

# United Nations Nations Unies

## BOARD OF AUDITORS

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**Opening statement to the Fifth Committee  
on the Reports of the Board of Auditors on Concise Summary, Volume I, ITC,  
UNCDF, UNDP, UNEP, UNFPA, UN-Habitat, UNICEF, UNITAR, UNHCR,  
UNODC, UNOPS, UNRWA, UNU, UN-Women and IRMCT  
for the year ended 31 December 2018.**

[November 2019]

Mr. Chairman, distinguished delegates,

On behalf of the Chairman, Mr. Kay Scheller, President of the German Federal Court of Auditors, and the other Board Members Mr. Rajiv Mehrishi, Comptroller and Auditor General of India, and Mr. Jorge Bermúdez, Comptroller General of the Republic of Chile, I have the honour to introduce the main findings from the Board of Auditors Concise Summary and the reports for the audit of Volume I, ITC, UNCDF, UNDP, UNEP, UNFPA, UN-Habitat, UNICEF, UNITAR, UNHCR, UNODC, UNOPS, UNRWA, UNU, UN-Women and IRMCT for the period ended 31 December 2018.

Let me start with the Concise Summary report to give you a short overview:

### **Concise Summary Report**

The Concise Summary report summarizes the key issues of the audits in the Board's reports addressed to the General Assembly on 18 entities including 16 entities that I have mentioned above plus the UN Peacekeeping Operations and UNJSPF.

### ***Audit Opinion***

All these entities received unqualified audit opinions. Of those, PKO (Vol. II) received an unqualified opinion with an emphasis of matter. The reason for the "Emphasis of matter" was due to the decommissioning of Galileo. The Board noted issues affecting the quality of asset data migrated from Galileo to Umoja.

### ***Financial Performance***

13 entities, namely, UN Volume I, ITC, UNCDF, UNDP, UNEP, UNFPA, UNICEF, UNHCR, UNODC, UNOPS, UNWRA, UN-Women and IRMCT closed the financial year with a surplus. In general, the financial position of all entities remained strong or at least sufficient. The Board noted low liquidity in the regular budget during 2018. The Board noticed that amounts borrowed from the Working Capital Fund in 2017 could not be repaid in 2018. Furthermore, amounts borrowed from the United Nations Special Account and from closed peacekeeping missions were used to cover temporary liquidity mismatches.

### ***Key findings and recommendations***

The Board presents in the Concise Summary report an overview of the key findings and recommendations coming from the financial and performance audits conducted by the Board in the past year.

For further details and more explanations to all mentioned findings and recommendations the Board issued a long-form report on every United Nations entity.

### ***Implementation of outstanding recommendations***

In every audit report, the Board makes recommendations to address the deficiencies noticed on the basis of its examination in order to help improve the functioning of the entities audited. The Board reviewed the status of old recommendations and noted that the overall rate of implementation of the recommendations of last year had decreased from 48 per cent in 2017 to 41 per cent in 2018.

### ***Status of the Secretary's-General's Reform agenda***

The Board included in this year's Concise Summary report a snapshot of the United Nations reform activities and their preparedness for it in different United Nations entities.

It was agreed within the Board that this year no opinion would be expressed on the reform in order to give the United Nations time to implement the process.

Now I would like to discuss some important findings from the different other reports:

## **Volume I**

### ***Financial Management***

The Board noted that the overall financial ratios of the operations of the United Nations as reported in volume I are sound. However, nearly 78 per cent of the \$3,553.63 million in cash and investment balances are restricted because they relate to balances of trust funds and self-insurance funds. The Board noted low liquidity in the regular budget during 2018.

### ***Employee Benefit Liabilities***

The Administration could not appropriately segregate liabilities for retirees among regular budget, extrabudgetary resources and peacekeeping operations. The liability for retirees, actuarially valued for United Nations, was apportioned and reported in the financial statements of Volume I and peacekeeping operations on the basis of retiree proportion in 2009, which would have changed over the last decade. Further, the long-term employee benefit liabilities reflected in the Volume I financial statements were not divided between regular and extrabudgetary resources:

### ***Medical Insurance Expenditure***

The Board noticed gaps in internal controls over medical insurance expenditure. There were gaps in data which affected recognition of plan participants and assessment of medical expenditure and claims. The Board could not gain assurance that all the fraud and presumptive fraud cases had been reported by the third-party administrators to the Secretariat.

### ***Treasury Management***

The Treasury at United Nations Headquarters is responsible for the administration of bank accounts, receipt and disbursement of funds and investment of surplus funds. The documentation of cash management process and investment functions was poor. There was no mechanism to forecast cash outflows (beyond the next two days), and information on cash inflows was available only on a daily basis. Lack of more refined cash forecasting and absence of documented criteria fixing liquid cash levels, worked as a constraint for taking optimal investment decisions. The Board noticed that Administration had agreements for currency hedging with only three banks. The practice followed by the Administration was to split contracts equally among these three banks, resulting in the award of the contract becoming a *fait accompli*, irrespective of the rates offered by the individual banks.

### ***Sustainable Development Goals***

At the global level, a substantial number of indicators for review and follow-up of the Sustainable Development Goals remain in tiers II and III in the absence of an accepted methodology, standards of measurement and data. All indicators for the targets to be achieved by 2020 had not reached tier I, which raised concerns about their measurability and hence the ability to assess their achievement. A significant identified need existed for augmenting capacity in the area of data and statistics, across the regions; that need was not being fully met at present. DESA did not reflect the specific needs expressed by countries in the voluntary national reviews when identifying their capacity-building requirements.

### ***Procurement management***

The Board found that the Procurement Division did not have in place a comprehensive framework and system to routinely measure and report in a coherent manner concerning whether its objective to ensure efficient, cost-effective, transparent, timely and high-quality procurement had been met.

### ***Global Communications***

Digitization of 2.54 million documents identified as important was pending even two decades after the adoption of the General Assembly resolution on the subject. Slow progress on digitization of 5,964 maps poses a risk of further deterioration and loss.

### ***Humanitarian Affairs***

Significant backlog in monitoring visits and financial spot checks were noticed related to country-based pooled funds, including those under multi-partner trust fund administrative arrangements. Financial and programmatic reporting by the implementing partners is an important aspect of the accountability framework. The Board noticed non-compliance with provisions of operational manual in award of projects to NGOs, delays in the submission of final financial statements and final narrative reports, pending audits and refunds in a large number of cases from various partners under Country Based Pooled funds.

### ***Strategic Heritage Plan***

The Board noticed that there are areas of concern related to the timely completion of the project, and further enhancements are needed in the field of project governance. Moreover, the United Nations Office at Geneva has not yet established a handover procedure manual with clear lines of responsibilities to ensure a smooth handover from the contractor.

### **ITC**

The Board noted that ITC selected 28 per cent of its consultants on single bid. The terms of reference for the appointment of consultants too were found to be generic in nature. ITC in respect of 70 cases awarded contracts at fees higher than the maximum fee associated with a particular level. The memorandums of understanding did not include the standard provision for submission of a list or roster of participants with requisite enclosures for training and workshop components.

### **UNCDF**

For UNCDF the Board considers that, in some areas of the newly introduced processes for granting loans to financial service providers and small and medium-sized enterprises, there is room for enhancement. For instance, the process for the revisions of the repayment schedules when principal amounts are disbursed could be enhanced as well as the internal quality assurance for loan agreements and their schedules could become more effective.

### **UNDP**

For UNDP the Board continued to note areas for enhancement in the area of project management such as recurring delays in signing the combined delivery reports. Other weaknesses related to the documentation of the implementation of the Harmonized Approach to Cash Transfers framework with regard to micro assessments and assurance activities. Furthermore, the Board sees scope for improvement in the area of workforce / personnel management. For instance, the Board noted some cases in which UNDP staff members were holding directorial or representational responsibilities under grades that had been introduced to be used for technical experts in certain fields and not to perform extensive managerial or directorial tasks for UNDP as a whole.

## **UNEP**

The Board has identified scope for improvement in areas such as programme and project management, and information and communication technology. In this context, respect to verifying performance monitoring and reporting through the Program Information and Management System (PIMS), it was possible to note the inadequate status of the project in the System.

## **UNFPA**

The Board noted scope for improvement regarding insurance policy for the goods stored in the warehouse of some field offices and the improvement about the communication, procedures, and scope of the insurance. It was also identified a lack of opportunity of spot checks on implementing partner's payments and purchase fractioning in UNFPA Mexico Country office. Additionally, it was noted that the UNFPA Delegation of Authority Policy is only established for human resources, therefore other matters are not included.

## **UN-Habitat**

The Board identified scope for improvement in a number of areas, specifically with regard to project management, office administration and human resources. Those areas need strong internal control and monitoring of activities both in the country offices, hubs and at the headquarters, to ensure the efficient and effective delivery of the mandate of UN-Habitat.

## **UNICEF**

### ***Programme Management***

There were potential deficiencies in the mapping of programme areas at the country level to the goal areas at the Strategic Plan level. As the actual expenditure and its results were framed against Strategic Plan goal areas at year-end using this mapping, a risk of errors in reporting expenditure against the specific goal areas of the Strategic Plan remained.

### ***Implementation Partnership Management***

There were shortfalls in terms of programmatic visits and spot checks in individual country offices. Significant deficiencies were noticed in Funding Authorization and Certificate of Expenditures forms and documentation of process of approval of partnership review committees at various country offices which indicated that critical aspects of programme approval and the related due

diligence process was not being captured appropriately and reflected weaknesses in the internal controls over the cash transfer process. The Board also noticed that oversight activities (e.g., spot checks) had flagged significant weaknesses and risks related to the assurance environment, internal controls, inventory and asset management, procurement and project management. But the status of follow-up action taken by one country office was not available for a significant number of the recommendations.

### ***Global Shared Services Centre***

The Global Shared Services Centre started to provide all its planned services and functions from 1 January 2017, that is, 37 months after the approval of the project, and was considered fully stabilized by 31 December 2017, that is, 49 months after the approval of the project. The roles, responsibilities and accountability of GSSC vis-à-vis other UNICEF offices were drawn from a number of documents, in express and implied manner and there was a need for comprehensive documentation of the same. The achievement of service-level agreement targets was the key performance indicator of the Centre in the processing of transactions received from field offices. The Board noticed instances of non-achievement of service-level agreement targets, deficient return and rejected cases.

### **UNITAR**

The Board identified possibilities for improvement in project management, due to the fact that, from the background review of contracting processes for consultants and individual contractors, in some cases, the requests could not be processed, since in that time there were not enough funds balances in the respective projects, or because, in the long term the resources allocated to the projects would not be sufficient to cover the total contract payment of the individual consultant or contractor. To solve these obstacles, it was necessary to change the source project (project number) to another with sufficient resources that would allow the consultant already selected to be financed.

### **UNHCR**

The finances of UNHCR remain sound with high levels of liquid assets. The Board issued an unqualified opinion and made 64 new recommendations. In a nutshell, the Board noted opportunities to enhance and further develop UNHCR's internal control system. Further recommendations related to the reform initiatives, cash assistance, implementing partners, contractors, and Information technology.

## **UNODC**

The Board has identified scope for improvement in areas such as delegation of authority, programmes/projects formulation and project monitoring and reporting system. It was noted that the Liaison and Partnership Office in Mexico (LPOMEX) does not have the necessary delegation of authority from headquarters that allows the representative to sign procurement contracts.

## **UNOPS**

UNOPS continued to deliver an overall surplus with respect to its operations. Its operational reserves increased by \$34.3 million to \$192.9 million as at 31 December 2018. UNOPS in 2018 made an investment of \$8.8 million in a social impact investing initiative from the operational reserve without establishing a growth and innovation reserve. The Board noticed shortcomings in valuation of inventory as well as depreciation and physical verification of property, plant and equipment by UNOPS. The enterprise resource planning system of UNOPS was not catering to important aspects like inventory valuation and management, fund/treasury management, age-wise analysis of accounts receivable, segment reporting, adopted best practices in project management etc.

## **UNRWA**

UNRWA reported a surplus of \$105.01 million during 2018, which represents an increase of 247 per cent when compared to the previous deficit of \$71.55 million. The financial situation of UNRWA has considerably improved since 2017 and the current surplus is due to the agency's effort to mobilize resources from various donors that resulted in an increase of donor support action of \$53.64 million. Also, UNRWA implemented austerity measures, aimed to substantially reduce the non-core operations costs.

## **UNU**

The UNU presented a net deficit of \$ 32.11 million in the 2018 period, however, its overall financial situation remained strong, with current assets almost four times higher than current liabilities. Also, if we refer to acid liquidity (quick ratio), which is even more demanding than the current liquidity index, we get almost four times available to face short-term liabilities.



## **UN-Women**

The Board has identified scope for improvement in areas such as procurement management and project management. In this context, it was noted that the Latin American and the Caribbean Regional Office incorporated to their Procurement Plan only some purchasing lines referring to programmes and to the Programmatic Presence Offices (PPO) of Uruguay.

## **IRMCT**

The Board noted that IRMCT has not undertaken a systematic fraud risk assessment in accordance with the United Nation's Anti-Fraud and Anti-Corruption Framework, and that it has not provided evidence of an effective monitoring process, to ensure the compliance of the mandatory online anti-fraud training by their staff.

This concludes my introductory statement. My colleagues and I will be happy to provide further explanations and respond to any questions the Committee may have.

Thank you.



**Peter Korn**  
**Director of External Audit, Germany**  
**Chairman, Audit Operations Committee**