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COMMENTS BY THE DIRECTOR-GENERAL ON THE IMPLEMENTATION OF THE INTERNAL OVERSIGHT SERVICE (IOS) STRATEGY IN 2006-2007:

ANNUAL REPORT 2006

SUMMARY

In accordance with 160 EX/Decision 6.5 and 164 EX/Decision 6.10, the Director-General presents the report on "Implementation of the Internal Oversight Service Strategy in 2006-2007: Annual Report 2006". The Director-General fully endorses this sixth annual report produced by the Service since its establishment in February 2001.

Decision proposed: paragraph 62.

INTRODUCTION

1. The Internal Oversight Service (IOS) was established in 2001 to provide a consolidated oversight mechanism which covers internal audit, evaluation, investigation and other management support. It is charged with providing objective assurance that programmes and plans are delivered effectively, that strategic management information is reliable and timely, and that continuous improvements are fostered in methods and procedures so as to enhance the quality of UNESCO's operations. As part of its accountability mechanism, IOS submits an annual report to the Director-General which is shared unchanged with the Executive Board.

First long-term oversight strategy 2001-2006

2. During the first five years, the operation of IOS was guided by a long-term strategy which focused on introducing, educating and building the Organization's capacity in relation to various aspects of oversight. This included emphasis on the need for assessment of results and learning from evaluations, exercising proper internal controls, compliance with rules and regulations, proper accountability, etc.

3. Under the first strategy, most IOS audit work was focused on assessing the existence and functioning of internal control, and the degree of compliance with rules and regulations. Simple examples include whether the correct type of contract was prepared and authorized prior to a contractor starting work, whether policies regarding contractor selection were followed, whether payment was released on the basis of an approved payment request correctly issued following receipt of a valid invoice from contractors.

4. The immediate results of these activities have had a progressive impact, with different degrees of success from one unit/office to another. For example, there is improved awareness of the need to evaluate results and improved knowledge of established rules and procedures. However, a lot still needs to be done. Most importantly, all levels of management have to recognize that oversight is a shared responsibility and that management is responsible for ensuring that internal controls, risk and results-based management and governance processes are operating effectively. Full support from management is necessary if IOS is to do its job effectively in assisting them by promoting proper oversight, governance and risk and results-based management.

5. The results of the first long-term strategy were achieved through implementation of oversight activities such as advocacy for the use of evaluations, backstopping support for evaluations that were delivered, assessing the existence and functioning of internal controls, dissemination of evaluation/audit results and lessons learned, dissemination of tools for evaluation and self-assessment, undertaking training on self evaluation and on policies/procedures. It is important that management takes the responsibility for ensuring that improvements achieved so far following these activities, including those secured from implementation of recommendations, are sustained.

Second long-term oversight strategy 2007-2013

6. The second long-term strategy focuses on enhancing accountability for the effective and efficient achievement of programme results. It will focus on determining whether processes and controls exist in acquiring, managing, and utilizing resources economically, efficiently and effectively. Examples include assessing the existence of a process to ensure the relevance of a contract to the project objectives, and a process to ensure that UNESCO obtains value for money, and whether the deliverables of the contract are being used to achieve the project objective. This will be achieved mostly through activities which are similar to those undertaken in the previous period, but with a different emphasis. The aim is to deliver a smaller number of high quality evaluations and audits. These will cover all strategic objectives, strengthen evaluation capacity within UNESCO, promote the efficient and effective use of resources for programme delivery at both Headquarters and in the field offices, and encourage management and the governing bodies

to use evaluation/audit results to improve strategic management, policy development, organizational learning and internal controls.

7. Details from the second long-term strategy for evaluation are provided in 175 EX/26 and elaborated on in 176 EX/26.

8. The implementation of the second long-term strategy requires closer collaboration between IOS's audit and evaluation functions given that both are working towards providing assurance with regard to the performance of the Organization in delivering its programme.

9. The results of the first and second long-term strategies will enable the Director-General to provide assurance to the governing bodies regarding the extent to which the expected results from UNESCO's programmes have been achieved efficiently and effectively and that internal control, risk and results-based management in UNESCO are functioning effectively.

2006-2007 as a transitional period

10. The 2006-2007 biennium is a transitional period between the implementation of IOS's first and second long-term strategy. It is a time to take stock of what has been accomplished, to determine what else needs to be done and to prepare for the implementation of the second strategy.

11. In IOS's 2005 Annual Report (174 EX/29), attention was drawn to those areas which had been the focus of its work and would continue to be in 2006-2007 and in the future. This will not be repeated in the 2006 Report. However, management is encouraged to take further action in those areas where improvements are still needed:

- to improve the culture of learning;
- to improve the culture of accountability;
- to improve governance of the oversight function

(this covers adequate resourcing of the oversight functions and the independence and objectivity of the Oversight Committee).

12. The 2006 Annual Report presents achievements and challenges arising from oversight activities undertaken during the year and, at the same time, recapitulates results achieved in the implementation of the first long-term strategy, as well as providing a preview of those planned for the second strategy.

13. A high proportion of IOS resources in the first long-term strategy were devoted to auditing field offices given that most of them had not been audited since being established. Between 2001 and 2005, 69 field audits in 55 field offices and 23 Headquarters audits were conducted. This was also in line with the alignment of work plans between IOS and the External Auditor's team, which did most of its work at Headquarters and relied on IOS's audits of field offices.

14. In 2006, at the Director-General's request, a large proportion of IOS's audit resources were spent on work to support the reorientation of UNESCO's operations in Brazil. This included audits of all antenna offices, some extrabudgetary projects and a number of other areas. The detailed outcome of the audits has been reported to the Director-General. Some of the reports are still being finalized. However, IOS's general conclusion is that the control environment in UNESCO's Brasilia office still needs a lot of strengthening, as is true for the whole of the Secretariat (see paras. 26-29 below), and that operations need to be aligned with the Organization's mandate and the office's capacity. In addition, audits of four other field offices and two institutes/centres were completed. Now that all offices have been audited at least once during the implementation of the

first long-term strategy, the upcoming strategy will have a strong focus on audits at Headquarters. This can be expected to demonstrate the need for management to establish an internal control policy.

15. IOS managed 30 evaluations in 2006 and, at the Director-General's request, devoted considerable resources to a number of evaluations to support the reorientation of UNESCO's operations in Brazil. In addition, IOS also provided support to the UNESCO Office for the Iraq Programme (which is based in Amman) by conducting practical training to develop monitoring and evaluation processes. A major issue observed by IOS, which is also faced by other agencies, is the difficulty the Office faces in undertaking in-country monitoring given the lack of physical presence in Iraq. In addition, management needs to strengthen capacity within the Office to fully deliver results. Lessons learned from the report of the Volcker Committee on the Oil-for-Food Programme (OFFP), which was summarized by IOS in 2005 and shared with management, should be applied to the implementation of extrabudgetary projects more generally.

Report format

16. The contents of the 2006 IOS Annual Report are as follows:

- Section 1. Assurance on the effective functioning of IOS and initiatives to strengthen the effectiveness of the implementation of the second long-term strategy
- Section 2. Establishing clarity on oversight responsibilities to facilitate implementation of the second long-term strategy
- Section 3. Enhancement of evaluation and audit tools to support the achievement of the second long-term strategy
- Section 4. Dissemination of lessons learned and good practices observed during the implementation of the first long-term strategy
- Section 5. Continuing capacity-building activities in the second long-term strategy
- Section 6. Closure of implemented recommendations issued during the implementation of the first long-term strategy
- Section 7. Continuing fruitful cooperation and networking with the UN audit and evaluation community
- Section 8. Establishment of long-term work plans, and a gap analysis between plans and resources to support the achievement of the second long-term strategy

Section 1. Assurance on the effective functioning of IOS and initiatives to strengthen the effectiveness of the implementation of the second long-term strategy

17. The Professional Standards established by the Institute of Internal Auditors (IIA) requires each internal audit unit to undergo independent external assessment at least once every five years. The purpose is to review and help internal audit units to add value thereby improving the organization's operations, and to provide assurance that the internal audit function is operating in conformity with the IIA's International Standards for the Professional Practice of Internal Auditing and the IIA's Code of Ethics.

18. The IIA's compliance rating system provides three levels of conformity to its Standards. The highest level is "Generally conforms", the next level is "Partially conforms", and the third level is "Does not conform".

19. In 2000, before IOS was established, the Director-General commissioned the Institute of Internal Auditors to perform the first quality assurance review of the then Office of the Inspector General (IOM) and the Central Evaluation Unit (CEU). The report was shared with the Executive Board through document 160EX/INF.6. The overall conclusion of the review was “It is our opinion that the current internal monitoring functions of UNESCO generally do not conform to the Standards for the Professional Practice of Internal Auditing”.

20. At the end of 2005, before the end of the first long-term IOS strategy, IOS conducted an internal review of the functioning of the audit unit. This review was led by an external member of the UNESCO Oversight Committee and undertaken by IOS staff who had been trained by the IIA to undertake such reviews. This internal review was in compliance with IIA standards which call for the results to be validated by an independent external validator. Therefore, in 2006 an external validation of the results of the review was undertaken by the IIA. The overall conclusion of the review was “The overall rating for UNESCO’s IOS Internal Audit function is Generally Conforms (GC)”. As noted above, this is the highest rating for a quality assurance review and provides assurance that the attributes and performance of the IOS audit function are in conformity with the International Standards for Internal Auditing.

21. With regard to the evaluation function, in 2006 IOS commissioned an external review of the implementation of the UNESCO Evaluation Strategy (165 EX/19). The main purpose was to review progress made in its implementation and to provide suggestions for areas of improvement with a view to informing the development of the subsequent UNESCO Evaluation Strategy. In undertaking this review, the evaluator also reviewed the compliance of the IOS evaluation function with the United Nations Evaluation Group’s Norms and Standards for Evaluation in the United Nations System, 2005.

22. The review found, *inter alia*, key achievements in terms of establishing and fostering an independent and credible evaluation function, a significant increase in the number of high-quality evaluations undertaken and presented to the Executive Board, improved capacity development of staff, and some examples of evaluation results informing future programme direction. The challenges included: a lack of clarity as to the ownership of evaluations and accountability for evaluation results, the absence of a funding model to provide resources to secure adequate evaluation coverage, and the existence of evaluations undertaken by field offices without the knowledge or assistance of IOS.

23. Despite positive conclusions, there is always room for improvement and the reviews of both the audit and evaluation functions came up with several recommendations to improve the effectiveness of the functions. Some recommendations are addressed to management while some are being implemented by IOS. The recommendations to management included: improving the effectiveness of the Oversight Committee; the need to evaluate IOS resource and budget requirements; the need to design and implement a concise UNESCO risk management and control policy; and, the need to consider concrete steps to further strengthen the independence and effectiveness of IOS. Recommendations to IOS included: the need to develop an evaluation policy for approval by the Director-General and endorsement by the Executive Board; the need to construct a comprehensive audit universe including IT; developing a budget and appropriate staffing to enable the IOS Internal Audit function to provide its services to UNESCO in accordance with a risk based plan; formalizing audit policy and a manual; and establishing performance measurements for the audit and evaluation functions.

24. In the second long-term strategy, IOS will use these recommendations as the basis for further strengthening the effectiveness of the function in delivering the IOS’s mandate. Management also needs to consider the recommendations addressed to them. Some action is already in hand. For example, the Oversight Committee was reconstituted in 2006. It met twice. The Director-General is still working on the terms of reference for the Committee. During the two meetings the Committee met with the Director-General and discussed ways and means of improving further internal controls.

Section 2. Clarify oversight responsibilities to facilitate the implementation of the second long-term strategy

25. One issue raised in the reviews of both the audit and evaluation functions was the need for UNESCO to establish more robust internal control and evaluation frameworks. The heart of these frameworks should be control and evaluation policies. In 2006 IOS completed the development of a new evaluation strategy and developed an evaluation policy (175 EX/26 and 176 EX/26). The policy statement clarifies the roles and responsibilities of the principal actors in the evaluation process, and addresses key issues of governance and accountability for evaluation. It also includes an evaluation priority setting model that responds to the external review's call for adequate evaluation coverage.

26. The internal control policy still needs to be formulated by management. It should define key authorities, roles and responsibilities, clearly distinguishing between management's responsibilities and those of IOS in terms of establishing, implementing, monitoring, maintaining, evaluating and reporting on internal control. It needs to take account of the IOS Charter which was approved by the Director-General in 2002. This clarity is needed to avoid some confusion that has arisen in the past. For example, a Headquarters unit recently requested IOS to follow-up on a questionable payment claim submitted to UNESCO. It is the responsibility of the relevant unit to perform operational controls to ensure that the payment claim is valid. Each management unit is responsible for ensuring control is established, implemented and functioning effectively. This internal control policy will be one of the foundations that will enable the Director-General to provide assurance to the Executive Board that internal controls are operating effectively.

27. There is also a need to clarify responsibility for risk management. Management needs to take ownership of risk management. IOS has been pleased to introduce the concept to the Organization. IOS's first long-term strategy was underpinned by the results of an organization-wide risk assessment that IOS initiated in 2001. In 2005, IOS arranged for a discussion on risk management at the College of ADGs. In response, IOS developed an approach and a set of training materials which were handed over to management to pursue. This initiative still needs to be followed-up by management. In the meantime, a number of other United Nations entities have taken forward risk management initiatives from which UNESCO can learn. IOS has, therefore, agreed to incorporate the experience of other agencies into UNESCO's proposed risk management approach and guide. A key challenge is to integrate risk management into UNESCO's planning processes. It is for management to appoint a focal point for the initiative and to take the appropriate follow up action.

28. Another example of the need for clarity is the perception that when a unit has been audited, then there must have been an improvement in the operation of the unit and that everything will be perfect. Improvement will only happen if management takes action on the audit recommendations and sustains the improvements made. Furthermore, given that an audit assesses the functioning of controls based on sample transactions from several areas selected for the audit, there may be risks that have not been assessed. It is for management to ensure continuous risk assessment and monitoring and establish controls to address those risks. IOS assists management in assessing the existence of risks and makes recommendations to address them.

29. Without clarity and action on all these issues the right enabling environment for effective oversight will not exist.

Section 3. Enhancement of evaluation and audit tools to support the achievement of the second long-term strategy

30. As explained earlier, the focus of oversight activities in the first strategy was on introducing, educating and capacity building the Organization in relation to various aspects of oversight, such as the need for the assessment of results and learning from evaluations, for the exercise of proper internal controls and compliance with rules/regulations, for proper accountability and so on.

Drawing on audit observations, training in UNESCO rules/procedures and in self-evaluation was conducted to improve awareness and recognition of the importance of proper controls, assessment of results and so on.

31. The focus of the second strategy is to enhance accountability for the effective and efficient achievement of programme results. The audit activities will now focus on performance in terms of economy, efficiency and effectiveness. In addition, while in the first strategy a high proportion of audit resources was spent on field audits, which was in line with the decentralization strategy of UNESCO, the second strategy will give increased coverage to Headquarters. The evaluation activities will cover assessment of UNESCO's strategic objectives and encourage management and the governing bodies to use evaluation results to improve strategic management, policy development and organizational learning. Both evaluation and audit functions will continue capacity building efforts on self-evaluation and internal control given that the results of this type of activity are fundamental to improving the culture of accountability and learning. However, as stressed earlier, it is important for management to recognize that oversight is not only a role for IOS, but also a responsibility for all levels of management.

32. The different emphasis on both evaluation and audit activities required IOS to revisit and enhance the evaluation/audit tools that had already been developed. For example, audit approaches and audit programmes have now been modified to focus on economy, efficiency and effectiveness. To learn from best practices and to keep abreast with developments in performance auditing, IOS auditors were provided with a training session on performance auditing given by the United Kingdom's National Audit Office.

33. A new software (*Teammate*) was acquired and implemented at the beginning of 2006 to allow the IOS audit team to record audit observations, recommendations, reports and other documents. This tool supports more effective and efficient audit activities in that it provides a more transparent process for following up the recommendations by allowing the audited entity to record directly in the database actions that have been and will be taken to implement the recommendations. This new software is being applied in 2007 to the recommendations arising from evaluations and the work of the External Auditors and the Joint Inspection Unit.

34. In 2006, IOS also started to put in place a support mechanism to meet the evaluation needs of field offices by requesting the offices to identify evaluations planned in the upcoming biennium. To identify credible external evaluators, IOS has expanded the roster of evaluators through a targeted search for evaluation experts. A robust quality assurance process for external evaluations was also introduced in 2006. IOS will continue to implement internationally recognized evaluation practices based on United Nations Evaluation Group (UNEG) Norms and Standards that were adopted in 2005.

Section 4. Dissemination of lessons learned and good practices observed during the implementation of the first long-term strategy

35. One of the major challenges for the Organization associated with learning and decision-making that needs to be addressed by management is that there are no systematic processes in place to document various lessons learned and good practices. In 2006 IOS set out to improve the utilization of the results of evaluations (i.e. the follow-up to evaluation for both learning and accountability purposes) by enriching the modalities used to disseminate key evaluation lessons and other valuable evaluative information. It established mechanisms to encourage greater participation and ownership of management in the follow-up to evaluation and established an accountability mechanism to ensure that appropriate action is taken.

- Evaluation report findings are now more readily available to UNESCO staff and the general public. In 2006, 16 reports were posted to UNESCO's main database (UNESDOC) and the IOS website (www.unesco.org/ios) and a total of 71 evaluation-related reports are now online.

- IOS provided syntheses of past evaluations to the Major Programme II/III Committee to inform their deliberations aimed at improving the overall coherence and effectiveness of the Science programmes.
- In 2006, IOS submitted the findings from eight external evaluations to the Executive Board. As from 2007 (176 EX/28), IOS will disseminate the findings from evaluations to the Executive Board in a tabular format to facilitate decision-making by the governing bodies and senior management.
- The findings of thematic evaluations that contain lessons relevant to the work of the wider evaluation community such as exit strategies and capacity-building (176 EX/28) are disseminated directly to the respective evaluation units of all United Nations entities.
- In the external evaluation of cross-cutting themes, the evaluation team made extensive use of focus groups. Approximately 60 UNESCO staff participated in a series of focus group discussions. In addition to serving as a means to collect qualitative data, the focus groups were used to enable the evaluators to share emerging findings, to test out the practicality of recommendations and, in effect, to strengthen the chances of organizational learning.
- As a follow-up to the 2005 evaluation of UNESCO's Community Multimedia Centre (CMC) initiative, the Communication and Information Sector produced a brochure designed to share key findings and lessons from the evaluation for dissemination to the wider development community (<http://unesdoc.unesco.org/images/0014/001492/149280e.pdf>). Subsequently, the Sector has also sought to promote intersectoral cooperation on community access and ICTs within UNESCO based on the evaluation's findings. This initiative responds directly to one of the key findings/recommendations of the evaluation, which suggests that UNESCO should undertake a thorough cross-sectoral review of all its models for community centres for learning, information, culture and communications with a view to strengthening collaboration. The action taken in response provides a concrete example of the Organization learning from an evaluation.
- As a common practice in participatory evaluation, evaluation findings are now also disseminated to all individuals, including non-UNESCO staff, interviewed or consulted during an evaluation. This ensures a broader distribution of evaluation findings and increases the likelihood that good use will be made of evaluations.

36. On the audit side, from the establishment of the IOS in February 2001 until the end of 2006, in addition to 24 Headquarters audits, IOS undertook 79 field audits (some offices were audited more than once). A key element of IOS's strategy to help to strengthen the control environment in UNESCO is through a strong emphasis on preventive action by disseminating consolidated audit observations and good practices to all field offices. Examples are consolidated reports on field audit observations, which were widely disseminated, participation in training for administrative officers to disseminate lessons learned and good practices observed during audits. In addition, since January 2004, at the end of each field audit, the IOS audit team organizes half-day training sessions to assist offices in addressing issues observed during the audit. These training sessions include practical exercises such as how to calculate travel entitlements correctly and how to select the proper type of contract. The topics covered in this training vary between offices depending on the audit observations in each office. The response to the above initiative has been encouraging and offices have requested that the training material used by IOS be shared with them to provide guidance in day-to-day operations.

37. In 2006, IOS prepared a CD-ROM in response to these requests from field offices and also in continuation of IOS's strategy of capacity-building through disseminating lessons learned and good practices. The CD-ROM contains 125 multiple choice questions/cases which relate to issues or risks observed in several, or most, field locations during IOS field audits. By learning from the answers and explanations to these questions/cases, staff will improve their knowledge of UNESCO

policies and procedures, as well as good practices that should be followed or poor practices that should be avoided. For each case, the CD-ROM also provides links to the relevant Administrative Manual or Circular items. The objective is for the CD-ROM to provide a useful interactive learning experience for staff dealing with financial and administrative issues, and help all other staff too to improve their knowledge and awareness of the Organization's policies and procedures in order to strengthen the control environment and to improve the culture of accountability in UNESCO. Its use in Headquarters, and the field is being actively promoted. The Bureau of Field Coordination (BFC) is very supportive of this initiative and has agreed to provide the necessary updates to the CD-ROM. The responses received so far from some offices are very encouraging. The following are quotations received from some field administrative officers: "IOS CD-ROM provides a concrete and NEEDED training for all UNESCO staff members. It creates also a useful link between administration staff and programme specialists working together"; "The information clarifies a lot of misunderstandings and clearly draws the line of authority and responsibility, checks and balances. The explanations are fantastic"; "It's like an IDIOT'S GUIDE or TOOL for AOs, with thorough information and knowledge that AOs often want to ask but are sometimes afraid to ask".

38. To improve the culture of learning within UNESCO further, IOS will continue in the coming strategy to disseminate lessons learned and good practices. However, it is management's role to ensure that the lessons learned and good practices are applied.

Section 5. Continuing capacity-building activities in the second long-term strategy

39. Some of the main challenges faced in undertaking evaluations remain the absence of, or weak, baseline and data monitoring which makes it difficult to undertake evaluations. There is persistent confusion between "outputs" and a flawed articulation of performance indicators. A significant constraint in undertaking audits remains the lack of transparency in administrative and financial decision-making, for example appointment of a consultant without a documented selection process, a call for quotations which was done verbally by telephone and absence of any documentation to show the basis for the amount of a contract.

40. Therefore, there is a strong need for both the evaluation and audit functions to continue capacity-building efforts. In 2005, IOS initiated evaluation training based on practical real-life case studies in three field offices. It was based on real programme and project cases selected by the participants from among their own portfolio of activities. The advantage of this approach was that the outcome from the case-based exercises can be applied directly to the ongoing work of the participants. The feedback received in 2006 showed that some of the participating programme staff had been applying what they had learnt in their ongoing management of the programmes/projects for which they were responsible. A challenge in this initiative is for management to ensure that training results are applied and utilized.

41. In 2006, IOS took the same initiative in the two largest UNESCO field operations, that is Iraq and Brazil. In the case of the Iraq Programme, the Office requested IOS assistance to support the Office's efforts at improving its monitoring and evaluation (M&E) processes.

42. In the case of Brazil, IOS was requested by Headquarters' management to provide support for M&E within the context of the ongoing reorientation of the Office. In both cases, IOS provided support in the form of training, coaching, frequent dialogue on M&E issues raised by the field offices, and assistance in developing appropriate M&E systems, including accompanying M&E tools. In both cases, IOS's support was structured as set out below:

- **Diagnostics/assessments** of the M&E practices of the offices, including a critical review of the documentation for several projects selected by the offices as real cases to be used as the base for the discussions and hands-on work. This approach guaranteed the "usefulness" of the support provided, in that the results from the training and coaching went directly into project implementation work being undertaken by the staff members concerned.

- **Two-day hands-on M&E workshops** with staff members in the Office, followed by coaching in small groups of two or three on development of the M&E system. Various M&E tools were introduced and applied, including the RBM Programme Logical Score Card used for assessing the consistency of the programme logic/theory of change inherent in given projects, results-based reporting formats and so on.
- **Discussions with sister United Nations agencies** with respect to their own M&E practices. These discussions were undertaken with a view to identifying opportunities for collaboration between the various sister United Nations agencies and the two UNESCO field offices.
- **Ongoing dialogue** between IOS and the field offices in the period following the initial training missions. Finally, follow-up missions were undertaken to assess progress in the development and functioning of the M&E systems and to confer on a programme of evaluations to be undertaken in the next two years.

43. In 2006 alone, a total of 75 staff members participated in the above training and practical exercises. The training sessions achieved their original objectives, namely that “after the training, staff members in the field offices would have increased their knowledge and skills in M&E, and that by the end of the biennium they would have implemented at least one M&E plan for a project of their choice”. The follow-up missions confirmed that this had happened. For instance, a results-based reporting format introduced to the Amman Office was found useful by the United Nations Country Team (UNCT) as a whole, and UNESCO was asked to lead a task force working on improving progress reporting to the Steering Committee of the United Nations Development Group Iraq Trust Fund (UNDG-ITF). The success of the training was due basically to the fact that it directly addressed gaps identified during the diagnostics and was based on real life projects in various stages of implementation in the field offices. However, more sustained action is needed by management in both of these field offices, and in field offices more generally, to strengthen monitoring and evaluation practices.

44. In the future strategy, following the success of this initiative in practical training undertaken in 2005-2006 using real projects as case studies, IOS will seek to expand this capacity-building initiative by providing practical M&E training to other offices and to institutions in Member States.

Section 6. Closure of implemented recommendations issued during the implementation of the first long-term strategy

45. Oversight activities will only be useful for the Organization if the recommendations issued based on observations from these activities are implemented by the relevant entities. It is the responsibility of management to ensure that the recommendations, once accepted, are implemented. The implementation of evaluation and audit recommendations contributes to enhanced accountability, improved strategic management, policy and programme development, organizational learning and internal control.

46. In 2006, continuing the efforts made in 2005, significant IOS resources were invested in following up the audit recommendations issued and agreed during the implementation of the first long-term strategy. The aim was to encourage management to implement fully all recommendations issued in 2001-2004. Despite the efforts made by many offices and some Headquarters units, at the end of 2006 there remained 16% of 2001-2002 recommendations and 15% of 2003-2004 recommendations which were still outstanding. Non-implementation of audit recommendations exposes the Organization to risks and management should indicate the reasons for assuming the risk (e.g. because of cost implication, inadequate resources, etc.) and such decisions should be documented.

47. It should be noted that even when a high percentage of audit recommendations have been implemented, it does not indicate that everything is perfect. The audits were based on a sample of transactions in functional areas such as payment processing and contract administration which

were identified through a risk-assessment process. The audits do not seek to cover all activities of the audited entity, so there may or may not be inadequately-controlled risks which have not been covered. While the audit exercised due care in the assessment of the risk of fraud and any suspected fraud or mismanagement reported before or during the audit, and any significant irregularity identified by the audit, consistent with generally-accepted auditing standards, the audit did not seek to uncover fraud, which is, by definition, intentionally concealed. Therefore, as stated in earlier IOS annual reports, the responsibility for ensuring proper internal control is the responsibility of management. Audit provides assistance in identifying some areas where internal control needs to be improved but management is responsible for ensuring the effective functioning of controls in all areas.

48. Furthermore, management is also responsible for ensuring that the action taken to implement recommendations is sustained. There were cases where IOS reviews showed that action taken to implement some recommendations had not been continued and IOS was obliged to re-open those recommendations.

49. In 2005, IOS reported mixed results with regard to the implementation of evaluation recommendations. The quality of the action plans formulated to address given recommendations were generally poor. The information provided was often insufficient as a basis for determining whether actions taken were appropriate. Furthermore, IOS highlighted the need for a better mechanism to ensure that the units responsible take appropriate action in response to evaluation.

50. During 2006, IOS submitted eight external evaluations to the Executive Board (174 EX/19 and 175 EX/23) and action plans were established for each evaluation. The action plans for evaluations submitted since 2004 demonstrate progress, with some improvements being made in areas such as programme design, implementation and monitoring. In two cases the programme being evaluated was discontinued: in one case an action plan was not submitted by the service concerned and in another the actions were awaiting approval by the governing body.

51. As noted in the report on the implementation of the UNESCO evaluation strategy (175 EX/26), the primary obstacle is that many evaluation recommendations are of a strategic, policy nature which requires a longer time horizon in order to identify tangible improvements. Programme sectors are usually quick to act upon the more operational recommendations, but less so on these more strategic considerations. IOS will seek to establish steering groups for future evaluations. This will help to encourage senior management to take ownership of evaluation findings.

52. IOS has taken several initiatives, in its quality assurance role, to increase the likelihood that action will take place in response to evaluations. Before the start of an evaluation, IOS has since 2006 been providing evaluators with technical guidance to ensure that evaluation recommendations are relevant, measurable, time-bound and make clear the responsibilities for their implementation (follow-up). IOS also requests evaluators to consider closely the feasibility (i.e. cost implications) of report recommendations. Since 2006, UNESCO management are now asked to report on the cost implications of actions planned in response to recommendations as part of their action plans. Lastly, IOS continues to emphasize that recommendations must be linked to the terms of reference and overall objectives of the evaluation. These quality assurance measures are in full compliance with the United Nations Evaluation Group (UNEG) Standards with regard to evaluation reports and their follow up.

53. To assist Headquarters units and field offices in monitoring their audit recommendations (evaluation recommendations will follow) and to record the status of implementation, IOS implemented a new computer application called *Teammate* in 2006. During the year, IOS successfully rolled out this system to 46 field offices/institutes and 22 Headquarters units. In total, an equivalent of 80% of the time of two IOS auditors was spent in 2006 on planning, installing, customizing, implementing, providing support and training for the software, and migrating over 5,000 old recommendations from the earlier system to *Teammate*. This investment of IOS staff

resources was well spent given the advantages that the system provides, that is to facilitate a timelier, more systematic and transparent monitoring of the implementation of recommendations. It also saves both IOS and the audited entities time in recording the implementation status as all parties are working on the same database. Both sides can see the updated status in real time mode. Analytical reports (ageing, etc.) on the recommendations can also be obtained. Audited entities have the ability to consult and make updates on the implementation status online making the process more efficient. Supporting documents as evidence that the recommendation has been implemented can be attached electronically to allow IOS to validate them which also leads to savings on faxes and courier costs.

Section 7. Continuing fruitful cooperation and networking with the United Nations audit and evaluation community

54. In the past few years, IOS has successfully built a fruitful network with other United Nations entities. IOS hosted the meeting of the Representatives of Internal Audit Services in 2004, the meeting of the United Nations Evaluation Group in 2006 and commissioned several training sessions and workshops, inviting participants from other entities.

55. In 2006, there were several practical collaborations in relation to the “working as one” initiative. For example, IOS participated in the working group which prepared common audit guidelines for auditing Multi-Donor Trust Funds (e.g. Iraq Trust Fund) and IOS tested these guidelines in the audit of the Iraq Programme at the end of 2006.

56. IOS maintains continuous participation in various United Nations Evaluation Group working groups and plays a leadership role as chair of the working group on Evaluation Capacity Development. Over the past five years, IOS has participated in two evaluation working groups of the Joint United Nations Programme on HIV and AIDS (UNAIDS). A Performance Monitoring and Evaluation Framework was developed which will enable joint and individual agency monitoring of progress towards results. IOS also presented a paper to the annual meeting of the European Evaluation Society. Networking at this level enables IOS to stay abreast of emerging developments in the practice of evaluation, to share experiences with peers from around the globe, and to build contacts with experts in the field of evaluation and audit.

57. The recently released High-Level Panel on Coherence report, “Delivering as One”, raised several issues relevant to the evaluation function. The focus is on evaluation at the country level. It calls for the establishment of a common evaluation mechanism and methodology and an independent system-wide evaluation unit. IOS was active in initiating debate and securing a commitment to preparing a position paper to help put the proposals into practice.

Section 8. Establishment of long-term work plans, and gap analysis between plans and resources to support the achievement of the second long-term strategy

58. The ongoing success of the implementation of the oversight strategy depends greatly on achieving and maintaining alignment with the role that management needs to play to create the right enabling environment for effective oversight. Moreover, there is a constant need to rebalance oversight priorities and resources in order to effectively address multiple risks. To this end, IOS has undertaken analysis to help the Organization achieve a successful balance between demands, priorities and resources, as well as aligning IOS efforts with the key role played by management.

59. The analysis started at the end of 2006, when IOS prepared a risk-based long-term audit work plan to support the implementation of the second long-term strategy. In the development of the work plans, the audit and evaluation universe was identified. The objective of risk-based auditing is to ensure that audit resources are directed towards the audit entity with the highest risks. Therefore, a risk model is developed to identify which audit entities from the universe should be prioritized. The risk model rates each audit entity, and the processes they apply, using risk factors such as the size of the budget, human resource capacity to implement the activities within

each audit entity and so on. The output is a list of audit entities based on the “weight” of the risks for each entity which was measured using the risk factors.

60. A similar long-term work plan was established for evaluation, based on a priority setting model. Following this, a gap analysis was prepared for both the audit and evaluation functions to assess what can realistically be implemented based on the available IOS resources. While the Director-General has increased the budget of IOS for 2008-2009, the lack of senior staff capacity within IOS is impacting on the results that can be delivered. This is particularly so following the departure of the head of the audit function (P-5 post is vacant), who had been instrumental in all IOS audit and management support activities, and the difficulty in recruiting staff with appropriate skills and commitment. This has obliged IOS to adjust its work plans to “fit” the available resources. For example, it has been forced to lengthen the field audit cycle from the planned 3.5 years to up to 4.5 years, to postpone some Headquarters and IT audits, and to reduce IOS contributions to management support activities. IOS resources for evaluation are budgeted to cover the provision of support to evaluations commissioned by Headquarters sectors, services and field locations, in assessing processes that exist for monitoring and evaluation, and in providing quality assurance for external evaluations. However, the resources or funding for the evaluations themselves need to be secured by the relevant sectors/field location. This is a continuing significant challenge which management must address. It should not be for IOS to have to request continuously that funding be made available for this purpose.

61. The approaches used for the establishment of the IOS work plans and the gap analysis on IOS resources were presented to the Oversight Advisory Committee.

Proposed draft decision

62. In the light of the above, the Executive Board may wish to adopt a decision along the following lines:

The Executive Board,

1. Recalling 160 EX/Decision 6.5 and 164 EX/Decision 6.10,
2. Having examined document 176 EX/38,
3. Takes note of the contributions made by the Internal Oversight Service (IOS) to improving the management of the Organization as part of its ongoing reform;
4. Takes note of the Director-General’s commitment to take action in response to issues raised in this report and to take further action on issues raised in document 174 EX/29 where improvements are still needed.



United Nations
Educational, Scientific and
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COMMENTS BY THE DIRECTOR-GENERAL ON THE IMPLEMENTATION OF THE INTERNAL OVERSIGHT SERVICE (IOS) STRATEGY IN 2006-2007

ANNUAL REPORT 2006

CORRIGENDUM

I. Paragraph **46**, in the English version, should read as follows:

46. In 2006, continuing the efforts made in 2005, significant IOS resources were invested in following up the audit recommendations issued and agreed during the implementation of the first long-term strategy. The aim was to encourage management to fully implement all recommendations issued in 2001-2004. Despite the efforts made by many offices and some Headquarters units, at the end of 2006 there remained 16% of 2001-2002 recommendations and **25%** of 2003-2004 recommendations which were still outstanding. Non implementation of audit recommendations exposes the Organization to risks and management should indicate the reasons for assuming the risk (e.g. because of cost implication, inadequate resources, etc.) and such decisions should be documented.

II. Paragraph **62** should read as follows:

62. Having considered the above, the Executive Board may wish to adopt a decision along the following lines:

The Executive Board,

1. Recalling 160 EX/Decision 6.5 and 164 EX/Decision 6.10,
2. Having examined document 176 EX/38,
3. Takes note of the contributions made by the Internal Oversight Service (IOS) to improving the management of the Organization as part of its ongoing reform;
4. Takes note of the Director-General's commitment to take action in response to issues raised in this report and to take further action on issues raised in 174 EX/Decision 28 (taken on examination of document 174 EX/29) where improvements are still needed.