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 (A/76/173), Volume I (A/76/5 (Vol. I)), ITC (A/76/5 Vol. III), UNCDF (A/76/5/Add.2), UNDP (A/76/5/Add.1), UNEP (A/76/5 Add.7), UNFPA (A/76/5 Add.8), UN-Habitat (A/76/5 Add.9), UNICEF (A/76/5 Add.3), UNITAR (A/76/5 Add.5), UNHCR (A/76/5/Add.6), UNODC (A/76/5 Add.10), UNOPS (A/76/5 Add.11), UNRWA (A/76/5 Add.4), UNU (A/76/5 Vol. IV), UN-Women (A/76/5 Add.12) and IRMCT (A/76/5 Add.15)

6 December 2021

Mr. Chairman,

Distinguished delegates,

On behalf of the Board of Auditors, 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 2020.

Concise Summary Report

The Concise Summary report (CS) 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 Opinions

All these entities received unqualified audit opinions. Of those, UNFPA and UNOPS received an unqualified opinion with an emphasis of matter. "Emphasis of matter" is intended to draw users' attention to a matter presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements.

Financial Performance

12 entities closed the financial year with a surplus. 5 entities, namely, ITC, UNCDF, UNITAR, UNRWA and IRMCT recorded a deficit. Of those five entities, two (UNRWA and IRMCT) had recorded a deficit in the previous financial year. Three entities that closed the financial year with a deficit (ITC, UNCDF and UNITAR) had recorded a surplus the previous year. Four entities that had closed the previous financial year with a deficit (United Nations peacekeeping operations, UNDP, UN-Habitat and UNHCR) recorded a surplus for 2020. In general, the financial position of all entities remained at least sufficient. The

solvency ratios and liquidity ratios were comfortably high for most of the entities and, in the case of those entities for which the ratios were near or below 1, there was no immediate threat to their solvency. It is possible, however, that in a short-term perspective there might be pressure on the liquidity side.

Key findings and recommendations

The Board presents in the CS 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 the previous year had increased from 41 per cent in 2019 to 48 per cent in 2020. Additionally, I included an overview for the implementation rate for every single UN entity covered in the CS over the past three years.

Impact of the Covid-19-Pandemic

During 2020, the Board noted that the COVID-19 pandemic became a challenge for all United Nations entities in administrative, financial and operational areas, either to adapt themselves to the requirements of the new circumstances or to assure the implementation of their mandates.

With the aim of advancing in the assessment of these impacts, and to help identifying the most affected areas, the Board collected information through its reports and a questionnaire issued to the 18 entities covered by the CS, in relation to seven crosscutting areas: Strategic Framework, Sustainable Development Goals, Internal Process Adjustments, Financial Impacts, Information and Communications Technology and Cybersecurity, Fraud and Presumptive Fraud; and Programme and Project Management. The results of this review were included in a special chapter of the CS.

Volume I

Accounts and financial reporting

The overall financial situation of the United Nations Volume I was relatively healthy. However, the cash ratio of regular budget and related funds by the year-end was below 0.3 since 2018, indicating some kind of liquidity risk. Secondly, the accumulated surplus of the cost recovery fund (i.e. 10RCR) totalled $407.95 million as at 31 December 2020, an increase of 108 per cent compared with the amount by the year end of 2016.

Budget management

There was an increasing trend for the balance of open commitments since 2016, with a total amount of $219.53 million for the financial year 2020. In December 2020, a total of $116.66 million funds commitments were established without supporting documents and appropriate certifying.

Cash and investment management

Out of 256 UN house bank accounts in Umoja, nearly 10 per cent accounts seldom undertake collection and payment functions from 2018 to 2020. Secondly, there was no specific investment strategy or guidelines for the $2.7 billion mid-term or long-term trust fund, which were mostly invested into short-term assets, and may affect the realization of an appropriate rate of return for those funds.

Strategic Heritage Plan

Regarding the Strategic Heritage Plan, the renovation of the Palais des Nations just commenced in January 2021, it shall be monitored whether the full baseline project scope will be completed without exceeding the approved total costs. Other areas for improvement include: risk management of the project, non-capitalization for the completed section of the project, and etc.

United Nations Foundation

The annual grants from the Foundation to the United Nations declined significantly to around $10 million (only 10 per cent of its annual program expenses) in the recent years. Secondly, the Foundation retained a total of $187 million reserve fund without formal consultation with the United Nations, which was over 20 times of its annual general and administrative expenses. Thirdly, there was inadequate reporting by the Foundation on the Member States funded programme initiatives, and a lack of transparency on its programme expenditures to support United Nations priorities and SDGs. Finally, the administrative expenses of the Foundation were relatively high.

Human resources management

For human resources management, policy review and update need to be expedited. Also, there were deficiencies in roster management.

United Nations reforms

Regarding United Nations reforms, firstly, the accountability framework for exercising delegated authority needs to be improved. Secondly, there were backlogs in the implementation of major initiatives of the UN efficiency agenda. Lastly, the continuous improvement mechanism for peace and security reform was not clear, including the end state vision, major activities to be completed, and benefits reporting mechanism.

Humanitarian affairs

With respect to the humanitarian affairs, some implementing partners (IPs) sub-granted all the programmatic activities to sub-IPs, after just charging administrative costs.

ITC

The Board noted following major deficiencies for improvement in ITC: advance payment write-off without reasonable collection efforts in financial management; daily fee range for international consultants and individual contractors not able to cover the actual payment in human resource management; non-compliance with the 16-day advance ticket purchase policy in travel management.

UNCDF

At UNCDF, the Board observed a continuously growing project implementation over the last years. In light of its growth, UNCDF needed to strengthen its internal control framework and its fraud prevention. For example, the Board observed that the share of recorded risks relating to fraud was only 2.7 per cent of all risks and that over 80 per cent of the programmes did not record any risks related to fraudulent acts.

UNDP

The Board observed that UNDP still struggled with timely submission of agreements for voluntary contributions. This impacted the timely recognition of respective revenues in the financial statements. Accordingly, the Board urged UNDP to increase awareness among country offices and headquarter units.

Along with the new information technology and digital strategy, UNDP decided in 2020 to re-place the enterprise resource planning system with a cloud-based system in order to foster digital transformation. While the implementation of the new system is phased in 2021 and 2022, the Board recommended that UNDP enhance business processes and force the standardization throughout the largely decentralized organization.

The Boards observations on country office level led to recommendations on cost recovery, human resources and procurement processes on an administrational level. Overarching, the Board found that UNDP needs to improve oversight functions and a more robust approach to ensure accountability at management level of regional bureaux and country offices. Far too often, the Boards' observations showed a lack of responsibility for assertions given concerning compliance with policies and procedures.

UNEP

During the audit of UNEP for the financial year 2020, the Board had covered the sustainable development, budget management, grants management, programme and project management, and noted deficiencies such as lack of sustainability plan for some projects, more support required on collecting and reporting data, funds raised for the Environment Fund had a long outstanding gap compared to its budget, the programme support cost rates were charged lower than the prescribed ratio, and delayed closure of completed projects in the Programme Information Management System. The Board made a number of corresponding recommendations to UNEP based on these findings.

UNFPA

Based on the emphasis of matter issued in the past year Report, the Board focused again in the area of the monitoring of assurance activities to the expenses of implementing partners. The Board observed that, due to untimely monitoring of the assurance activities, UNFPA had to review its planned activities and introduce changes while the plan was rolling out. These changes were included as a result of an inaccurate and inefficient selection of the implementing partners subject to the assurance activities. Furthermore, there were implementing partners that did not have assurance activities planned for 2020 at the time of the audit visit, whose current monitoring amounts were above the established thresholds for mandatory spot checks or audits.

Also, the Board noticed that there were cases where implementing partner risk ratings had not been accurately reflected in the implementing partner assurance system owing to user errors when uploading reports. These risks are one of the criteria to build up the assurance activities plan.

Another group of findings were made regarding inventory management, specifically the updating of the shipment tracker of handover of supplies to the implementing partners.

UN-Habitat

The Board noted a number of deficiencies such as open items against closing grants not financially closed in a timely manner in financial management; quarterly progress reports not prepared and flawed agreement of cooperation design in the UN-Habitat Lao People's Democratic Republic country office in project management; shortfall of funds for subprogrammes in strategy management; and insufficient implementation of recommendations from Headquarters Committee on Contracts in procurement and contract management.

UNICEF

In regard to voluntary contributions, the Board noted grants recorded in its ERP system (VISION), after the cash was received. It was also found –among others- cases where the agreement was signed in 2019 and cash was received in the same year, even though the grant was created in 2020, and a case in which corrections in VISION for a fund allocated to a different country office had taken several months to implement.

Also, the Board reviewed the execution of assurance activities on the expenses incurred in 2020 in relation to implementing partners and noted important delays of an average of 340 days, and also cases were no financial assurance activities had been postponed until 2021.

UNITAR

The Board found deficiencies in the system called "tracking tool review", which is used for reviewing financial and non-financial agreements. In this regard, the absence of a unique search identifier hampered the Board from finding the agreements in the review tool. Also, the observations made to the draft agreements by the different entities involved in the review and clearance procedure could not be viewed in the tracking tool review; nor was it possible to identify the final version of any of the agreements.

The Board also observed several shortcomings in the formulation of results-based management instruments which, for example, the programme budget did not include means of verifications for its indicators and targets. In addition, the Board noted that most of the annual workplans did not include timeliness for results delivery or a designated staff member responsible for results delivery.

UNHCR

In 2020, UNHCR launched an emergency response to the COVID-19 pandemic and identified an increased need for hygienic and certain medical items – particularly personnel protective equipment – and determined total requirements of $745 million for the COVID-19 response. In the report the Board made observations regarding the distribution of these pandemic related items. Building on last year's audit, the Board reviewed the progress of the decentralization and regionalization process and made several other observations in the areas of budget and accounting, cash assistance to beneficiaries, implementing partner management, workforce planning, global fleet data, and the development of the business trans-formation programme.

UNODC

One of the critical key finding is related to the high full cost recovery rates held by the country office in Afghanistan, the highest full cost recovery rate among the UNODC field offices, which makes the portfolio of that country office less attractive to donors and hardly competitive when attempting to obtain new donors, thus directly affecting the country office's funding.

The Board also reviewed the risk assessment for UNODC in place for the financial year 2020, and identified that neither a comprehensive risk treatment nor a response plan were in place regarding ethical behaviour, information resources and information technology, legal, regulatory, accounting and reporting issues. In addition, the treatment of risks of fraud in fraudulent financial and non-financial reporting, corruption, misappropriation of intangible assets and other illegal acts could not be identified. The last update to the risk register was made in 2019, and in 2020 no emerging risks were properly reflected, such as those related to the COVID-19 pandemic.

In regard to the field offices network structure of UNODC, the Board noted that the guidance note governing this structure was outdated and did not properly reflect the major changes in the past eight years.

UNOPS

UNOPS deployed its accumulative reserves to invest seven S3I projects amounting to $58.8 million by entering into agreements with seven special purpose vehicles (SPVs), all affiliated to one single entity. By the end of March 2021, UNOPS had not received the overdue payment and the expected credit loss of $22.19 million on aggregate against S3I was reflected in its 2020 financial statements.

It is also noted that for some Memorandum of Understanding (MoU)-related engagements (amounting to $2.33 billion), management fee rates were higher or lower than minimum fee rate as calculated by the established pricing model while for some non-MoU engagements with management fee rates higher than minimum rate, risk fee increment (totalling $103.66 million) were budgeted but without justification added or clear calculation standard of complexity.

The Board still noted that UNOPS needs to make improvements in the areas of financial management and budget management.

UNRWA

The Board reviewed UNRWA Resource Mobilization Strategy (RMS) 2019-2021 and noted that 47 per cent of its targets were not fully achieved at the end of 2020.

The Board also noted that 47 UNRWA staff members (excluding daily paid workers) were enrolled and received Social Safety Net Programme (SSNP)service in 2020.

In addition, the Board further noted that UNRWA needs to make improvements in staff selection process, performance evaluation, procurement management, and management of loans receivable.

UNU

One of the key findings relates to restricted investment industries. The Board required from UNU the investment portfolio for each exchange traded fund in order to analyse their composition. During the analysis, it was identified that a total of $10.38 million (2.45 per cent) of the exchange traded funds was related to companies associated with tobacco, controversial weapons, and thermal coal and oil sands.

In addition, it was observed that the investment management agreement in this matter, did not include a customized strategic benchmark for eligible assets to exclude or restrict investing in tobacco and controversial weapons industries.

UN-Women

It was noticed that the risk appetite and risk tolerance defined in the UN-Women enterprise risk management framework had not been operationalized or described in the relevant policies. Additionally, it was observed that the entity's definitions of risk appetite and risk tolerance, indicated in its policy, had not been incorporated into its decision-making processes related to its risk mitigation actions. In addition, the Board was not able to identify the tolerance levels used by the risk owner to retain the risk.

In the issue of implementing partners, the Board identified transactions with implementing partners that had obtained qualified opinions in the audits corresponding to the year 2018, however some of them had been selected for projects that started after the issuance of these audit reports.

During its audit of the 2020 financial statements, the Board reviewed the accounting policy and practices of UN-Women regarding the treatment of non-exchange transactions and noticed that there was a need to refine the policy for receivables from non-exchange transactions, specifically those originating in multi-year agreements.

IRMCT

In the issue of the relocation of released and acquitted persons, the Board noticed that the actions carried out by the Mechanism in this matter were not within the framework of a formalized action plan, which would contain periodic activities, responsible personnel, follow-up and monitoring acts that would allow verifying the effective fulfilment of this responsibility.

The Board also reviewed the budget preparation and presentation for 2020 and observed differences between the number of general temporary assistance positions that the Mechanism projected in its budget and those currently reported as occupied. Shortcomings regarding the documentation related to the projection of positions were observed.

This concludes my introductory statement. I would be happy to provide any clarification or additional information that the Committee may require.

Thank you.

Valentina Monasterio Gálvez
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Chairwoman of the Audit Operations Committee