

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/77/240), Volume I (A/77/5 (Vol. I)), ITC (A/77/5 Vol. III), UNCDF (A/77/5/Add.2), UNDP (A/77/5/Add.1), UNEP (A/77/5 Add.7), UNFPA (A/77/5 Add.8), UN-Habitat (A/77/5 Add.9), UNICEF (A/77/5 Add.3), UNITAR (A/77/5 Add.5), UNHCR (A/77/5/Add.6), UNODC (A/77/5 Add.10), UNOPS (A/77/5 Add.11), UNRWA (A/77/5 Add.4), UNU (A/77/5 Vol. IV), UN-Women (A/77/5 Add.12) and IRMCT (A/77/5 Add.15)

November 2022

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 2021.

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. 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

The Board noted that 15 entities closed the financial year with a surplus and two entities recorded a deficit. Of those two entities, IRMCT recorded a deficit for the third consecutive financial year, while United Nations peacekeeping operations had recorded a surplus the previous year.

In general, the Board noted that 11 entities had improved their position of surplus or deficit, whereas the remaining 6 entities had seen a decline in that respect. The reasons for those changes are detailed in the individual audit reports of the entities.

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. However, the Board noted significant declines for some entities in several ratios in 2021 as compared with 2020. Moreover, the Board noted for a second consecutive year that the liquidity ratios, specifically the quick ratio of 11 entities had decreased compared with the previous year, whereas the remaining six had seen an increase in that respect.

Consequently, even though the ratios in general showed sufficient solvency and the liquidity ratios were sufficient (with the exception of United Nations peacekeeping operations), the trend analysis of liquidity should be constantly monitored in order to manage liquidity risks.

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 48 per cent in 2020 to 53 per cent in 2021. Additionally, it includes an overview for the implementation rate for every single UN entity covered in the CS over the past three years.

Management of the Implementing Partners

The Board noted that the Secretary General identified implementing partners as one of the 16 critical areas of strategic and operational risks. Moreover, IPs is identified as one of the six critical risks related to fraud and corruption. Along the same line, an analysis of the investigation reports carried out by OIOS identified IPs as one of the most common sources of fraud and corruption. The Board decided therefore, to include a special Chapter on Management of Implementing Partners. The information pertaining to this Chapter has been collected through the audit reports of the Board and a questionnaire issued to the entities.

Volume I

The Volume I audit report reflects the efforts of the three members of the Board namely: Chile, Germany and China. China, as the lead auditor of the Volume I, audited most of the entities of the United Nations Volume I, while the German team is responsible for audit of UNOG, OHCHR and procurement function and the Chilean team for UNOV.

The overall financial position of the Organization as at 31 December 2021 remains sound. Approximately 94 per cent of the regular budget was consumed in 2021, leaving an under expenditure of approximately \$206.83 million. The Administration needs to continue to strengthen core business processes in finance, budget, cash and investment and human resources management. The Board also identified areas for improvement in the operations of development, peace and security, and humanitarian affairs.

The Board recommended that the Administration continue to strengthen core business processes in finance, budget, cash and investment, asset management and human resources management.

Among those critical issues addressed in its report, the Board would like to draw your specific attention to the management of cost-recovery fund and the budget management of 10UNA fund and the utilization of special fund commitments.

For cost-recovery fund, there was an overall upward trend of annual surplus during the period from 2016 to 2021, leading to a total amount of \$448.54 million accumulated surplus as at 31 December 2021. In addition, the charges for certain cost recovery services were unreasonable. For instance, UNSMIL charged \$14.78 million from various United Nations country teams, agencies, funds and programmes for providing services such as accommodation, security, aviation, etc., while the costs for providing these services had already been covered by the regular budget.

For 10UNA fund, at 2020 year-end, the Administration transferred \$28.72 million 10UNA fund to 10RCR fund (cost-recovery fund) for the purpose of ensuring business continuity of the Organization under COVID-19 pandemic. Out of this amount, \$6.64 million was utilized by eight entities in 2021 for equipment procurements, construction in progress which were not included in the proposed programme budget, but approved by the Controller, in line with their respective mandates. As at 31 December 2021, the balance arising from the above-mentioned 10UNA transfer was \$21.68 million.

For the utilization of special fund commitments, in response to the liquidity crisis, the Administration transferred \$18.59 million (part of the \$116.66 million 2020 special fund commitments) from 10UNA fund to 10RCR fund in line with the Controller's approval, to cover expenses such as vehicle and equipment procurement, construction in progress, consultant fees and so on, incurred by various entities from April to December 2021. By the end of 2021, there was still \$17.74 million remaining balance under 2020 special commitments.

ITC

As at 31 December 2021, the net assets of ITC remained negative which was mainly attributable to the decrease in long-term voluntary contributions receivable.

For financial management, the Board noted closed implementing partner agreements with outstanding advances. For human resource management, the Board noted ITC was in lack of a comprehensive workforce plan and midterm review and there were deficiencies in the year-end review procedure applied to staff members. As for project management, deficiencies in field operations were noted.

UNCDF

At UNCDF, the Board reviewed grants being UNCDF's largest expense category and main mode of implementation. The Board observed that neither grant-specific risks nor mitigation measures were captured in the UNCDF risk register. Furthermore, the Board observed several shortcomings in the administration and documentation of grants although UNCDF had introduced a dedicated module in the enterprise resource planning system.

UNDP

UNDP is committed to provide administrative services to many other United Nations entities. The costs of these services should be fully recovered with the aim to make neither profit nor loss. The Board observed that prices were not updated in the majority of agreements, some dating back to 2004. Additionally, some services were not invoiced at all. Accordingly, UNDP needs to review and adjust prices to improve the complete and timely cost recovery for all services provided.

The Board found that UNDP's accountability system was established in 2008. In 2017, it was complemented by a corporate accountability framework. The framework set out responsibilities and accountabilities at the bureau level, but an equivalent at the country office level was lacking. Given UNDP's highly decentralized structure and the ongoing clustering of services, the Board holds that it is important to define a clear set of accountabilities reflecting the current organizational structure.

UNDP claims to be leading in sustainable procurement. The Board observed initiatives on green or sustainable procurement had indeed a long tradition within UNDP. However, the Board noted that the lack of a comprehensive and strategic approach to sustainable procurement, including goal-setting and performance measurement, constituted a significant barrier to implementation.

In 2019, the Board identified room for enhancement in various areas of internal financial control. Since then, UNDP had performed several tasks which aimed to enhance the internal control environment. However, with several observations on financial control shortcomings, the Board could not confirm that effective controls had improved significantly. The Board holds that risk-oriented key controls should be identified and performed.

UNEP

The Board noted that in its strategy management, UNEP set its target without baseline for programme of work and budget indicators. For example, UNEP developed a results framework in its programme of work and budget for the biennium 2022–2023 with 25 quantitative indicators, of which 24 (96 per cent) were presented under the line item “Baselines and targets” with “to be confirmed” as a baseline for December 2021.

In financial management, the Board noted that 110 ageing advance transfers in UNEP were not expensed. In programme and project management, issues like insufficient review process for implementing partners, fragmented and inconsistent project data across multiple information systems, were noted. For human resources management, information and communications technology, and procurement management, areas for improvement were also identified by the Board.

UNFPA

The Board noticed a lack of monitoring of the critical information set up in UNFPA strategic information system. This strategic information system is an overarching gateway for critical information on the profiles, performance and results of UNFPA’s business units. It consists of three modules, one of which is myResults. This module provides a platform for the planning, monitoring and reporting of results by each business unit. The Board considers that the myResults module provides multiple benefits. This tool allows reportability in respect of results achieved, lessons learned and challenges encountered during a particular year in the context of the Fund’s global accountability for results. Moreover, the system provides an opportunity to learn collectively from past performance, inform decision-making and help to improve future implementation and programme delivery. If UNFPA improved its monitoring, that would allow the business units to have adequate information for decision-making on reaching the annual target and demonstrating accountability to the Executive Board and making the case to stakeholders and donors for continued support and resources.

Also, on the area of human resources management, the Board noticed insufficient achievement of vacancy rates, delays in the recruitment process and non-compliance with mandatory training courses.

Another group of findings were made regarding implementing partners’ management, specifically, the Board found incomplete data on implementing partners’ assessments of the assurance plan 2021 and incompleteness and absence of uploading of implementing partner agreements to the UNFPA system.

Moreover, in this year’s Report, you will also found a number of recommendations in the areas of programme management, procurement management, inventory management and last-mile assurance management and contributions.

UN-Habitat

The Foundation non-earmarked fund of UN-HABITAT experienced a deficit during the past five years. Revenue dropped sharply, from \$4.9 million in 2020 to \$2.6 million in

2021, experiencing a 46.9 per cent decrease. In 2020 and 2021, the Foundation had negative net assets consecutively.

The worsened cash inflow to the Foundation non-earmarked fund during the past 10 years, and in particular the negative net asset situation of past two years, led UN-Habitat to take strict austerity measures, while high turnover and shortage of professional staff restricted its capability to well perform the duties and achieve the expected targets set in the strategic plan for the period 2020–2023.

In addition, such deficiencies as inadequate control over non-staff personnel, lack of policy for management of non-staff personnel hired through UNDP and UNOPS, insufficient use of integrated planning, management and reporting solution (IPMR) and fragmented project data in project monitoring and management, and donor intervention in implementing partner selection were observed by the Board.

UNICEF

The Board identified scope for improvement in the areas of private fundraising authorization, implementing partners management, private sector fundraising reports, information and communications technology, programme management, payroll management, supply chain and inventory management.

The Board verified that UNICEF borrowed funds, with the authorization of its Executive Board, in spite of the absence of provisions in the UNICEF financial Regulations and Rules or authorization by the UN General Assembly. This loan was developed as a financing instrument to generate additional financing for investment in private sector fundraising, as a pilot project. The Board acknowledges the innovative ways for additional fundraising that UNICEF used with the aim of fulfilling its mandate. However, those new ways should always be done in strict compliance with its regulations in order to avoid exposing the organization to eventual financial risks.

In the area on implementing Partners, the UNICEF procedure on harmonized approach to cash transfers to implementing partners establishes that country offices must determine the appropriate follow-up actions on negative results from assurance activities (spot checks and audits) conducted on cash transfers to implementing partners, and also monitor the outstanding follow-up actions from high priority recommendations. The Board noted several action points registered as “completed” without supporting evidence regarding remedial actions, as well as being automatically closed without further actions taken by the country offices.

Closing action points automatically without adequate actions taken by UNICEF field offices may impact the main purpose of the assurance activities: to assess that funds provided to implementing partners of UNICEF are being used according to the programme document, as well as to monitor that field offices are properly taking care of the findings raised during those assurance activities, particularly when significant issues are identified.

An inappropriate evaluation of the implementing partners expenditures may lead to inaccurate recording of impairment of the accounts receivables closing balances.

UNITAR

The Board found issues regarding the management of projects that are based on the sale of data. Here, the Board identified a special purpose grant agreement under the Sustainable Cycles Programme (SCYCLE) with an outstanding balance of 61 per cent, from which it was further observed that this type of project mainly involved the sale of data and that the Institute had no regulations or procedures to guide or rule this business model or generate budgets or value the data.

Also, the Board found deficiencies in data used for the metrics of key performance indicators. In analysing the data used to produce metrics for key performance indicators, the Board found several issues, such as beneficiaries repeated in the participant's lists of both 2020 and 2021 events as well as a high number of beneficiaries whose nationalities were not reported. All of the issues were related to data uploaded into the events management system. The Board highlights the importance of the accuracy of the information used for calculations related key performance indicators, given that the results, aside from being used for internal purposes, are also intended for multiple stakeholders. They are published on the UNITAR website, and are therefore subject to public scrutiny.

Likewise, several other recommendations were issued in the areas of consultants and individual contractors and human resources management.

UNHCR

UNHCR continued its path of parallel reform initiatives with challenges to the organization and its workforce. In particular, the finalization of the decentralization and regionalization reform, the new results-based management approach, and the business transformation programme call for attention. Besides the new software tool COMPASS that supports the results-based management reform, the business transformation programme entails several other software projects. The programme has a total budget of 100 million US dollars. The interdependencies of the software projects and the connections via interfaces caused first delays and further delays could significantly impact the success of the programme. This poses a challenge for UNHCR. Furthermore, the Board commented on the audit topics of finance and budget, implementing partnership management, cash assistance to beneficiaries, human resources, and procurement.

UNODC

For UNODC, the Board had findings in the areas of strategic matters, human resources management, programme management, implementing partners and information and communications technology.

One of the critical key finding is related to the strategy on gender equality. Regarding the cross-cutting commitment to reach gender parity at all levels and the full implementation by the United Nations Office at Vienna of the UNODC strategy on gender equality and the empowerment of women, it was observed that, despite the steady advances made during the period 2018–2021, UNODC had low levels of female representation at the P-4 and P-5 levels.

The Board also observed deficiencies in the functionalities of the new integrated planning, management and reporting solution tool, such as maintaining records of staff members involved in the preparation, review and approval of annual project progress reports. It was not possible to obtain evidence of compliance with the time limits imposed by UNODC for the implementation of the tool or evidence reflecting a proper verification of segregation of duties during this process.

UNOPS

UNOPS established a new bad debt allowance and impairments against six investments under the Sustainable Infrastructure Impact Investments initiative (S3i) in 2021, amounting to \$19.11 million. The Board noted that the information UNOPS provided for the valuation of the investments was not sufficiently accurate and complete, giving the risk exposure of the S3i investments, UNOPS received an Emphasis of Matter.

The Board also noted that UNOPS's current pricing model used to establish the management fee for individual agreements was developed in 2013 on the basis of the 2010 financial statements. As UNOPS annual delivery in 2021 increased by 206 per cent compared to 2013, while management expenses increased by only 32.2 per cent, the basis of the current pricing model may no longer be applicable. Furthermore, the current framework, guidelines, procedures and policy issued by UNOPS for the growth and innovation reserve were specific to S3i initiative instead of the reserve as a whole. After the approval of the establishment of the S3i reserve, a new framework and specific planning for the growth and innovation reserve was still not in place. For project management and human resources management in UNOPS, there were space for improvement too.

UNRWA

As at 31 December 2021, UNRWA reported a surplus of \$76.99 million in 2021 against the deficit of \$145.10 million in 2020. The reported surplus is primarily due to increased contributions mainly from governments, especially the resumption of contributions by one of the major donors of \$320.3 million.

For asset and inventory management, the Board noted that out of the \$220,644 transit losses in its 2021 food stock disposals, the insurance claim supporting documents for only \$117,021 had been provided by 17 May 2022. In addition, for the \$44,464 food sweeping loss, discrepancies were identified between the summary sheets and the Survey Reports/Destruction Certificates provided by the Agency. Furthermore, deficiencies in storage and distribution of food inventory, health programme management, procurement and contract management, and management of loans for young refugees were also noted.

UNU

In the case of the UNU, the Board made recommendations related to programme management, information and communications technology, human resources management and voluntary contributions.

One of the key findings relates to absence of review of census data for after-service health insurance. The Board noted that all personnel under fixed-term appointments (academic and

administrative) were included in the census data for the actuarial valuation, including in instances where academic staff might not be eligible for after-service health insurance owing to the duration of their contracts in accordance with the UNU personnel policy. In this context, the Board noted that there was no clear procedure on how UNU carried out the reasonableness review of the census data pertaining to after-service health insurance, nor whether there was formal documentation of the result of the reviews or documentation justifying the inclusion of all personnel under fixed-term appointments in the census data provided to the actuary.

In addition, the Board noted that UNU lacked defined criteria for its institutes for determining consultants' fees. In addition, the levels set out in the administrative instruction defining the type of specialization and experience of the consultants, among other things, had not been specified at most of the institutes.

Also, the Board noted that a number of consultants working in UNU institutes had exceeded the maximum period defined in the administrative instruction and had worked for 24 months or more during a period of 36 months.

UN-Women

The Board observed unmapped activities in the annual workplan of UN-Women. The strategic plan outlines at the global level the Entity's strategic direction, objectives and approaches to support efforts to achieve gender equality and empower all women and girls. Of the total project budget planned for 2021 (\$585.21 million), \$43.26 million was not mapped intermediately in the annual workplan owing to constraints within the current enterprise resources planning system and manual interventions in the "Project Delivery". Furthermore, the Board detected that, of the \$43.26 million, there was \$37.82 million that had expenses reported and needed manual intervention to ensure proper mapping of resources.

The Board considers that, if UN-Women does not map activities to annual workplans, it could lead to reported expenses not being aligned with the strategic plan. The mapping and alignment of the results management system and Atlas activities are essential to ensure consistency, the accurate reflection of planned resources and expenditures, the successful completion of the annual workplan and to ensure that financial data reflected in Atlas and the results management system are aligned.

Also, the Board reviewed the status of the financial findings arising from project partner audits, as at 31 December 2021, and noted that there were projects from 2012 to 2020 that had audit financial findings not yet resolved by the Entity, for a total amount of \$1,319,075. UN-Women should ensure that all findings, recommendations and risks identified during audits of programmatic and project activities implemented by partners are addressed, implemented and monitored in a timely manner. If not addressed, it may give rise to an accumulative effect of unsupported or ineligible expenditure amounts, which could trigger these figures to become financially significant in coming years.

Moreover, the Board detected weaknesses in the monitoring of procurement activities at UN-Women due to lack of readily available reliable reports, and also a need for systems integration and more efficient data consolidation.

A number of other recommendations were addressed on the issues of contributions, outdated policies procedures and guidance, human resources and information security.

IRMCT

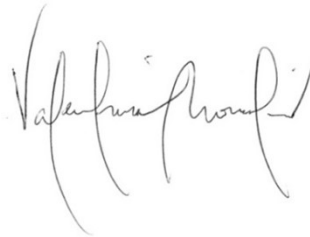
Regarding the International Residual Mechanism for Criminal Tribunals (IRMCT), the Board issued a number of recommendations in relation to the long-term strategic planning; risk management; human resources management; procurement management; property, plant and equipment; and information and communications technology.

Particularly, the Board noted a lack of long-term strategic planning in order to face the upcoming changes within the entity.

A scenario-based workplan was received by the Board, but it was still in draft form, and no updates had been incorporated to address the 2021 status of the judicial procedures or the expected situation for 2022 onwards. Furthermore, the provided document did not contain clear estimates, target dates or responsibilities with regard to key issues, such as premises, equipment and personnel. Also, the Board did not find measures derived from the lessons learned from the completion strategies and processes of the International Tribunal for the Former Yugoslavia and International Criminal Tribunal for Rwanda.

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

Thank you.



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