

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, Volume 1, ITC, UNU, UNDP, UNICEF, UNRWA, UNITAR,
UNHCR, UNEP, UNFPA, UN-Habitat, UNODC, ICTR, ICTY,
IRMCT, UN Women, UNOPS, UNCDF)**

13 December 2016

Madam Chair

Distinguished representatives

On behalf of the Chairman Professor Mussa Assad, Controller and Auditor General of the United Republic of Tanzania and the other Board members, Sir Amyas Morse, Comptroller and Auditor General of the United Kingdom and Mr Shashi Kant Sharma, Comptroller and Auditor General of India, I have the honour to introduce the main findings from the Board of Auditors Concise Summary and the reports for the audits of Volume 1, ITC, UNU, UNDP, UNICEF, UNRWA, UNITAR, UNHCR, UNEP, UNFPA, UN-Habitat, UNODC, ICTR, ICTY, IRMCT, UN Women, UNOPS and UNCDF for the period ended 31 December 2015.

Introduction

During the current year audit, the financial statements of 11 entities were submitted on 31 May 2016 (two months past the normal date) due to challenges associated with the implementation of the Umoja ERP. As a result of the delay in the submission of the

financial statements the Board issued audit opinions on the related financial statements in September and October 2016.

Key findings

This statement summarises at high level key findings and trends from the Board's reports.

Audit opinions

There were no qualified opinions for the 18 entities audited in the period.

Financial management

The Board notes that 9 entities reported surpluses while 9 entities recorded deficits. Six entities recorded deficits in contrast to surpluses recorded in the previous year due to factors such as decreases in contributions, increases in employee end of service liabilities, and recognition of the major part of revenue in the first year of the biennium. Of the 9 entities which closed the financial year with a surplus, four entities recorded a surplus in contrast to the deficit recorded in 2014.

The Board noted that all 18 entities demonstrated solvency in that they are able to meet their long term liabilities.

Employee benefit liabilities

The Board noted that the aggregate amount of the employee benefit liabilities has decreased by seven per cent in 2015 from \$11.34 billion as at 31 December 2014 to \$10.58 billion as at 31 December 2015. The decrease is broadly attributed to factors such as the change in inflation rates and discount rates used in actuarial valuations. The Board also observed that the aggregate liability in respect of untaken leave has decreased from \$770.61 million in 2014 to \$714.29 million in 2015 (a decrease of seven per cent).

Despite the overall decrease, entities such as UNRWA, UNHCR, UNOPS, UN-Habitat, and IRMCT exhibited increases in their employee benefit liabilities due to reasons such as the revision of the discount rate to reflect the decrease in the interest rates for long term United States government bonds and corporate bonds.

The Board considers that the decreasing trends do not reduce the need for proper plans to fund the liabilities because the actuarial assumptions are updated based on market data and when the markets will be unfavourable there is a risk that the liability can grow and become unsustainable. Over time, these liabilities will also begin to consume an increasing portion of resources and in the event that an entity were to significantly reduce its programmes or close down, it would be difficult to meet these liabilities from existing resources.

IPSAS implementation

A growing number of United Nations entities continued to improve the preparation processes for financial statements closure and presentation since the adoption of IPSAS. Despite these achievements some areas are in need of improvement. Specific problems were noted in some entities implementing Umoja whereby there were major delays in the preparation of materially correct financial statements. For example, for United Nations (Volume 1), ICTR and UNODC, a number of material adjustments had to be passed before the financial statements were finalised.

Enterprise risk management

The Board notes that United Nations entities are at different stages of implementation of Enterprise Risk Management. For example, UNOPS has developed a new risk management model and delivery plan, although this is yet to be fully rolled out; UNFPA needs to document its risk assessment process, establish comprehensive risk assessment plans for strategic risks and the risk of fraud; UN Women is piloting its approach and has developed risk registers but is still in the process of developing modules to facilitate

reporting of risk. UNHCR, UNRWA and UNICEF have implemented ERM but challenges remain. For UNITAR the ERM is not effective; for United Nations (Volume 1) progress has slowed in the United Nations main secretariat and there is no plan to embed ERM throughout the organisation as mandated by the General Assembly.

Implementing partners

The Board noted that most entities including UNITAR UNDP, UNHCR, UNODC and UNFPA have developed sound procedures for managing implementing partners for each step in the processes including capacity assessments, selection, monitoring and evaluation of the performance. Nevertheless, the Board identified scope for improvements in the management of programmes and projects in particular in the selection, monitoring and close-out of projects delivered by implementing partners. The Board noted issues including recurring delays in the financial closure of projects for some entities including UNDP, UNCDF, UNFPA, and UN Women for projects which were closed operationally. The Board also noted that while improvements have been made in the design and application of controls around implementing partners working with OCHA, the Secretariat needed to further improve and embed these new procedures.

Fraud events, awareness and prevention measures

The Board has continued to review the robustness of the United Nations entities' anti-fraud approaches by using data supplied by management. The Board has also been working with United Nations organizations to ensure that there is a consistent approach to reporting, and the definition of presumptive fraud is provided. The Board analysis during the years shows that the amounts of fraud and presumptive fraud cases reported by UNDP, UNFPA, UNHCR, UNOPS, UNRWA and UN-Women have increased in 2015 as compared to 2014. However, the value of fraud cases reported for the year under review (\$4.64 million) represents 0.01 per cent of the amount of the total expenses reported by the entities in 2015 (\$34,945 million).

Some entities (UNFPA, UNRWA and UN-Women) could not specify on whether they have been successful in recovering any amount from fraud losses indicating that entities need to strengthen the existing fraud reporting and monitoring mechanisms. The Board also noted that UNOPS, UNODC, UN-Women, United Nations (Volume 1), UNJSPF (Investment Management Division), ICTY and IRMCT do not have adequate anti-fraud strategies although they possess fraud policies, conduct fraud awareness training and have implemented reporting and monitoring mechanisms. The Board is of the view that strengthening anti-fraud measures and activities would help set the right tone that the organization is committed to tackling fraud and that it supports the anti-fraud policies and the related anti-fraud activities. The Board consider that the level of fraud reported by the United Nations system is unusually low considering the scale and complexity of the United Nations system operations and the high -risk environment in which these operations take place. The Board notes also that UN organisations recover relatively small amounts of funds from those perpetrating fraud and that entities rarely take legal action to enforce prosecution by local law enforcement bodies.

Human resources management

The Board noted some positive progress in managing human resources, but also identified scope for improvements. For example the Board identified cases where performance evaluations were either delayed or not conducted at all by some entities, service contract holders (example in UNFPA and UN-Women) perform core staff functions or assigned roles intended for individuals having United Nations staff status.

Some entities are taking measures to strengthen HR function. For example, UNHCR is committed to a five per cent reduction in the number of regular posts and affiliated workforces, UNODC is assessing its current grade structures to address the risk of grade drift, the balance between senior and junior staff, together with the organisational staffing needs now and the skills needed in the future. For United Nations Volume 1, the Administration has made limited progress addressing the Board's previous recommendation that it develop a medium to long-term strategic workforce strategy

and operational workforce plans informed by a review of the organization's strategy that identifies any gaps in headcount, grades, knowledge and skills.

Assets Management

The Board noted areas in need of improvements with regard to asset management for some entities. For example, at UNFPA, the entity has not updated the current Inventory Policy and Procedure manual to incorporate the procedures of handling and managing inventories associated with the newly established inventory system; UNICEF held slow moving inventories in its warehouses with combined value of \$58.46 million as at 31 December 2015. Also cases reviewed by the Board at UNICEF showed that write-off approvals were taking periods ranging from 1 to 11 months incurring avoidable storage costs.

Information and communications technology

The Board noted that entities such as UN-Habitat, UNRWA, UN-Women and UNFPA had no indicators to facilitate the monitoring of the movements of ICT costs. For United Nations (Volume 1), OICT is developing an improved understanding of ICT costs, including presenting Member States with a revised 5-year forecast across the Secretariat. The forecast will this year include the Department of Field Support which was missing from the exercise last year. The Board reiterates the importance of increasing visibility of actual expenditure and the status of ICT assets across the entire Secretariat, including peacekeeping operations. Without this information the Administration cannot develop robust planning assumptions and present fully informed options to Member States on further investment in ICT. The Board also observed that most of the UN entities recorded a general decrease of Net Book Values (NBV) of ICT equipment (The decrease is from \$276.87 million in 2014 to \$265.43 million in 2015). The decrease in NBV has been mostly attributed to the movement of annual depreciations and disposals during the year. However, the Board noted a general increase in Net Book Values (NBV) with respect to software (intangible assets) whereby NBV of software moved from \$73.17 million in 2014 to \$89.18 million in 2015.

Travel management

The Board pointed out that, effective steps are needed to enforce and monitor compliance with the advance purchase policy due to noted deficiencies in entities. For example, for UNRWA, the entity did not have in place an advance ticket travel purchase policy as a result most tickets were being booked in a short period before the dates of traveling. At UNICEF the policy was complied within only 35 per cent of the travel.

Estates management

The Board analysis showed that only UNRWA, UNDP, UNFPA, UN-Women and UNU have developed asset management strategies which include maintenance investment plans. Also, the Board observed that the United Nations Secretariat is making progress gathering data to enable it to develop an estate management strategy although the initiatives are at an early stage. The Board noted that while UNRWA and UNFPA have sinking funds, other United Nations entities do not have specific strategies that could enable them to cover costs of maintenance and upgrades.

In United Nations (Volume 1), the Secretariat has started to introduce a more strategic approach to managing its global estate. Recent initiatives include; conducting the strategic capital review; implementing the Umoja estates management module; introducing flexible workplace in New York; and, producing guidelines for managing capital projects.

Business transformation

The Board has continued to report separately the major business transformation projects such as the capital master plan and the new enterprise resource planning system (Umoja).

The Board has seen evidence of a strong commitment to reform, and with significant progress implementing centrally driven initiatives such as IPSAS, Umoja, the Global Field Support Strategy and revised strategies and approaches to management of ICT,

Procurement, HR, and Estates. These initiatives have often made a difficult start, running late and over budget, and have required significant senior management intervention to get back on track. The Secretariat still needs to develop the skills, capability and methodologies to make best use of the new systems and tools, including; developing a base-line of current operational performance and adopting a formal methodology for achieving continuous improvement.

Implementation of previous recommendation

Of the total of 515 recommendations of the year 2014 (up to June 2015 for United Nations peacekeeping operations), 210 recommendations (41 per cent) had been fully implemented. This represents a decrease in the rate of implementation compared with the previous year, for which 49.6 per cent of past recommendations had been fully implemented. The reasons for the increasing trend of unimplemented recommendations vary but include factors such as the demands of implementing Umoja and the length of time needed to change some policies or introduce controls into the systems.

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



Salhina M. Mkumba

Director of External Audit (Tanzania)

Chairman of the Audit Operations Committee