

# United Nations Nations Unies

## BOARD OF AUDITORS

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### Opening statement to the Fifth Committee

#### Introduction to the UN Board of Auditors report on the implementation of International Public Sector Accounting Standards (A/69/155)

9 October 2014

Dear Chairman,

Distinguished delegates

On behalf of the Chairman, Sir Amyas Morse (UK) and the other Board members, Mr. Liu Jiayi (China) and Mr. Ludovick Utouh (Tanzania), I have the honour to introduce the report of the United Nations Board of Auditors on the implementation of the International Public Sector Accounting Standards (IPSAS).

The scope of this fourth progress report on IPSAS covers the nine funds and programmes that went IPSAS live in 2012; the UN and its peacekeeping operations; and the remaining entities in the Board's portfolio going live in 2014.

I would like to inform you that the Board of Auditors has undergone a change in its composition. In July this year, the Auditor General of the People's Republic of China was replaced by the Comptroller and Auditor General of India. This change in Board membership has had no impact on the responsibility for this report.

#### **Key findings**

By the end of 2014 all UN system entities, including the United Nations and its funds and programmes will have implemented IPSAS. The level of progress reflects the commitment and energy of the entities concerned and represents a major step towards the modernisation of the UN system. All the entities that went live in 2012 again received unqualified audit opinions; and the remaining entities going live in 2014 have made significant progress.

The real test will, however, be whether the entities can quickly translate the new information into measurable improvements in operations and the cost-effective delivery of mandates. This is where more progress is needed and where the Board will focus in future audits at entity level.

*Benefits realisation at the funds and programmes that implemented IPSAS in 2012 and the United Nations*

**The nine entities that implemented IPSAS in 2012 and the United Nations have all made further progress in developing and implementing benefits realisations plans.** The results are not yet ready for reporting and the Board is encouraging the capture of both quantitative and qualitative benefits.

**There is clear evidence that IPSAS implementation has led to improved financial management processes.** The Board is seeing improvements in monthly and end year financial closure processes, and improved monitoring of key processes and controls.

**To varying degrees, all entities' have used the new information under IPSAS to enhance the frequency and quality of the financial information being provided to management.** Information provided includes key performance indicators, financial ratios and the tracking of key account balances, for example, accounts payable and receivable to better manage funding pledges from donors. The next step for all entities is to use this new information to improve decision making and managerial oversight of operations; the Board will be looking for clear evidence of this in its future audits.

**There is less evidence that the new financial information is as yet being used outside of finance units to drive improvements in business functions, operations and the more cost-effective delivery of mandates.** One positive example, however, is the United Nations strategic capital review which is using new information on assets produced under IPSAS to propose a more cost-effective way of planning and prioritizing capital maintenance projects on a comparable basis.

**There has been uneven progress transforming the role of the finance functions across UN entities,** but there is a growing need for finance functions to lead the drive towards improved financial management across the whole business, to help managers understand costs, and facilitate more cost-effective delivery of mandates. This will require investment in developing enhanced financial management skills across the entire organisation, which some entities have recognised and are acting on (such as UNDP, UNICEF and UNFPA).

*Progress on IPSAS adoption at the United Nations and its peacekeeping operations*

**Management are strongly committed and engaged at local, headquarters and senior levels on the implementation of IPSAS in the United Nations and its peacekeeping operations.** But the inherent complexities and transitional implementation arrangements, involving the use of multiple enhanced legacy systems and the parallel implementation of the new enterprise resource planning system (Umoja), as previously reported, are challenging and increase the risk of error being introduced through one of the systems.

**While significant progress was made in preparing materially correct opening balances for peacekeeping missions the opening balances were finalised four months later than planned.** The Board, however, has not been able to provide assurance that in-year transactions and balances are being appropriately processed, accounted for and reported. The Board also notes additional pressures arising from late completion of dry

run financial statements and the delay agreeing a methodology for estimating the value of inventory holdings for peacekeeping operations. The Administration is aware of these issues and is working to resolve them.

**Major and as yet not fully resolved issues with financial transactions have emerged following the implementation of the United Nations new enterprise resource planning system in peacekeeping operations.** During the previous peacekeeping financial period (2013-14) there have been high volumes of open and unreconciled transactions in respect of bank reconciliations, accounts payable and payroll, potentially affecting the integrity of peacekeeping accounting and financial records, and which may also indicate that key internal controls may have been inoperable throughout or for part of the financial year. The Board will conclude on this matter as part of its next audit of peacekeeping operations for the year ended 30 June 2014.

**The Board cannot as yet provide assurance over the control environment for the full consolidation process across the complex system architecture for IPSAS financial statements production for the United Nations,** because this work, at the time of this report, was not complete nor tested. It is critical that the control environment is complete and tested by fall 2014.

*Progress on IPSAS adoption at other UN entities going live in 2014*

**Considerable progress has been made by the twelve entities in addressing the Board's previous concerns expressed in its second progress report (A/67/168).** While there can be no guarantee, the entities have good reason to expect successful production of first time IPSAS compliant financial statements for the financial period ended 31 December 2014.

Finally, in paragraph 5, the Board indicates that this current fourth progress report on IPSAS will be the last such report. As all entities will have implemented IPSAS in 2014 the debate should, in the Board's view, shift to the more cost-effective delivery of mandates by entities using IPSAS as one of a number of management tools. Should any major issues arise with the remaining implementations they will be fully reported in the report on the relevant entity? This proposal is cost-neutral as the Board did not request any fee for the production of the IPSAS progress report. The Board will of course continue to support management in its primary duty to drive, deliver and report benefits from IPSAS implementation.

Chair

That concludes my statement. My Audit Operations Committee colleagues and I are of course available to answer any questions that the Committee may have.

**Hugh O'Farrell**  
**Director of External Audit (UK)**