

# United Nations Nations Unies

## BOARD OF AUDITORS

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### Opening statement to the Fifth Committee

#### The Reports of the United Nations Board of Auditors

(Concise Summary, Vol.1, ITC, UNU, UNDP, UNICEF, UNRWA, UNITAR, UNHCR, UNEP, UNFPA, UN-Habitat, UNJSPF, UNODC, ICTR, ICTY, IRMCT, UN Women, UNOPS, UNCDF)

14 October 2015

Mr Chairman

Distinguished representatives

On behalf of the Chairman Professor Mussa Assad, Controller and Auditor General of Tanzania and the other Board members, Sir Amyas Morse, Comptroller and Auditor General of the United Kingdom and Mr Shashi Kant Sharma, Comptroller and Auditor General of India, I have the honour to introduce the main findings from the Board of Auditors Concise Summary and the reports for the audits conducted on financial statements for the period ended 31 December 2014.

This is the first year when all entities have adopted IPSAS whereby the financial statements are produced on an annual accruals accounting basis.

#### **Key findings**

This statement summarises at high level key findings and trends from the Board's reports.

#### *Audit opinions*

There were no qualified opinions for the 20 entities including the United Nations peacekeeping operations audited in the period. This is a commendable achievement but was not achieved smoothly in some cases as some challenges were experienced in the preparation of the financial statements.

#### *Financial management*

The Board notes that 70 per cent of the 20 audited entities reported surpluses and that factors such as late receipts of donations and delays in implementing projects contributed

to surpluses in some cases. The remaining 30 per cent reported deficits and showed declining reserve as compared to 2013 balances.

The Board noted that, all entities except one (ICTR) could demonstrate a basically sound financial position and sustainability as their total assets exceeded liabilities. Also the financial ratios of all entities except UNOPS demonstrated the ability to meet short term obligations from current assets. In addition, all entities that have implemented IPSAS in 2012 except two (UNRWA and UN Women) showed declining ratios of total asset to liabilities and cash ratio mainly due to movements in investments in long-term portfolio and discount rates used for actuarial valuation of post-employment benefit. The ratios above 1:1 observed in the entities are attributed to factors such as pledged contributions at the end of the year, funds in the hands of entities for multi-year projects, and funds for some projects which were not implemented. The Board considers the financial position and financial performance of these entities continued to be satisfactory.

Further, the Board notes that total of End of Service Liabilities has increased by 26 per cent when compared to the prior year total. The increase is attributed to inflation rate and discount rate used in actuarial valuation. Nine entities have funding plan but lack funding strategies, while the remaining entities have opted for pay-as-you go approach. The Board call for vigilance over the ESL financed through the pay-as-you-approach to avoid the risk of failure to finance the liabilities in future.

#### *IPSAS implementation*

Overall the Board notes a trend of continuing improvement in the preparation process related to the financial statements closure and presentation, despite some challenges faced by all entities in the process of adopting IPSAS. The Board would like to highlight the following points:

- Only four (UNCDF, UNDP, UNFPA and UN Women) of the nine entities adopted IPSAS since 2012 developed structured benefit realization plan to demonstrate how IPSAS adoption has achieved the intended benefits. UN Vol 1, PKO, UN Habitat, UNEP and ITC which adopted IPSAS in 2014 have developed plan, but those plans need improvements.
- Some processes followed to ensure timely presentation of high quality financial statements were not successful as the first draft received for audit contained material inaccuracies which required significant adjustments to be made resulting in delays in presenting a final set of draft financial statements.
- Despite some adjustments of accounts for errors identified during audits the delivery of IPSAS financial statements was significant achievement for entities adopted IPSAS for the first time in 2014. The Board considers that most of the issues encountered related to the first time adoption of IPSAS and do not necessarily reflect the ability of these entities to produce quality financial statements in future.

- The ultimate test of success facing all these entities is to further develop and sustain strong financial functions to prepare quality financial statements, underpinned by more accurate data from financial systems. The Board will continue to stress the need for clear benefit realisation plans and benefits arising from financial management within each entity.

## Governance accountability and risk management

### *Managing globally dispersed operations*

The Board noted varied achievements as entities try to strike the right balance between sufficient flexibility and delegated authority in the field versus the right level of monitoring, intervention and oversight by headquarters. In this case, UNDP, UNRWA, and UN Women reported clear accountability of resources and delegation of authority at their respective HQ. For example UNDP undertakes restructuring which involves delegation of less strategic functions so that such function can be monitored centrally. Also, UNODC has improved its field based financial system over time, but still faces limitation in collating timely information from field operations in an efficient and effective manner.

### *Enterprise risk management*

The Board continue to note variable progress in 2014 in implementing approaches to enterprise risk management in UN organisations. In UN (Volume 1) progress was noted particularly in some areas particularly the identification and management of the six critical risks identified by senior management. However, the UN (Volume 1) has made insufficient progress in embedding ERM throughout the organisation as a whole. Implementation is not managed in accordance with an agreed project plan that set out the overall timetable, deliverables, key milestones, dependencies, and indicators of success or resources requirements. Progress in implementing risk management in other areas of the United Nations has been disappointing as the framework has not been formalised.

### *Implementing partners*

The Board reports on a range of issues in relation to implementing partners. These include some progress in improving consistency of selection, monitoring and closed out of projects delivered by IPs; initiative to consider an establishment of a formal requirement for information sharing on the performance of implementing partners.

### *Fraud awareness*

The Board noted that agencies define fraud and presumptive fraud differently which renders comparison challenging. However, in general, levels of fraud and presumptive fraud reported in 2014 have reduced (example –UN Vol. 1, UNOPS, UNEP, UNDP, UNODC, UNRWA and UNHCR) although there were some cases where levels of fraud and presumptive fraud disclosed increased (UNFPA, UNICEF and UNPKO). Also, while in the previous report only one entity was noted to have established an integrated counter – fraud strategy focusing on both internal (staff members and other personnel) and external fraud (vendors and contractors) in 2014 more entities (16) have developed policies though

some (13) do not have adequate strategies for implementation, and placed a greater focus on internal employee fraud, and were paying limited attention to proactively managing risks arising from external factors such as frauds committed by suppliers or implementing partners. United Nations entities operate in inherently high risk environments; most of which work with third parties and exposed to the high risk of fraud. The Board consider that such entities with global presence including, for example, UNDP, UNFPA, UN Women, UNHCR, UNICEF, UNOPS, need to consider their risk appetite and develop a fraud response plans.

In 2013, there was varying levels of fraud and presumptive fraud disclosure among the entities; there was no correlation between the magnitude of the reported fraud against factor such as volume or value of transactions. In 2014 the Board worked with UN entities to develop a consistent approach to reporting fraud, and it is the Board's plan to continue working with UN organisations to ensure that this goal is achieved.

#### *Cost-effective management of core business services*

The Board continues to highlight numerous and various deficiencies across entities on cost-effective management of core business services. For example in human resources management databases were not established or systems not integrated for managing consultants or contracts staff (ITC, UNFPA and UN Women), performance appraisals were not properly done or the results used for intended purpose (UNDP, UNCDF), workforce planning remained in infancy despite the Board's recommendation and the GA resolution on the need for the Administration to develop work force planning system. Other issues were noted on assets management, procurement and contract management, management of information and communication technology and travel management. These are all important business functions that are vital to the cost effective delivery of the core services.

#### *Budgets implementation*

The Board notes issues such as: the need for the administration to be cognizant of the potential delays which might occur during the approval process, key offices not being involved in the budget process; also variations between budgetary appropriations and final expenditures, as well as redeployments of expenses among and within different classes being carried out as matter of routine, in peacekeeping operations. In view of the deficiencies, the entities were advised to review the identified weaknesses in budget formulation and develop improved principle methodologies to assist them in formulating realistic, consistent and reliable budgets as well as developing the required skill, techniques and tools necessary for implementation, management, monitoring and controlling their budget more effectively.

#### *Business transformation in the United Nations*

The Board continue to note progress in a number of business transformation activities undertaken by the United Nations organisations, and indicated in the examples below:

UNDP: undertakes restructuring to strengthen its regional presence, consolidate policy functions, rationalise management support and improve ratio of staff to management.

The IT –enabled business change project to improve administrative process while differ in scale, complexity, and the stage in the project life cycle had some commonalities including delays and budget overruns (example: UNOPS and Umoja), and problems putting in place post implementation support such as help-desks (example: UNRWA and Umoja).

United Nations (Vol 1) is implementing a number of major business transformation concurrently such as IPSAS, HR Mobility, and the capital master plan, the strategic capital review, flexible workspace and long term accommodation. The Board considers that more needs to be done to ensure these projects are managed as a ‘portfolio’ and fully understands the cumulative demands the different initiatives are placing on the Secretariat as a whole.

*Status of implementation of previous recommendations*

The Board noted that 49.6 per cent of recommendations made up to 31 December 2013 (PKO up to June 2014) had been fully implemented. This represents a decrease in the rate of implementation compared to the previous reporting period where 56 per cent of the past recommendations were fully implemented. The Board notes the progress made in implementation of some of the recommendations, but emphasises the need for the administration to address unimplemented recommendations.

Chair,

This concludes my statement. My colleagues and I will, as ever, be happy to answer any questions you may have relating to the concise summary as well as individual reports during the informal sessions of the Committee.

**Salhina M. Mkumba**  
**Director of External Audit (Tanzania)**  
**Chairman of the Audit Operations Committee**