			704			5	0.71
UN-Women			605			4	0.66
MEDIUM							0.41%
UNAIDS			826			3	0.36
ICAO			690			2 ****	0.35
ITU			738			4	0.49
WMO			270			3	1.11
IMO			291			4	1.37
UPU			255			0	0.00
SMALL							0.61%
Weighted average							0.51%