

# United Nations Nations Unies

## BOARD OF AUDITORS

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### Opening statement to the Fifth Committee

#### **The Reports of the United Nations Board of Auditors (Concise Summary, Vol.1, ITC, UNU, UNDP, UNICEF, UNRWA, UNITAR, UNHCR, UNEP, UNFPA, UN-Habitat, UNODC, ICTR, ICTY, UN Women, UNOPS, UNCDF, MICT)**

**16 October 2014**

Mr Chairman,

Distinguished representatives,

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 the main findings from the Board of Auditor's Concise Summary and the reports for the audits conducted on financial statements for the period ended 31 December 2013.

I would like to inform you that the Board has undergone a change in its composition. In July of 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 the reports covered by this statement. The Director of External Audit (China) is available to the Committee for the discussion of the relevant reports.

#### **Key findings**

This statement, by way of introduction, summarises at a high level some of the key findings and important themes which have merged from the Board's audits.

#### *Audit opinions*

There were no qualified opinions for the 19 of the entities plus the United Nations peacekeeping operations audited in the period:

- All nine entities that implemented IPSAS in 2012 again received unqualified audit opinions for the financial year end 31 December 2013;
- All ten entities reporting biennially under UNSAS received unqualified audit opinions.

The Board has reported separately on the implementation of the International Public Sector Accounting Standards. This report (A/69/155) is already under consideration by the Fifth Committee.

#### *Financial management*

The Board's review of the financial position of entities that have implemented IPSAS, and for some entities still using UNSAS, shows that all entities can demonstrate a basically sound financial position. The cash ratio for UNRWA and UNFPA is less than 1:1, but the Board notes that this shortfall is only in terms of liquidity, and that both entities have relatively good current ratios, involving other (near-cash) current assets which can be converted to meet liabilities as they fall due. Overall, UN-Women's financial ratios are relatively high because it received significant contributions of \$37 million towards the year-end (held as cash and short term investments as at 31 December 2013).

The Board notes IPSAS implementation is driving improved financial management processes, reporting and skills, capacity and staff financial literacy across all entities. Three entities (UNDP, UNICEF and UNFPA) are providing finance and operational staff with internationally recognised and IPSAS orientated qualifications. Other entities might usefully consider the applicability of this initiative to their organisations.

In the current suite of reports the Board has placed a much stronger emphasis on the need for effective cost management systems, so that entities can systematically analyse their total cost base between administrative and programme expenditures and provide greater assurance to members states that resources are being used cost-effectively. This issue is highlighted across a number of reports, but in particular, UN Volume 1, UNODC, UNHCR, UNICEF, and UNOPS; and will be examined more closely in future audits.

The Board's examination of UNICEF also highlights the need to ensure that administrative costs of partners, in this case National Committees raising funds for UNICEF, are also controlled. Significant additional resources were made available to UNICEF in 2013 as a result of a greater focus on reducing the level of funds retained by National Committees to cover overheads. While a positive outcome more progress is needed. In this year's reports the Board also notes the need for an enhanced arrangement between the United Nation's University and a key fund raising partner where similar issues arise.

#### *Enterprise risk management*

The Board notes variable progress in implementing robust approaches to enterprise risk management in UN entities. But the Board does highlight positive progress at the United Nation's through the Management Committee's identification of the six top strategic risks facing the organisation. An appropriate governance structure has been created to refine the top risks and to take forward the next tasks of reform, namely, establishing management processes and internal control frameworks to mitigate the risks effectively and to embed risk management as a core strategic management process. While a work in progress this initiative has the potential to significantly improve the strategic management of the United Nations, and therefore has the support of the Board.

### *Managing globally dispersed operations*

The Board continues to note problems being faced by entities in striking the right balance between sufficient flexibility and delegated authority in the field versus the right level of monitoring, intervention and oversight by headquarters. Examples of this theme are seen in the reports on UNODC, UN-Women, UNHCR, UNFPA, UNDP and on peacekeeping operations.

The Board highlights UNHCR's positive response to the huge influx of refugees into Jordan arising from the Syrian Arab Republic situation, in terms of mobilising resources and moving from an emergency towards a more sustainable refugee operation. The Board highlights the introduction of biometric recognition system for refugee registration as a positive development. But also highlights some lessons that need to be implemented in future, including the need for more flexible recruitment procedures where fast track recruitment is needed during an emergency.

### *Budgets*

The Board is increasingly reporting on weaknesses in budget formulation, execution and reporting in entities. For example, this has been a recurring theme in the Board's annual reports on peacekeeping activities.

In the current report on UN Volume 1, the Board reports that the regular budget is not built on an accurate understanding of the actual costs of mandate delivery; and consumes too much managerial overhead for the level of change incurred in budgets across biennia. It also offers an analysis of the strategic and operational value the regular budget offers as a key management tool when assessed against international best practice. This indicates that while the regular budget process offers benefits in terms of consensus amongst member states, it is deficient in many important dimensions as a management tool.

The Board offers this analysis at a time when the budget module for the United Nation's new enterprise resource planning system is being designed. In this regard the Board recommends that those parts of the process focused on the preparation of the budget proposal and within the purview of management be reviewed to secure efficiencies and potentially improvements in the utility of the budget proposal as a decision making tool. The Board provides practical examples of how unnecessary steps can be stripped out of the process.

The Board also recommends that management consider the ways in which the strategic value of the budget process and proposal might be enhanced (for example, through the use of capital budgets or through the inclusion of longer term scenario analysis and forecasting) recognising that any changes would need to be approved by the General Assembly. This is entirely consistent with the Secretary General's responsibility for the preparation of the budget (consistent with General Assembly resolutions 41/213, 42/211 and 58/269 and the Financial Regulations and Rules that govern the regular budget process

and set out the roles of the key stakeholders). The Board offers no recommendations that would impact on inter-governmental structures and processes.

### *Implementing partners*

The Board reports on a range of issues in relation to implementing partners. For example, in UN Volume 1 we comment on the Office for the Coordination of Humanitarian Affairs management of implementing partners and its responses to frauds identified during the biennium. At an overall level, while progress towards improved management of implementing partners is noted, much work is still needed to fully implement risk based approaches, and in particular, to address the pressing need for improved sharing of information across entities on potential implementing partners to improve value for money and reduce fraud risks.

The Board continues to highlight problems in the implementation of the Harmonised Approach to Cash Transfers (HACT), an initiative designed, amongst other things to determine the control environment to be applied to implementing partners. In some cases, and especially for projects implemented under the National Implementation and National Execution modalities, the Board notes a tendency to waive the use of HACT as it is deemed that the beneficiary governments will automatically become the implementing partners. The waivers increase the risk of arriving at unsuitable funding and monitoring arrangements.

While the approach to HACT has been revised, the level of implementation is variable. For example, UNICEF has not established a monitoring system to provide real-time information on the global status of the implementation of the approach, such as the implementation of capacity assessments and assurance activities in each country office. Nor are the risks associated with implementing partners fully recorded in UNICEF's management system.

### *Fraud awareness*

The Board has undertaken work on fraud awareness in four entities during biennium 2012-2013 (UNOPS, UNHCR UNRWA and UN) and highlighted concerns about the likely under-reporting of fraud, and the need for integrated strategic fraud strategies and more robust assessments of fraud risks (in particular external fraud risks). In the United Nations in particular the Board highlights a need to address the current fragmentation of existing policies, procedures and guidance in relation to fraud (a concern shared by the Office of Internal Oversight Services). The Board is concerned that the United Nations does not have a well-developed protocol or framework for staff to follow when a serious external fraud occurs (despite the assurance provided in the Secretary-General's report on the implementation of the Board's recommendations (A/69/353).

The Board also notes the limited coordination of investigative capacity and capability across the UN system and encourages in its Concise Summary the consideration of the need for a system wide counter fraud unit to tackle fraud risks, especially those that straddle organisation boundaries, on behalf of the system as a whole.

### *Business transformation in the United Nations*

The United Nations is undergoing a large number of major business transformation activities. The new enterprise resources planning system (Umoja) in particular is at a critical juncture as management need to address the issues stemming from the roll-out of foundation in peacekeeping and Special Political Missions, and plan the remaining roll-outs on a more realistic basis, as reported in more detail in the Boards separate report on Umoja (A/69/158).

While noting positive steps to improve the UN Management Committee's focus on business transformation, the Board highlights in its Concise Summary (A/69/178) a number of issues for senior management to address going forward (paragraphs 92 and 93 of the Concise Summary).

### *Status of implementation of previous recommendations*

The Board considers that based on its dialogue with management, and with a rate of full implementation of its recommendations for all entities of 55 per cent, there is good evidence of management commitment to implementation.

### *Proposals on future reports on CMP and IPSAS*

The Committee will note that in the respective reports the Board makes the following proposals:

- **On IPSAS**, the Board proposes (paragraph 5 of the Board's report on IPSAS (A/69/155), in light of all entities adopting IPSAS in 2014, that this year's fourth progress report is the last such report. The focus will now shift away from IPSAS implementation towards how each entity is using the new accounting framework to improve the way in which it is delivering its mandates, and Board commentary on this will be more effectively encompassed in the specific entity reports and in the annual concise summary if necessary. This proposal is cost neutral as the Board did not request any audit fee for the production of the annual IPSAS reports over the course of the last four years.
- **On the CMP**, the Board proposes (paragraphs 4 and 5 in the Summary of the eleventh progress report on the CMP (A/69/5 Vol. V) that in light of the envisaged completion of the project in 2015 that the Board's twelfth progress report on the CMP in 2015 is the last such progress report. If the GA is amenable to this proposal the Board will assess the audit fee implications (having received an audit fee for the CMP work) taking into account the new work likely to start on the strategic heritage plan.

Chair

That concludes my statement. My colleagues and I will, as ever, be happy to answer any questions you may have during the informal sessions of the Committee.

**Hugh O'Farrell**  
**Director of External Audit (UK)**  
**Chair of the Audit Operations Committee**