

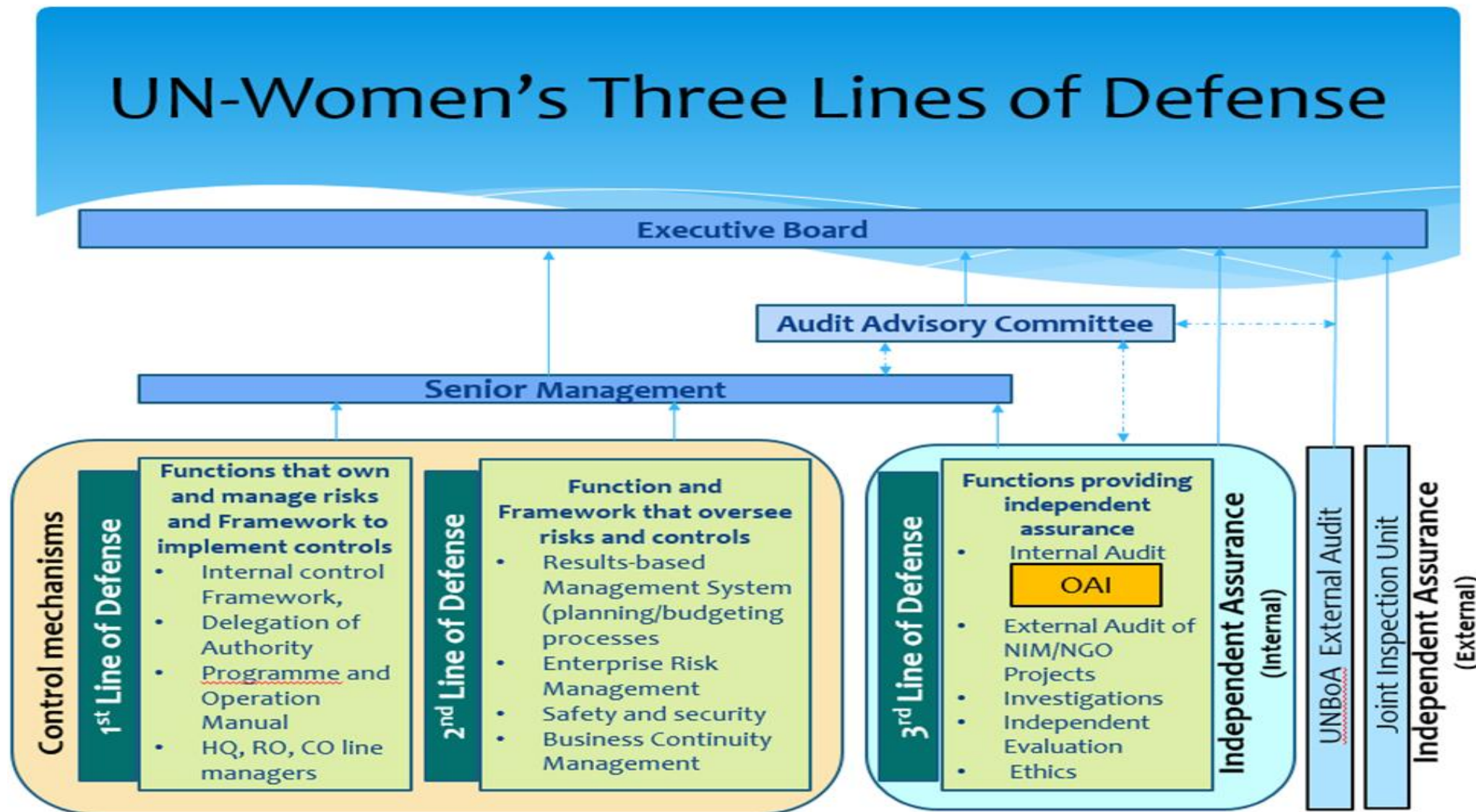


**Sufficiently Resourced Internal Audit –
Options addressing Audit Assurance**

EB Decision 2017/4 para. 5

"Requests UN-Women to present options for the most appropriate model to deliver sufficiently resourced internal auditing, through outsourcing or in-house, including a comprehensive work plan and budget proposal that sets out the resources required to manage the realization of a full transition to internal audit capacity with increasing audit coverage, the resources needed to establish and sustain the management and administrative infrastructure of the function, and in addition, a determination of the level of audit assurance required, at least four weeks before the second regular session of the Executive Board in 2017"

UN Women's Oversight Policy



Independent Assurance - External

- Unqualified audit opinions since inception
- United Nations Board of Audit scope is 100% of:

| | | | |
|---|-----------------|---|-----------------|
| Assets | \$457.5 million | Liabilities | \$109.8 million |
| <i>(85% Cash & Investments)</i> | | <i>(72% Employee benefits)</i> | |
| Revenue | \$334.6 million | Expenditure | \$340.0 million |
| <i>(97% voluntary & assessed contributions)</i> | | <i>(33% employee salaries & benefits)</i> | |

- Audit coverage: Annual audit of UN Women Financial Statements at headquarters
(4 weeks with 7 auditors, including IT auditor and one supervisor)

| Year of Audit Activities | | 2014 (scope: 2013) | 2015 (scope: 2014) | 2016 (scope: 2015) | Estimates 2017 (scope: 2016) |
|--------------------------|---|--------------------|--------------------|--------------------|------------------------------|
| | External Audit | | | | |
| | Audit coverage - Number of field offices visited that may meet required audit cycle | 10 | 6 | 6 | 6 |
| | Cost of audit | 200,000 | 200,000 | 203,010 | 203,010 |

Independent Assurance - Internal

| Year of Audit Activities | 2014 (scope: 2013) | 2015 (scope: 2014) | 2016 (scope: 2015) | Estimates 2017 (scope: 2016) |
|--|--------------------|--------------------|--------------------|------------------------------|
| Total Expenditures (as per Financial Statements) (H) | 264,105,000 | 270,538,000 | 314,974,000 | 340,041,000 |
| Internal Audit and Directly Implemented (DIM) Project Audit | | | | |
| Audit coverage in expenditures - includes Directly Implemented (DIM) Projects (A) | 63,000,000 | 53,000,000 | 48,500,000 | 48,500,000 |
| Audit coverage in expenditures - as a % of the total audit scope | 23% | 20% | 15.4% | 14.3% |
| Audit coverage in audit cycle of full scale audits (excluding DIM projects) (I) | 8 | 6 | 7 | 7 |
| Number of limited-scope audit of Directly Implemented (DIM) Projects | 0 | 3 | 17 | 20 |
| Cost of audit (B) | 1,029,114 | 1,308,586 | 1,238,502 | 1,865,720 |
| Internal Audit cost as a % of Audit coverage in expenditures (B) / (A) | 1.6% | 2.5% | 2.6% | 3.8% |
| Non-Government Organization (NGO) / Nationally Implemented (NIM) Project Audit | | | | |
| Total NGO/NIM Projects and Grant Projects Expenditures Audit Scope (C) | 47,350,686 | 49,789,019 | 62,868,144 | 66,611,929 |
| Audit coverage in expenditure- in actual NGO/NIM Projects audited (D) | 19,093,608 | 18,291,821 | 31,381,968 | 28,237,799 |
| Number of Projects : <i>Partners</i> audited | 57 : 178 | 53 : 173 | 90 : 234 | 81 : 248 |
| Audit coverage (D) / (C) | 40% | 37% | 50% | 42% |
| Cost of audit (E) | 403,000 | 518,352 | 828,692 | 866,971 |
| NGO/ NIM Project Audit cost as a % of Audit coverage in expenditures (E) / (D) | 2.1% | 2.8% | 2.6% | 3.1% |
| Total Audit coverage in expenditures (F) = (A) + (D) | 82,093,608 | 71,291,821 | 79,881,968 | 76,737,799 |
| % of Total Audit coverage in expenditures to total expenditures/ scope (F) / (H) | 31% | 26% | 25% | 23% |
| Total Audit coverage in audit cycle by number of field offices and headquarter functions audited | 8 | 6 | 7 | 7 |
| Grand total of audit costs (J) = (B) + (E) | 1,432,114 | 1,826,938 | 2,067,194 | 2,732,691 |
| % of total audit cost to total expenditures /scope for the audit year (J) / (H) | 0.54% | 0.68% | 0.66% | 0.80% |

| Forecast 2018 using 2017 figures | Forecast 2019 using est. 2018 figures |
|----------------------------------|---------------------------------------|
| 340,041,000 | 367,244,280 |
| 52,026,000 | 83,142,857 |
| 15.3% | 22.6% |
| 9 | 12 |
| 20 | 20 |
| 1,947,295 | 1,947,295 |
| 3.7% | 2.3% |
| 66,611,929 | 66,611,929 |
| 28,237,799 | 28,237,799 |
| 81 : 248 | 81 : 248 |
| 42% | 42% |
| 866,971 | 866,971 |
| 3.1% | 3.1% |
| 80,263,799 | 111,380,656 |
| 24% | 30% |
| 9 | 12 |
| 2,814,266 | 2,814,266 |
| 0.83% | 0.77% |

Legend:

Note 1: The reported audit coverage in expenditures for 2014 does not include the audit of procurement function; included in the 2016 planned audit coverage are the expenditures directly charged to Resource Mobilization Unit for the period of audit estimated at \$ 4.3 million.

Note 2: The 2017 estimated Internal Audit expenditure is based on the approved budget for 2017 less cost of investigation approved by UN-Women

Note 3: Harmonized NGO/NIM Projects and Grant Projects (i.e., UNTF & FGE) expenditure audits was started in 2014 audit year.

Note 4: Used 2017 Audit Risk Assessment Model for UN-Women Field Offices

Level of Assurance

Years 2014 to forecast 2019

Internal Audits

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|--|------|------|-------|-------|-------|-------|
| No. of Field Office audited | 8 | 6 | 7 | 7 | 9 | 12 |
| No. of DIM Projects audited | 0 | 3 | 17 | 20 | 20 | 20 |
| Audit coverage in expenditures as a % of total audit scope | 24% | 20% | 15.4% | 14.3% | 15.3% | 22.6% |

External Audits

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|-----------------------------|------|------|------|------|------|------|
| No. of Field Office audited | 10 | 6 | 6 | 6 | 6 | 6 |

NGO/NIM Project Audits

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|--|------|------|------|------|------|------|
| No. of Projects audited | 57 | 53 | 90 | 81 | 81 | 81 |
| No. of Partners audited | 178 | 173 | 234 | 248 | 248 | 248 |
| Audit coverage in expenditures as a % of total audit scope | 7% | 6.7% | 10% | 8.3% | 8.3% | 8.3% |

Overall Level of Assurance

Years 2014 to forecast 2019

| Audit Coverage in expenditures | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|--|------|------|-------|-------|-------|-------|
| Internal Audit + DIM Project Audits - Audit coverage in expenditures | 23% | 20% | 15.4% | 14.3% | 15.3% | 22.6% |
| NGO/NIM Project Audits - Audit coverage in expenditures | 8% | 6% | 9.6% | 8.3% | 8.7% | 7.7% |
| Overall Audit Coverage in expenditures | 31% | 26% | 25% | 23% | 24% | 30% |

| Audit Coverage in Audit Cycle | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|------|------|------|------|------|------|
| Internal Audit – No. of field offices and headquarter functions audited | 8 | 6 | 7 | 7 | 10 | 12 |
| External Audit - No. of field office audited | 10 | 6 | 6 | 6 | 6 | 6 |
| Overall Audit Coverage in Audit Cycle | 18 | 12 | 13 | 13 | 16 | 18 |

Determination of Internal Audit function

Factors for determination of the size, structure and composition:

| Factors | Results |
|-------------------------------------|--|
| Size and available resources | Medium-sized entity within the UN system |
| Level of maturity | Fundamental governance, risk management systems and controls are well in-place |
| Geographic dispersion of operations | Decentralized management structure |
| Risk profile | Programmes and projects are mostly located in developing countries |

- Following JIU's suggested criteria applied on the historical expenditure trend, the entity should have around 6 Auditors in place (*JIU/REP/2006/2*).
- 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 Auditor posts with additional audit capacity to be provided using co-sourcing services.

Comparative review of audit spending and staffing

- 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.
- 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. – *JIU/REP/2016/8*.

Options Considered

| Options | Description |
|--|---|
| <p><u>Option 1:</u> Retain UNDP and renew its Service Level Agreement</p> | <p>Budget proposal for 2018, if renewed, will increase the cost by \$1.25 million (or 59.8 per cent) from 2017 budget.</p> |
| <p><u>Option 2:</u> Establish the internal audit capacity in-house</p> | <p>Savings of \$0.9 million for 2018 budget compared to Option 1. Same staffing as 2017 with an upgrade of P5 to D1 Director of Internal Audit and 1 additional P3 Audit Specialist and co-sourcing services.</p> |
| <p><u>Option 3:</u> Establish the Oversight and Assurance Function including internal audit and evaluation functions in-house</p> | <p>Net savings of \$0.9 million for 2018 budget compared to Option 1. The Function includes:</p> <ol style="list-style-type: none"> 1) upgrade of current D1 Director of Evaluation to D2 to head the Function; 2) upgrade of current P4 Deputy Director of Evaluation to P5; 3) Additional P3 Audit Specialist; and 4) 10% increase in general operating costs and co-sourcing services. |

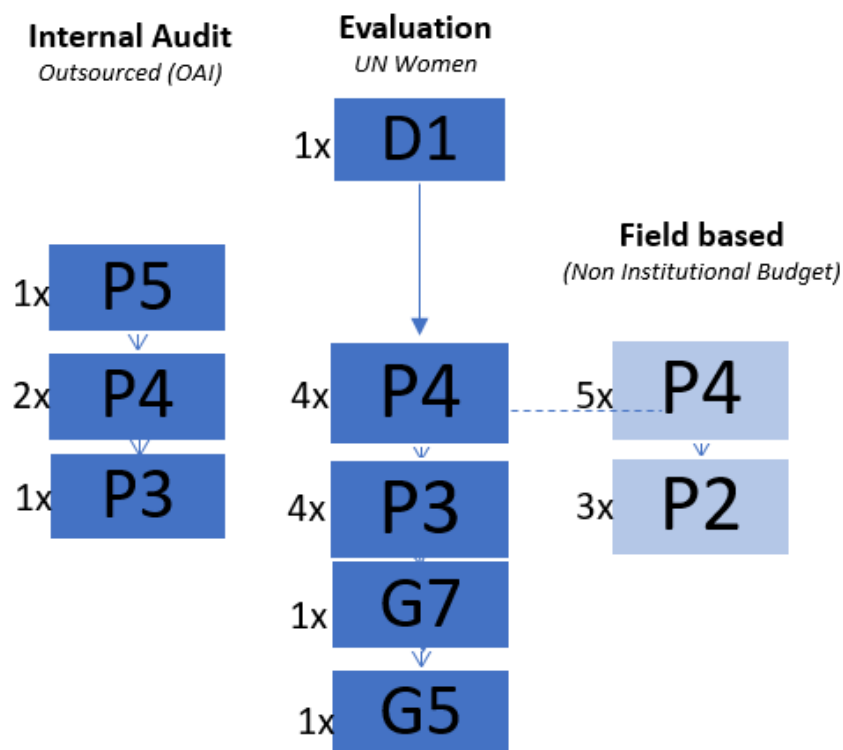
Recommended Option – Option 3

- Include the two independent internal review functions, internal audit and evaluation, in one organizational oversight office.
- Ensures that internal audit activities are aligned with, and responsive to the mandate and strategic objectives of UN Women.
- The quality and timeliness assessment of services provided by OAI for its investigation function and determine the appropriate modality to effectively deliver this function with the commensurate resources.

Sufficiency of Resourcing

Current

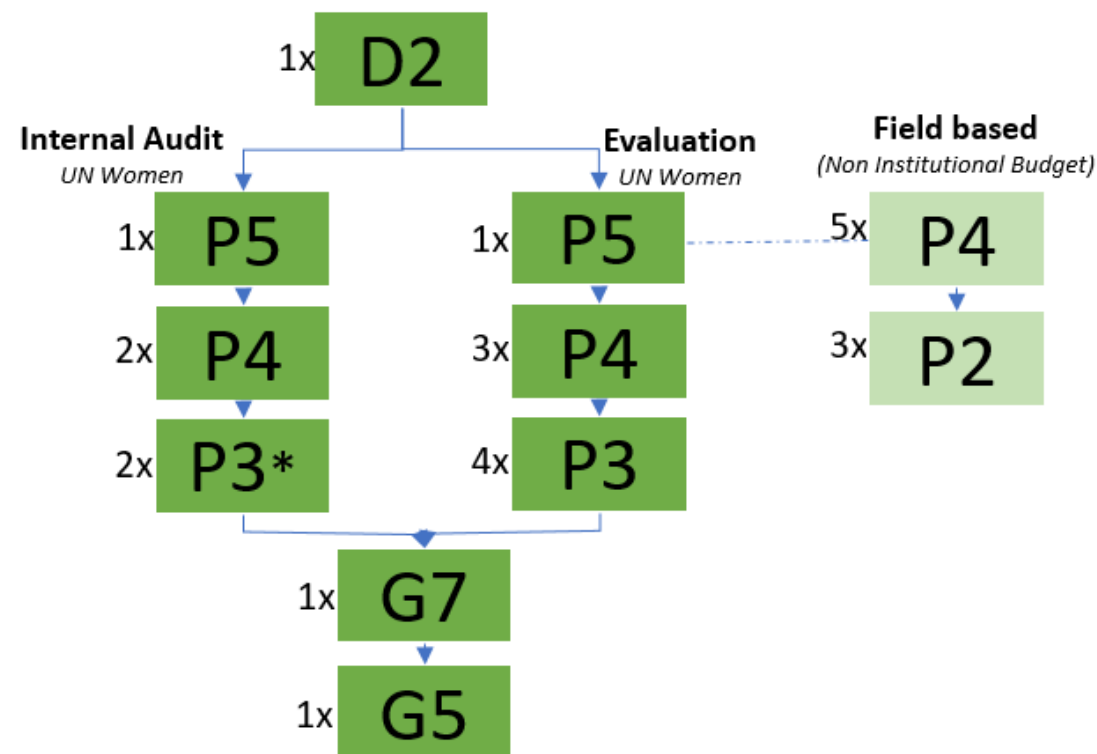
Number of Posts: 15



Consolidated Independent Assurance Office

Number of Posts: 16

*increase in internal audit capacity to enhance coverage (1 P3)



* The Entity will be deploying **five (5) Internal Auditors and co-sourcing services** to carry out the main internal audit function. This will be an increase of one P3 over the current 2017 staffing, and additional provision for consultants.

Comparison of current and proposed structure

- One additional P3 Audit Specialist and co-source services.
- The proposed Director to serve as a member of the Senior Management Team, providing independent advice and guidance on high level governance, risk management and control strategies.
- The integrated oversight of the independent functions of internal audit and evaluation enhances efficiency and synergies for holistic understanding of corporate issues and reporting.

Transition from OAI to in-house internal audit function

Steps to implement the smooth transition:

1. Review and update the audit risk assessment model
2. Maintain the risk-based audit planning and reassess the targeted audit cycle
3. Set up a co-sourced internal audit function including the in-house resources and contracted audit recourses
4. Retain the institutional knowledge gained from the audit activities carried out to-date
5. Implement the risk-based audit plan to minimize high travel costs
6. Diversify the background of internal audit staff in addition to the traditional financial auditing skills, e.g., Programme Specialist auditor, Information System auditor

Preliminary Work Plan

| Tasks | Timeline |
|--|--|
| 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 |

Investigation Services

Summary of comparison of quality of service and costs

| | OAI, UNDP | OIOS, UN |
|---------|---|--|
| Service | Concerns on quality, timeliness and transparency were not addressed | May be faster and more efficient investigations service provider |
| Cost | Additional three P3 posts proposed for 2018 | May be more cost effective given their global reach and presence |

Investigation Services

| Pros: | Cons: |
|---|--|
| <p>Cost</p> <ul style="list-style-type: none"> ✓ OIOS only charges for the investigation itself whereas OAI charge for non-investigative services ✓ OIOS has regional and country offices focused in East, Central and West Africa which would reduce the cost of DSA and travel <p>Timeliness</p> <ul style="list-style-type: none"> ✓ OIOS takes half the time to open a case once it has been reported ✓ OIOS is almost eight times faster at assessing a case ✓ OIOS takes less time on average to complete an investigation ✓ OIOS's regional and country presence may reduce the time to complete investigations ✓ OIOS have indicated "user-pay" investigations have priority <p>Communication</p> <ul style="list-style-type: none"> ✓ 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 ✓ 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 ✓ As part of the prioritization of the user-pay cases, OIOS may provide a better customer experience | <p>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.</p> |