



**OPENING REMARKS AT FIFTH COMMITTEE**  
**BY MR. LIU YU CHAIR, AUDIT OPERATIONS COMMITTEE (AOC)**  
**OF THE BOA OF AUDITORS (BoA)**  
**FRIDAY, 12<sup>TH</sup> OCTOBER 2012**  
**IN CONNECTION WITH**  
**THE REPORTS OF THE BOA OF AUDITORS**  
(Concise Summary, Vol.1, ITC, UNU, UNDP, UNICEF, UNRWA, UNITAR, UNHCR,  
UNEP, UNFPA, UNHabitat, UNODC, UNOPS, ICTR, ICTY, UN Women)

Good morning Mr. Chairman and Distinguished Delegates.

On behalf of the Board of Auditors (BoA) and my colleagues in the Audit Operations Committee, I have the honour to introduce to you the main findings from our reports and the audits conducted for the period 2010-11.

Firstly, I want to inform you that the Board of Auditors has undergone a change in its composition. In July this year, the Auditor General of South Africa was replaced by the Controller and Auditor General of Tanzania. This change in Board membership had no impact on the responsibility for the reports before you today. Mr. Ravhuhali, Director, South Africa is available to the Committee for the discussion of the South Africa portfolio of reports. In the meantime the Board has made every effort to facilitate a smooth handover between the two Board members to ensure continuity in the service to the Fifth Committee.

Mr. Chairman,

### **Audit Opinions**

This biennium, in terms of audit opinions, for the 18 organisations audited (including PKO), 16 entities received clear audit opinions. Two entities, UN-Women and UNRWA, as opposed to 8 in 2008-2009, were given opinions with either an ‘emphasis of matter’ or ‘other matter’ paragraphs. .

The “emphasis of matter” and “other matter” paragraphs on the UN-Women report is partly explained by the fact that it is in its first year of operating as an entity and its internal controls were still not adequate; but also it reflects that the four entities that merged to form UN-Women applied inconsistent interpretation of resolution A/RES/64/289 regarding the date of asset transfer. UNDP transferred the assets of UNIFEM on 2 July 2010 while the other three entities transferred the balances as at 1 January 2011. As a result, the activities of UNIFEM for the period 2 July 2010 to 31 December 2010 are not included in UN-Women or UNDP but are included as Annex I to the current UN-Women accounts.

The “other matter” paragraph on the UNRWA report relates to the agency’s financial position as at 31 December 2011. In particular it highlights the financial pressure on the organisation, including a deficit of \$33.67 million in regular un-earmarked funds, low reserves (\$3.86 million), and limited cash (\$35 million) as at 31 December 2011. The financial position of UNWRA has impacted on both its operating activities of the Agency, as well as its ability to maintain good internal control.

### **Implementation of recommendations**

The Board issued 338 recommendations in 2010-11. Of the 546 recommendations made in 2008-2009, 69 per cent have been fully implemented, 24 per cent were under implementation and seven per cent were not implemented. The Board is generally content with the overall rate of implementation.

## **Key messages in the long form reports**

This statement addresses the important common themes across entities. Please allow me to highlight what we consider to be the most important findings:

### **Financial Transparency and Disclosure**

There was inadequate transparency and management information to explain the reasons for the overall level of cash pools held, or to provide meaningful disclosures regarding the movements in cash balances for most of the entities;

There was inconsistent disclosure of end-of-service liabilities in the Financial statements and no clear funding plans to meet these liabilities for most of the entities;

### **IPSAS**

While a number of entities remain firmly on track to meet their deadlines, successful implementation for Peacekeeping Operations (PKO) by July 2013 and the United Nations by January 2014, remains at high risk mainly due to the complexity of transactions and the continuing changes in implementation strategy, which is now high reliant as a transitional measure on the legacy IMIS system. Even for those entities on track to implement IPSAS, the Board, has highlighted specific risks in the funds and programmes relating to the areas of: a) Property, plant and equipment (previously referred to as Non-expendable properties), (b) Inventories, and (c) Leave balances.

Projected benefits form an important part of the business case for implementing IPSAS. It is the delivery of the intended benefits from IPSAS that is the ultimate test of success, not merely the delivery of IPSAS compliant financial statements. However, whilst there has been an understandable focus on practical implementation, there are no comprehensive benefits realisation and change management plans in place across entities to secure the success of IPSAS implementation as a major business transformation.

### **Budget management**

The budget is a key tool for effective financial management and control, and is the central component of a process that provides the oversight of financial dimension of an organisation's operations. The Board observed a number of areas requiring improvement in budget management, including:

- (i) significant disparities between budget assumptions in several organisations' budget proposals and relevant historical data, which could not be fully justified;
- (ii) insufficient discipline in budget implementation; and
- (iii) limited consideration of programme performance information against financial performance information.

## **Asset Management**

There were weaknesses in stewardship of assets, including both expendable and non-expendable properties. Controls in place do not provide adequate assurance of the accuracy and completeness of the value of property. This presents a key risk under the IPSAS regime under which assets must be fully accounted for.

There was high risk of loss/wastage from unused Non- expendable property (NEP). This was already reflected in the PKO report which was discussed in the first resumed session of the Fifth committee.

## **Programme and project management**

Effective programme and project management requires organisations to establish measurable objectives, develop implementable work plans and proportional resource requirements, and effective monitoring of the implementation of work plans and budget resources to achieve expected objectives.

The Board's examination of programme and project management for the period under review indicated the following main deficiencies:

- (i) Outcomes, outputs and indicators do not align clearly with an organization's overall strategy. For example, in the UN Secretariat, none of the 85 indicators of achievement reviewed by the Board were focused on outcomes. Only 21 per cent related to the expected accomplishments they were intended to address. At UNICEF, 37 of the 59 performance indicators could not be directly linked to activities in UNICEF Country programmes; and
- (ii) Projects and programmes were not adequately monitored and evaluated to provide assurance to management that funding has been used for its intended purpose and that expenditure has provided value for money, especially for funds disbursed to implementing partners. For example, in 2010-2011, the Board identified in OCHA's management of its active Emergency Response Funds (\$304 million) a weak level of control and managerial assurance over payments made by OCHA to NGOs. There were significant delays in obtaining adequate assurance through financial and progress reports from NGOs. The Board also found deficiencies in the level of site monitoring visits and spot checks being carried out by OCHA.

## **Business transformation projects**

The UN is currently in the midst of several large scale business transformation projects (including CMP, Umoja and IPSAS). All of these projects are crucial drivers in modernising the organisation and keeping it relevant. The Board has found many common issues in the major UN business transformation projects (CMP, Umoja, IPSAS) including:

- Inadequate analysis of how the changes brought by these projects will be absorbed in the organization, or the capacity of the organisation to manage change;
- Funding is agreed and projects are commenced without a clear agreement on the articulated end-state vision and the benefits that the initiatives are intended to deliver;
- Failure to develop a benefits realisation plan and assign clear accountability and responsibility for the delivery of the intended benefits and agreed plans for how they will be achieved; and
- Ineffective governance over project implementation, including ineffective steering committees, absence or insufficient action plan, lack of an effective mechanism to capture information to monitor and evaluate progress, and an absence of fully transparent and robust reporting on progress to time and budget

In general, the Board concludes that there is a need for a more integrated and holistic grip on the direction and delivery of the business transformation programmes by senior management.

### **Procurement and contract management:**

The Board reviewed procurement and contract management activities across the UN and its funds and programmes and identified deficiencies and noted that:

There is too often a lack of competition for goods and services: the Board found frequent use of waivers of competitive bidding, splitting of awards and ex-post facto approvals that were either not adequately supported or the result of poor procurement processes within organisations.

Requisition planning and procurement management are inadequate and expose the organizations to risks of approval on exigency basis, ex post facto approvals and inadequate consideration of stocks before making requisitions.

### **Funds and Programmes related specific issues**

In respect of Funds and Programmes, particularly, there is a need to ensure adequate oversight over their decentralized models, to ensure compliance with the Financial Regulations and Rules and the related policies and procedures; also controls over funds utilized by implementing partners need to be adequately monitored.

Fund raising activities carried out on behalf of UNICEF by their National Committees had several weaknesses. This resulted in incomplete recognition of income from donations raised by National Committees on behalf of and for UNICEF. Also, some National Committees had higher retention rates than the target retention rate of 25 per

cent. In essence there was lack of effective oversight by UNICEF of the activities of National Committees.

### **Governance**

In general, all deficiencies identified in the report through the Board's work across all entities this biennium can be linked to weaknesses in governance, which include weaknesses in:

- a) a clear and well understood systems of accountability;
- b) internal control framework; and
- c) effective organisational level risk management.

This concludes our brief introduction of the Board's report for the period of 2010/11. Thank you very much for this opportunity to communicate with the Fifth Committee on the main results of the BoA reports. My colleagues and I will endeavor, as always, to answer any questions you may have during the informal session of the Committee.

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**Chairman of the Audit Operations Committee**