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STATEMENT TO THE FIFTH COMMITTEE OF
THE GENERAL ASSEMBLY

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AND
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Introductory Remarks

Excellency, Ambassador Ružička,

Thank you Mr. Chairman for your welcome

1. It is again an honour to address the Fifth Committee and, on behalf of my Board colleagues, to draw out and reinforce some of the important messages from the Board's work in biennium 2012-2013.
2. Can I stress from the outset, that having been on the Board for four years, and almost two as the Chair, that I am struck by the remarkably consistent and shared view my Board colleagues and I have on all of the issues we have reported to you. We take pride that we are unanimous in the views expressed in our reports and in the assurance we provide to you, the member states, on the use of your funds within the United Nations and its funds and programmes.

Chair

3. My statement builds on my remarks last year, but also more recent discussions with the United Nations Management Committee and my own experiences of seeing at first hand the High Commissioner for Refugees' operations in Jordan. There is nothing in what I am saying to you now that we have not said to management.
4. As we report UN entities generally have a relatively stable financial position. However, the Board recognises the great challenge that management across the United Nations system has in fulfilling vital mandates at a time of unprecedented humanitarian and other crises. Against this background we note:
 - This is occurring at a time of ongoing fiscal constraint.
 - Heightened public scrutiny of spending (and increasing taxpayer focus on bilateral and multilateral aid budgets at the national level).
 - The emergence of new models of public service delivery that will operate at a significantly and sustainably lower cost.
 - Changes in the ways in which donors are prepared to fund international entities driving new service delivery models in UN entities.
5. In this context business transformation and improvement is vital because, like many organisations, United Nations entities cannot assume that the same or increased levels of funding will always be available or predictable. Resources are finite but mandates are increasing and therefore, as the Secretary General himself recognises, improved efficiency and cost-effectiveness are no longer optional.
6. And change is clearly happening. Across many of the reports we acknowledge the impressive level of management effort and commitment and the progress that has been made. For example, we acknowledge significant and ongoing improvements in financial management and reporting linked to the implementation of the new accounting framework (IPSAS). Overall, the Board is very supportive of what is being done, but management are increasingly under pressure to demonstrate that member states' investment in business transformation is translating into tangible and beneficial change (new ways of working, reduced costs, improved productivity, more cost-effective delivery).

7. Most importantly it is vital that increasingly constrained resources get to those who desperately need them, and are not locked into administrative overheads, entrenched methods of operating or inflexible structures. I am sure you share this view. It is something I have been reflecting on, and something that has been reinforced since seeing first-hand the delivery of frontline United Nations operations. Fundamentally, while financial pressures or challenges may be an important driver, the need to drive towards improved value for money in administration is a worthwhile and ethical aim in itself. In other words the United Nation's system should be using its resources to best effect because of the needs of those whom it serves. In this regard the need for greater transparency and downward pressure on administrative overheads is a feature of many of our reports, and a theme the Board will continue to examine.

Important messages from the recent suite of emerging reports

8. Turning to the Board's current reports, we have provided a large number of reports across an array of diverse and important organisations and topics. For example, you will see a strong theme in many reports on the need for improved management of implementing partners in global operations and the need for robust selection and monitoring processes. You will of course be discussing the underlying detail in our reports with the Audit Operations Committee over the coming weeks.
9. But I would like to highlight four important findings, and I make no apology that these are focused on the United Nations:
 - Enterprise risk management
 - The delivery of the UN's new enterprise resource planning system (Umoja)
 - The UN regular budget process
 - Tackling the risk of external fraud

Enterprise risk management

10. Enterprise risk management is a fundamental pillar of effective governance and a key strategic management tool to understand and address opportunities and threats to the successful delivery of mandates, as well as threats to the reputation and future of

organisations. The Board has been pressing for an effective organisation wide (or enterprise) approach to risk management in United Nations entities.

11. I want to highlight that the steps taken by the United Nations Management Committee to define a small number of strategic risks and a governance structure to address these risks and establish appropriate internal controls is a very positive development in this regard. It is also evidence that the United Nation's senior management can work together effectively to develop a common and shared understanding of the strategic issues facing the organisation. More work is required to refine and embed the approach, but we consider the initiative worthy of support.

The risks to the delivery of the new enterprise resource planning system

12. As the Board has consistently stated, the United Nations new enterprise resource planning system (Umoja) is a significant and necessary ambition to modernise processes and replace out-dated systems. We have previously highlighted significant problems, but also acknowledged the efforts to recover. In our last report we particularly highlighted the critical need to get the business ready to adopt new ways of working prior to roll-out.
13. We note that the roll-out of the foundation phase in peacekeeping has proved challenging. The existing ways of working proved much more diverse amongst missions than management expected, and the training provided did not leave local staff and management in a position to operate the new end to end processes. Rectifying this has required considerable effort and resource. This is not unusual for ERP projects. In my experience it is rare that major ICT enabled business transformation projects work first time. Indeed, the problems that have surfaced in peacekeeping are themselves good evidence of the need for Umoja.
14. Viewed positively management are getting valuable insight into the issues they face. Implementation is flushing out the problems with old and inconsistent ways of working and management are laying the foundations for a more disciplined, efficient and consistent set of business and management practices. But this is consuming more of the budget and timetable than expected; and if we project forward, with the

potentially more challenging roll-outs across the Secretariat to come, it is likely that Umoja will cost more than estimated and full functionality may take longer to deliver.

15. So this vital project is at a critical juncture, and management must draw effective lessons from the peacekeeping roll-out experience, and plan the remaining rollouts on a sounder and more realistic footing. At the same time management need to clearly set out the scale of benefits expected and how they will be delivered, so that the Fifth Committee can understand the full costs and benefits expected to aid its decision making; and the benefits to reduced overheads, faster delivery and improved information and decision making should be very considerable.
16. For its part, the Board considers the successful implementation of Umoja is vital and that there is no turning back. The deeply entrenched problems in the current ways of working must be addressed. But to get value from the future spend and arrive at a positive position management must in our view invest much more in business readiness prior to future roll-outs; and plan realistically, providing member states with the best estimate of what realistically the implementation of full functionality will entail. Importantly, the plans should include time and cost provisions for uncertainty and risk to avoid having to keep requesting more funding and further extensions from the General Assembly.
17. Perhaps most fundamentally, the Administration needs to act decisively on its growing recognition for an increased focus on change management. In so doing it must clarify the accountability of each Under-Secretary-General and head of business unit for the changes that need to occur in their part of the organisation; and how they will be supported in that by the process owners and the project team. In other words, success is dependent on the business, the process owners and the project team working together but with clearly defined roles and accountabilities. And none of this will work if individuals, once their accountabilities are clarified, are not provided with the means to deliver, or are not properly held to account for delivery.

The regular budget process

18. The Board recognises that the regular budget currently provides value. It provides a clear framework for the delivery of agreed mandates within defined levels of resource; and the process enables member states to arrive at a consensus that legitimises the budget. These worthwhile benefits need to be preserved. And nothing the Board is reporting undermines these important concepts nor have we made any recommendations for radical change. But at the same time, in our view, the process could be significantly improved and provide much more strategic value to the organisation.
19. That is why we make some practical observations and recommendations on how the budget proposal production process can be streamlined from the point at which the budget instructions are sent to departments, to the point at which the Secretary General's proposal is ready to go for printing and translation prior to ACABQ. It is also why we highlight the level of divergence from recognised principles of good practice that apply to any budget process. This work has led us to conclude that the regular budget process takes too long and is not built on a good understanding of the real costs of delivering mandates. Management does not have this information so the budget always reflects what it did cost in the past, not what it should cost or will cost to deliver in the future.
20. The process also reinforces existing structures and costs, because it is an incremental bottom up process with no incentive to offer different ways to allocate resources or reduce costs. The process also costs too much, especially when we see the level of non-value adding activities in the process. The point on the cost of the process is reinforced by the fact that the main elements of the budget change very little over time. Let me be clear. We are not saying that the level of change in the budget across biennia is too low. We are objectively stating that, given staff costs are such a significant part of the budget and because they have not changed much over the last three biennia, there is a low level of change overall, and therefore the production of the budget proposal should cost less than it does.
21. Nor is the regular budget being used as an effective tool for management. Budgets should facilitate financial control, the prioritisation of operational delivery, and

accountability for delivery. If used well they can also facilitate cross-boundary pursuit of value for money and sustainable cost reduction, and support results based budgeting and management. Budgets can also be one of management's primary levers for change. Conditional budgets, even within business units, can be powerful tools. But judged against international best practice criteria the regular budget provides limited strategic value in the areas outlined.

22. My Board colleagues and I think there is the need for a debate on what type of budget process this organisation wants because it is one of the most fundamentally important financial management tools. Such a debate would be very timely because the Administration is starting to design the budget module for the new enterprise resource planning system. So there is an important opportunity now to improve the budget process and avoid expensive future retro-fitting of processes and systems. Finally, it is important to note that Umoja will not in itself deliver a modern and cost-effective budget process. Management must be willing, in our view, to strip out the unnecessary overhead, to work with member states to re-define what the budget is for and the information needed to support effective decision making. And then align the process to deliver this.

Tackling the risk of external fraud

23. All United Nations entities are exposed to fraud risks given the high risk environments in which they operate. It is unsurprising therefore that fraud cases have emerged in the last biennium. In the case of the United Nations, in relation to pooled funds in a high risk country operation being managed by the Office for the Coordination of Humanitarian Affairs (OCHA). We acknowledge OCHA's improvements to the general control environment in response to the Board's previous concerns; and the further steps to address the fraud threats in the complex arena of managing and coordinating pooled funds. But much more work is needed to understand the fraud risks that may exist in other high risk country operations.
24. More generally we think the United Nations needs a better understanding of the fraud risks it faces, in particular external fraud risks, across all of its activities

(peacekeeping, global procurement, humanitarian affairs), and in all of the environments in which it operates. And based on this improved understanding to develop a strategic and integrated counter fraud strategy along with clear protocols for staff to follow when fraud cases emerge. A strong and robust approach to these issues is necessary to help maintain donor confidence.

25. The United Nations is not alone in facing these risks. Indeed, some of the frauds experienced in the biennium point to the need for more effective sharing of information between entities, and for a more effective way to deter, investigate and pursue frauds that straddle organisational boundaries. That is why in the Concise Summary we suggest, without any pre-conceived notion of what form the solution might take, that management across the United Nations system should assess whether a system wide counter fraud unit needs to be established.

Concluding remarks - senior managements role in major transformation

26. I highlighted at the start that public service delivery is evolving to operate at a lower cost base, and that the United Nations system is not immune to these changes. That is why business transformation projects are so important in laying the foundations for streamlined business administration and cost-effective mandate delivery.
27. A target operating model, at least articulated in high level terms, is needed to help guide successful delivery of transformation in any organisation (which is why the Board has been highlighting this issue). A target operating model is an articulation of how the organisation will organise its resources to achieve its strategic objectives, detailing what work will be performed by which staff in what locations. Without it there is a risk that management will not secure the support of key stakeholders to the future shape of the organisation; and an increased risk to value for money if the transformation effort does not support the future shape of the organisation. Defining a model can be a powerful way of shaping coherent change and providing clarity of objectives. As yet the United Nations does not have a clear and agreed model for the future United Nations.

28. Finally, management have taken on a tremendous amount of concurrent change in the United Nations. This requires an integrated approach with senior management leading in a coordinated, consistent, and well controlled fashion. We note the emergence of a more disciplined approach to this. But this is a complex issue. It touches on how to tackle entrenched staff and management cultures; and poses questions about the skills needed by management to drive complex activities and deliver effective managerial and administrative reform.
29. On that note I would like to place on record our thanks to our outgoing colleague Mr Liu Jiayi, Auditor General of China for his excellent contribution to the Board and for the outstanding contribution he and the Chinese National Audit Office have made to improved accountability and governance within the UN system. I would also like to thank to Mr Ludovick Utouh, Auditor General of the United Republic of Tanzania, for his excellent contribution and to wish him a well-earned retirement. We of course look forward to working with his successor. It is also with equal pleasure that we welcomed Mr Shashi Kant Sharma, Comptroller and Auditor General of India, who took up his formal position on the Board in July this year.
30. Chair that concludes my statement.