

# United Nations Nations Unies

BOARD OF AUDITORS

NEW YORK

FAX: (212) 963.3684

OPENING REMARKS at ACABQ  
on behalf of AUDIT OPERATIONS COMMITTEE  
during SEPTEMBER 2009  
IN CONNECTION WITH THE REPORTS OF THE BOARD OF AUDITORS FOR  
THE YEAR ENDED 31<sup>TH</sup> DECEMBER 2008  
(UNHCR, CMP and Status of recommendations)  
Presented by: Imran Vanker

1. Madame Chairperson and Distinguished Members of the Committee, Good Morning.
2. ... ad hoc remarks.
3. I am pleased to be introducing to you three of the reports that were recently finalized by the Board. Two reports relate to the Capital Master Plan and UNHCR, for the year ended 31 December 2008. The third report, is a special report in relation to the Board's follow-up of recommendations made previously. That report is also called the report on the Status of implementation of the Board's recommendations or the pie chart report.
4. The presentation this morning and the discussions that will follow will indicate that the independent external auditors of the United Nations are concerned about certain matters. Through these reports, the independent auditors are diligent in raising awareness, identifying some root causes, and making recommendations about the steps that need to be considered to address the problems, and to guide oversight bodies in discharging their duties. Through your questioning, we hope to deepen the understanding of the issues you regard as important, and also provide context to what we found wanting. It is this combination of interests, together with the management's commitment to do what is necessary and right, that we will be able to influence audit outcomes.
5. Madame Chair, let me begin with the Board's report on the Capital Master Plan for the year ended 31 December 2008 (A/64/5 Vol. V).
6. The CMP implemented six recommendations out of nine we made last year, while one was under implementation and two, including the long-outstanding recommendation concerning the establishment of an Advisory Board, were not implemented. Due to the short time-frame of this project, any delay in implementing recommendations can have

immediate negative consequences. This year, the Board made 17 recommendations, including reiterating 3 of the recommendations from last year.

7. Let me highlight four important points, arising from our audit:

1. the concerns about the total cost of the project,
2. the possible inaccuracy in the project calculations,
3. the uncertainties in the schedule of the project, and
4. the weaknesses in procurement and contract management.

8. Regarding the total cost of the project estimated at \$1.967 billion in March 2009, was lower than the one presented in the Secretary-General's fifth progress report on the capital master plan of \$2.067 billion. However, it is still higher than the \$1.877 billion approved by the General Assembly, indicating that a cost over-run is still possible. However, there has been some reduction in the cost estimates but the reduction in estimated costs recorded so far, was not solely due to the decrease in renovation or relocation costs. Instead, it was due to a large reduction in the budget for contingencies (including price escalation) from \$478 million to \$227 million since the Board's last report.

9. The Board is concerned whether this approach to cost reduction is conservative enough given the time-scale of the project. The ability of the project to remain within the approved budget is also dependent on the specifications of the project not being further modified; if there are no significant changes to the economic conditions; and if the projects does not absorb the Associated Costs. These points are subject to interrogations, and I am sure that we will have occasions to clarify our views during our exchanges.

10. Secondly, the Board pointed out the inaccuracy in the project calculations. The amount of \$342 million disclosed as construction in progress in the balance sheet encompasses not only the construction costs which actually enhance the value of the Organization's assets, but also all CMP-funded operating expenses, some of which have no impact on this value. This accounting treatment which inflates the Organization's construction assets is the consequence of the inability of the Administration to separate capitalized costs from operating costs in its current systems.

11. Concerning the schedule of the project, the Board established that, considering the delay in the initial stages of the project, particularly the relocation of the Secretariat, an average slippage of six months could impact the rest of the project if each subsequent stage requires the same time as was initially planned. Based on the Board's current assessment, the project will not be finished in 2013 as planned, unless the renovation work progresses more quickly than forecast. However, the Office of the CMP intends to speed up the process.

12. My last point refers to the procurement and contract management. Indeed, the Board is concerned about the inadequate level of internal control over contract

amendments relating to the capital master plan as well as the non-adherence to the requirements of the Procurement Manual relating to the review and recommendation process. The Board has reported that gaps have arisen in the review process, and we hope that our audit will help the Office and the organization to enhance their internal procedures.

Madame Chairperson,

13. Let me also speak about a noteworthy matter, which is the Board's report on the Office of the High Commissioner for Refugees.

14. After issuing a modified report with three emphasis of matters with regard to the accounts of UNHCR in the prior year, the Board has noted more worrying circumstances in the accounts of UNHCR for this year. The Board has thus issued a modified report again this year, but this time including a qualified audit opinion, with three emphasis of matters.

15. It is of concern that the matter that resulted in the qualification of the accounts this year, was not a new matter, but was an issue that was emphasized by the Board in its prior year report. This relates to a lack of adequate assurance as to the validity of certain expenditures incurred by UNHCR through its implementing partners.

16. Put in financial terms, of the \$1.6 billion total expenditure included in the accounts of UNHCR for the current year, about \$500 million, was incurred through its implementing partners. As UNHCR uses implementing partners to implement its projects, a key source of reliance around the proper use of funds entrusted to implementing partners, is the obtaining of audit reports from the auditors of these implementing partners. As at 29 June 2009, UNHCR had not received audit certificates from its implementing partners covering an amount of \$252 million or 50.5 per cent of the amount incurred through its implementing partners, even though reports were generally due by April 2009. The Board thus faced a situation that it could not render any assurance on the completeness, accuracy and validity of such expenditure, as UNHCR could not provide the Board with that assurance through its audit verification processes.

17. This matter not only affected the current year expenditure of UNHCR, but prior years also, whereby approximately 10 per cent (2005), 14 per cent (2006) and 17 per cent (2007) of the required audit certificates for the respective years were still outstanding at the time of this audit.

18. Also, this was made worse by the results of the audit certificates that were actually received by UNHCR, which indicated that \$29.5 million (12 per cent of the value of audit certificates received), reflected qualified audit opinions.

19. Donors have expectations that systems of accountability for monies they provide are functioning. Where these systems manage large sums of money, but don't operate as

designed, it is the fiduciary responsibility of the officials to take an interest in addressing the problem, so that they can firstly be sure that their projects are being implemented as promised, with full accountability for all funds advanced. The third party audit verification is one element of this accountability, which is supplemented with UNHCR's own monitoring activities. By highlighting this matter, the Board is drawing management's attention to the need to find ways to close the apparent gap, so that the interests of donors, recipients and the organization alike are all protected.

Madame Chair,

20. The Board also emphasized three matters in this report, with two matters having been emphasized in the prior year report, and one new matter.

21. The two old matters, relate to non-expendable property and the provision for end-of-service and post retirement liabilities, including health insurance liabilities. Although some progress has been observed in the management of non-expendable property, several anomalies have not been corrected.

22. With regard to end-of-service liabilities and post retirement liabilities, UNHCR has recorded a provision for these liabilities and as result, the reserves and fund balances reflected a deficit of \$130 million. This indicates a need for UNHCR to identify funding to cover these liabilities.

23. A third matter emphasized by the Board in this report, relates to the non-recording by UNHCR of its expendable property inventories in its financial statements and the challenges it faces in its EP database. The recording of such inventories, which is estimated at \$109.3 million, is required by the United Nations system accounting standards (para. 49).

24. The qualification and these emphasis of matters reflect negatively on the control environment of UNHCR and it is our interest to see the organization give the highest priority to addressing the concerns so that the trend of modified audit reports is broken and a strong expression of good management is made.

25. The Board's report also highlights a few areas that required management's attention, specifically the management of contribution receipts, which required significant adjustments to correct errors in the recording process, and human resources management, wherein UNHCR faces challenges with regard to its assignment of staff to assignments.

26. I would now like to turn to the pie chart report I referred to in my opening remarks.

27. Distinguished members of the Committee will recall that two years ago the Board issued a restructured report on status of implementation of its recommendations for the biennium 2004-2005.

28. The Board continued in the same vein, and I am pleased to present to you the first follow-up to that report, with similar structure, and containing the status of implementation of the recommendations contained in the Board's reports for the biennium 2006-2007, as at 31 March 2009.

29. This report recognizes the need to have a big picture view with regard to recommendations of the Board UN-wide and thus contains a summary of the observations of the Board at an overall level. However, to appreciate the complexities and differences of entities, the report also includes an analysis at an entity level, including management's view regarding the status of implementation of recommendations of that entity.

30. Let me then highlight the main observations of the Board at an overall level.

31. This report covers fifteen organizations, as compared to fourteen relating to the biennium 2004-2005, however, the Board issued 22 per cent less recommendations in the biennium 2006-2007. Despite the decrease in number, the rate of implementation of recommendations declined when compared to the rate of implementation as at 31 March 2007. As an example, the rate of fully implemented recommendations decreased from 52 per cent in 2007 to 47 per cent in 2009. No reason could be identified for the change in the overall rate of implementation, however we have provided some perspectives and details as it relates to each entity.

32. As in the prior report, the Board, at an overall level, identified some common elements, that could explain the lack of full implementation of its recommendations. These include:

(a) The lack at some organisations of a dedicated follow-up mechanism to focus the attention of senior management on the steps necessary to ensure full implementation of the Board's recommendations, as approved by the General Assembly;

(b) The lack of sufficient inter-agency coordination in the implementation of recommendations that pertained to more than one organization;

(c) The undertaking of medium-term projects in the areas of inter-agency coordination, information and communications technology and human resources management which take longer to implement;

(d) The pending implementation of International Public Sector Accounting Standards (IPSAS);

(e) Entities sometimes addressing recommendations in a symptomatic manner, instead of implementing steps that could address the reported issues transversally; and

(f) Entities focusing mostly on main recommendations of the Board as highlighted in the individual reports and giving less focus to the Board's other recommendations.

33. In the same way, the Board also identified good practices in relation to the implementation and follow-up of its recommendations. These include:

(a) Identifying and monitoring of a list of priority audit issues (provided it does not result in a lack of attention to the Board's other recommendations);

(b) Validating management's assessment of the status of implementation of the Board's recommendations by internal auditors and related tracking by some audit committees;

(c) Identifying causes of recurring audit observations and developing appropriate action plans to address them; and

(d) Establishing time-frames and completion standards with which recommendations need to be implemented.

34. Madame Chairperson, my colleagues and I are available to answer any questions distinguished members of the Committee might have on these findings or individual sections dealing with each of the organizations included in these reports.

35. We will endeavor as we always have to provide you with responses immediately, but where this is not possible, we ask your patience in advance so that we may revert to you with answers.

Thank you.

End.