

**Conference Room Paper**  
**Independent Assurance Function at UN-Women**  
**Options for the most appropriate model to deliver sufficiently resourced internal auditing,**  
**consolidation with evaluation function**

This paper is in response to 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.*

***OPTIONS CONSIDERED FOR THE MOST APPROPRIATE MODEL***

Various options considered were in reference to the determination of appropriate size, structure and composition of the proposed internal audit function as they relate to the a) size and available resources; b) level of maturity; c) geographic dispersion of operations, and; d) risk profile of UN-Women.

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, forty-seven (47) 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**.

In addition, while reflecting on options, 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.

Taking the above into account, the three options considered are as follows:

**Option 1:** To retain UNDP and renew its Service Level Agreement (SLA), ending in December 2017. 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 of four as 2017, with an additional upgrade of the current P5 to D1 and one new P3 Audit Specialist and co-sourcing services added to increase audit coverage and general operating costs incremented by 10% from current 2017 level.

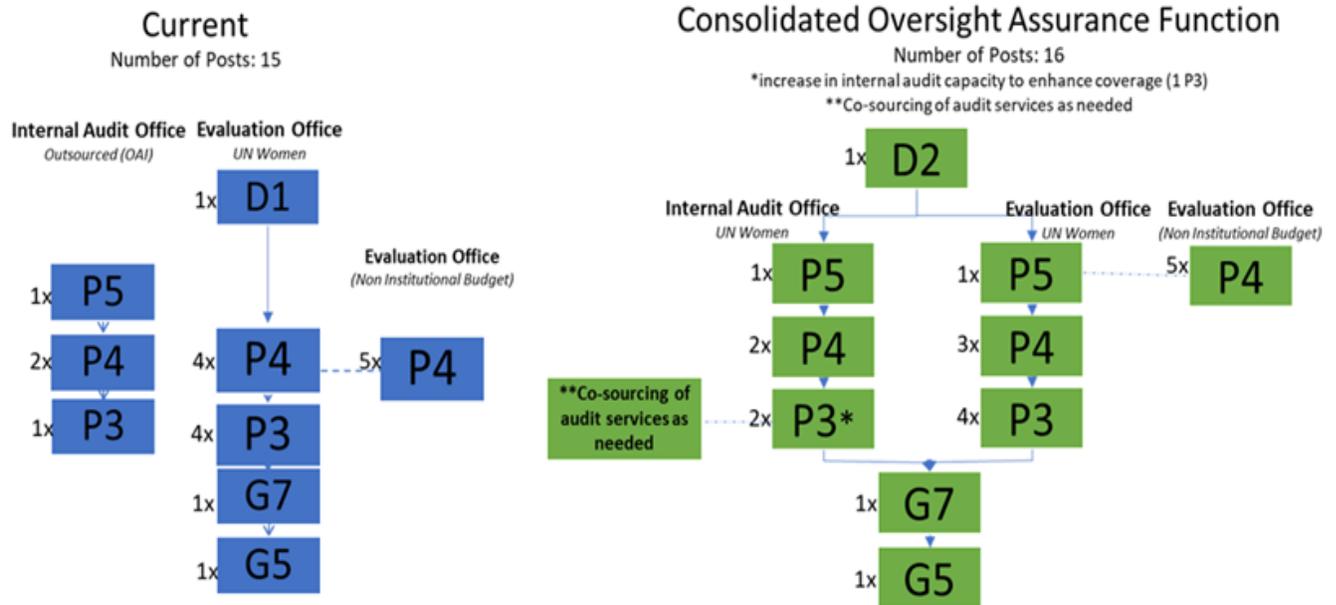
**Option 3:** To establish a consolidated Oversight and Assurance function in-house under one senior D2 comprising the independent offices of internal audit and evaluation, headed by respective P5 Chiefs. This will imply the upgrade of the current Director of Evaluation to a new D-2 to head the Oversight and Assurance function, the upgrade of the Deputy Director, Evaluation P4 to P5 to head the Evaluation Office, an additional P3 Audit Specialist and co-sourcing services 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 as it brings the independent assurance functions of audit and evaluation under an integrated umbrella thereby ensuring that both internal audit and evaluation 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 both functions.**

**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 and co-sourcing services as needed. As reflected in the comparison of the current and proposed structure, the proposed D2 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 as well as co-sourcing services as needed. These services may include consultants or partnerships with reputable audit firms with regional presence.

Including the two independent internal review functions of internal audit and evaluation, in one organizational oversight assurance will enhance efficiency and synergies, for holistic understanding of issues and coordinated reporting on the results of assurance activities without any threat on the independence of either functions. Table 1 below provides a comparison of the current and proposed structure:

Table 1



As reflected above in Table 1, the proposed independent Internal Audit Office, under the overall leadership of the proposed Director of the Oversight consolidated assurance function, is to be headed by a Chief on a P5 level and supported by four Audit Specialists (two P4 and two P3). Effectively, the Entity will be deploying **five (5) Auditors** to carry out the main internal audit activities. This will be an increase of one P3 over the current 2017 staffing. This internal audit capacity will further be supplemented by co-sourcing consulting services as needed. For the proposed independent Evaluation Office, it will also be under the overall leadership of the proposed Director of the Oversight consolidated assurance office. It will be headed by a new P5 level Chief post upgraded from the existing P4 Deputy Director. There will continue to be 3 P4 Evaluation Specialists funded from the institutional budget and 5 P4 Evaluation Specialists funded from non-institutional budget sources. The administrative support function currently under Evaluation Office will be shared by the independent Internal Audit and Evaluation Offices.

Reflecting on the level of assurance, with the above proposed structure, UN-Women plans to increase the number of field offices audited from 7 in 2017 to 9 in 2018 and 12 in 2019.

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.

The proposed Option 3 and associated savings are one of the assumptions in the presented Integrated Budget document. Should the Executive Board expressly request the retention of the services of OAI per Option 1, UN-Women will require additional funding of \$1.25 million for audit services under the Integrated Budget to be approved.

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

- Source senior and experienced oversight assurance consultant to assist with the immediate requirements and smooth transition till the onboarding of the Director.
- 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.

**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, July and August 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, August 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
Initiate establishment of co-sourcing capacity to augment where necessary core in-house audit resource	2018
Develop system for tracking of audit recommendations	2018
Staff in place to start internal audit operations within UN-Women	1 <sup>st</sup> Jan 2018
Develop UN-Women Internal Audit Charter and Guidelines	2018

Further, as a separate but related matter, 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 to improve its investigation services. This includes the possibility of changing its service provider from UNDP/OAI to the United Nations Office of Investigations and Oversight (OIOS), to gain from its global decentralized presence and reach, which UN Women considers would both reduce cost and increase timeliness and quality. If a new service provider is engaged, the existing internal legal framework for investigations would continue to apply, but with more effective and efficient investigative services.

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			35,139 *	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%

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%