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Summary record of the 7th meeting
Held at Headquarters, New York, on Monday, 22 October 2018, at 10 a.m.

Chair: Ms. Bird .... (Australia)
Vice-Chair of the Advisory Committee on Administrative and Budgetary Questions: Mr. Sene

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18-17541 (E)

The meeting was called to order at 10.05 a.m.

Agenda item 134: Financial reports and audited financial statements, and reports of the Board of Auditors (A/73/5 (Vol. I), A/73/5 (Vol. III), A/73/5 (Vol. IV), A/73/5/Add.1, A/73/5/Add.1/Corr.1, A/73/5/Add.2, A/73/5/Add.3, A/73/5/Add.4, A/73/5/Add.5, A/73/5/Add.6, A/73/5/Add.7, A/73/5/Add.8, A/73/5/Add.9, A/73/5/Add.10, A/73/5/Add.11, A/73/5/Add.12, A/73/5/Add.14, A/73/5/Add.15, A/73/209, A/73/209/Corr.1, A/73/353, A/73/353/Add.1 and A/73/430)

1. **Ms. Sen** (Chair of the Audit Operations Committee of the Board of Auditors), introducing the reports of the Board of Auditors to the General Assembly at its seventy-third session, and the concise summary of the principal findings and conclusions contained in the reports (A/73/209 and A/73/209/Corr.1), said that unqualified audit opinions had been issued for the 19 entities audited. Their financial position remained strong, with comfortably high solvency and liquidity ratios.

2. Employee benefits were a major liability for most of the entities. Seven entities — the United Nations as reported in volume I, the United Nations peacekeeping operations, the United Nations Environment Programme, the United Nations Human Settlements Programme, the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), the International Tribunal for the Former Yugoslavia and the International Residual Mechanism for Criminal Tribunals (IRMCT) — had no funding arrangements for employee benefit liabilities. It was important for the entities to have a funding plan for those liabilities.

3. On the issue of managing the risk of fraud, she said that the United Nations was exposed to a wide range of internal and external fraud risks, yet only 11 entities had conducted fraud risk assessments. With regard to implementing partners, 13 entities had transferred amounts ranging from 3 per cent to 50 per cent of their expenditure to implementing partners to execute their mandate. The Board had noticed deficiencies in the selection of implementing partners, delays in the release of funds, and monitoring, evaluation and reporting issues. With regard to human resources management, the Board had noted weaknesses in internal control relating to the hiring of consultants and the monitoring of their work. Regarding the implementation of its previous recommendations, the Board had noted a slight increase in the rate of implementation, from 45 per cent in 2016 to 48 per cent in 2017.

4. Turning to the key findings from the individual audit reports, she said that the financial report and audited financial statements for the year ended 31 December 2017 and the report of the Board of Auditors (A/73/5 (Vol. I)) indicated that there were outstanding commitments of $135.9 million. An analysis of a sample of outstanding commitments valued at $56.55 million had revealed that 43 per cent of those commitments had not been delivered in the year 2017. The creation of outstanding commitments where they were not warranted resulted in an overstatement of reported expenditure and inadequate provision for unencumbered balances for the biennium. The current system for managing heritage assets was vulnerable to inherent risks, owing to incomplete record maintenance and lack of physical verification of heritage assets.

5. The Procurement Division managed more than $3 billion of expenditure per annum. The Board recommended that the Administration develop a process to strengthen oversight and put in place a compliance mechanism for the delegation of procurement authority, regularly review the delegations and, if necessary, adapt or even withdraw them.

6. Enterprise risk assessment had not percolated down fully to the level of the departments, offices and missions. The Secretariat had not formulated a strategy or an action plan to operationalize its Anti-Fraud and Anti-Corruption Framework; consequently, there were no mechanisms to assess and monitor its implementation.

7. The United Nations Office at Geneva provided services to entities financed from the regular budget as well as to entities financed from extrabudgetary sources. The Board recommended that the Office further refine its cost calculation approach with regard to non-staff costs by streamlining the different approaches used by its organizational units.

8. At the United Nations Children's Fund, the Board had noticed weaknesses in areas including travel management, disbursements to implementing partners and the closure of contracts in the Virtual Integrated System of Information (VISION), the Fund's enterprise resource planning system.

9. The United Nations Office for Project Services had adopted 31 sustainable procurement criteria checklists. However, the checklists had not been made applicable to all procurement categories, leaving gaps in the implementation of the sustainability criteria. Moreover, in practice, sustainability concerns were often not incorporated into the procurement process.

10. The International Trade Centre had awarded contracts on single bid in 42 per cent of test-checked cases, thus forgoing a competitive selection process for hiring consultants.

11. The Office of the United Nations High Commissioner for Refugees should strengthen the monitoring and evaluation of cash-based intervention training impacts. The Office had not yet fully assessed the programmatic implications of the 2030 Agenda for Sustainable Development.

12. With regard to the United Nations University (UNU), the Board was concerned about the financial sustainability of its institutes, as they were only able to cover one third of their expenses through voluntary contributions. The Board recommended that UNU conduct a comprehensive analysis of the financial situation of its institutes and take steps to strengthen the financial sustainability of the UNU system.

13. The United Nations Institute for Training and Research made frequent use of consultants but lacked a method to ensure comparability among their performance. The Institute's enterprise risk management system, which was currently under development, did not focus on fraud, corruption or the misuse of resources by staff.

14. The United Nations Office on Drugs and Crime was transitioning to the Umoja enterprise resource planning system. The Board noted that the review process of donor agreements for incoming contributions was incomplete and that the full cost recovery process was extremely complex.

15. With regard to the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women), the Board was concerned about the assessment and selection of implementing partners. In addition, there were no individual fraud risk assessment plans for any of the six field offices the Board had visited.

16. With regard to the United Nations Development Programme, the Board had noted recurring deficiencies in programme and project management, including delays in signing combined delivery reports, non-performance of macroassessments and microassessments, deficiencies in management of Atlas electronic fund transfers, lack of testing of the disaster recovery and business continuity plans, and control deficiencies in information security governance. In addition, the working groups on the harmonized approach to cash transfers were inactive.

17. At the United Nations Capital Development Fund, the Board had identified shortcomings in project management, while at the United Nations Population Fund, the Board had noted scope for improvement both at Headquarters and in field offices in the areas of risk management, a harmonized approach to cash transfers, procurement and contract management, human resources management and information and communications technology.

18. UNRWA continued to experience financial difficulties. The projected overall deficit for the year 2018 was $446 million, including $49 million from the previous year. The situation threatened the Agency's ability to deliver its core mandate to Palestine refugees.

19. The International Tribunal for the Former Yugoslavia had been formally amalgamated with IRMCT on 1 January 2018 and its identifiable remaining assets had been transferred to IRMCT The Board was satisfied with the efforts made by the Tribunal to ensure the successful completion of its mandate on 31 December 2017, although it had noted the existence of several pending staff-related litigation cases. The solvency of IRMCT had deteriorated slightly, owing to the large balance of employee benefits and judges' honorariums and allowances, which were settled on a pay-as-you-go basis.

20. With regard to the United Nations Environment Programme, the Board had noted inadequate management actions and mechanisms to address challenges related to project administrative issues reported by project managers in the Programme Information Management System. It had also noticed some issues with the segregation of duties.

21. Lastly, at the United Nations Human Settlements Programme, the Board had noted delays releasing funds to implementing partners.

22. **Mr. Guazo** (Acting Deputy Controller), introducing the reports of the Secretary-General on the implementation of the recommendations of the Board of Auditors contained in its reports for the year ended 31 December 2017 on the United Nations and on the capital master plan (A/73/353) and on the United Nations funds and programmes (A/73/353/Add.1), said that the reports elaborated on the comments already submitted to the Board by the Secretary-General and the executive heads of the funds and programmes, and included information on the status of implementation of the recommendations, the office responsible for implementation in each case, and estimated completion dates and priorities. They also provided updates on the implementation status for prior-period recommendations that the Board had considered to be not fully implemented at the time of issuance of its reports. The Secretary-General and the executive heads

of the funds and programmes had concurred with most of the Board's recommendations, and had made every effort to ensure compliance with the General Assembly's request that they be implemented.

23. With regard to implementation of the Board's recommendations in connection with the report on the United Nations for the year ended 31 December 2017, 53 per cent of the recommendations relating to the previous six financial periods had been fully implemented, 32 per cent were under implementation, 4 per cent had not been implemented, and 11 per cent had been closed by the Board or overtaken by events. He recalled that the Board had noted with concern that the overall rate of implementation of the old recommendations had increased only marginally, from 45 per cent in 2016 to 48 per cent in 2017.

24. **Mr. Sene** (Vice-Chair of the Advisory Committee on Administrative and Budgetary Questions), introducing the related report of the Advisory Committee (A/73/430), said that the Advisory Committee commended the Board of Auditors for the quality of its reports and welcomed the fact that all the entities had once again received unqualified audit opinions. While the overall rate of implementation of the Board's recommendations had improved slightly, it remained significantly lower than the rate of implementation achieved in previous years. The Advisory Committee welcomed the efforts of the Board and the entities to increase the rate of implementation.

25. The Advisory Committee had noted that the financial positions of the entities had remained sound as at 31 December 2017. The Advisory Committee continued to encourage the Board to routinely include comparative data in future reports, including the trends in ratios over time and the correlation between ratios and the operational nature of an entity, as well as an analysis thereof. The Advisory Committee was of the view that entities should ensure a balanced approach to maintaining reserve levels, and recommended that the General Assembly request the Secretary-General to facilitate, at the level of the United Nations System Chief Executives Board for Coordination, the development of reasonable benchmarks for minimum and maximum reserve levels.

26. The Advisory Committee was concerned at the delay in introducing a statement of internal control, and intended to follow up on the matter in the context of related topics, such as the accountability system at the United Nations. The Advisory Committee concurred with the Board on the need for a comprehensive internal control system with respect to heritage assets and recommended that the General Assembly request the Secretary-General to take the necessary steps in that regard.

27. **Mr. Ahmed** (Egypt), speaking on behalf of the Group of 77 and China, said that the Group continued to value the external oversight role of the Board of Auditors and appreciated the high quality of its reports and recommendations. The Group noted with satisfaction the issuance of unqualified audit opinions for all the audited entities, and urged the entities to address the weaknesses identified while sustaining the gains made.

28. Thirteen of the entities had closed the financial year with a surplus, while five had recorded a deficit. Nevertheless, all the entities had solvency and liquidity ratios that were generally high, with the exception of IRMCT. Overall, the Organization had sufficient assets to cover its current liabilities. In general, ratios of 1:1 signified that an entity could cover its current liabilities from its assets, but acceptable ratio levels depended on the business model of each entity.

29. The financial situation of UNRWA, including the projected overall deficit for the year 2018 of $446 million, was of serious concern to the Group. The Group had taken note of the Board's recommendations, and wished to emphasize that austerity measures were not the only way for UNRWA to deliver its mandate.

30. He recalled that, of 742 previous recommendations for 2017, only 365 recommendations, or 49 per cent, had been fully implemented. Although that represented a slight increase compared with 2016, the overall implementation rate remained significantly lower than the 65 per cent rate realized in the biennium 2008–2009. The Group urged all entities to take appropriate measures to implement recommendations promptly and to put in place accountability arrangements for delays in implementation. The entities and the Secretariat must work towards the eventual closure of old recommendations.

31. On the basis of the reports and financial statements introduced at the current meeting, the Group would seek to address system-wide areas of concern, in particular Umoja, the United Nations Joint Staff Pension Fund, the cost-sharing arrangement for the resident coordinator system, the review of the implementation of the information and communications technology strategy, the strategic heritage plan of the United Nations Office at Geneva, procurement and, above all, accountability.

32. **Mr. Zeqiri** (Observer for the European Union), speaking also on behalf of the candidate countries Albania, Montenegro, Serbia, the former Yugoslav Republic of Macedonia, and Turkey; the stabilization

and association process country Bosnia and Herzegovina; and, in addition, Georgia, the Republic of Moldova and Ukraine, said that the Board of Auditors, through its high-quality reports and its recommendations, had made important contributions to the Organization in the form of independent assessments of the use of the funds provided by the Member States and in the form of oversight that helped to improve governance.

33. The Board also helped the United Nations system to operate in a sounder, more transparent and more cost-effective way, enabling the Secretariat to fulfil its mandates more effectively and efficiently, including the implementation of the Secretary-General's reforms. While it was positive that the rate of implementation of the Board's recommendations had improved, the Secretary-General should ensure full and timely implementation of all recommendations.

34. **Ms. Strainic** (United States of America) said that her delegation attached great importance to the work of the Board of Auditors, as its oversight of the Organization's operations and finances was crucial to ensuring that the United Nation functioned effectively and efficiently. The United States was encouraged that all the audited entities had received unqualified audit opinions. Her delegation had taken note of the Board's recommendations relating to the proper functioning of the Organization, including workforce management, combating fraud and corruption, management of implementing partners, and delegation of authority for key administrative tasks, including human resources management and procurement. She acknowledged the Secretary-General's efforts to address the Board's recommendations. By implementing them in a timely manner, the United Nations could achieve significant improvements in mandate and service delivery.

35. **Mr. Kumar** (India) said that the Board of Auditors was the core of the Organization's oversight mechanism, with its observations and recommendations playing a vital role in financial and administrative management and performance management in the United Nations system. His delegation had noted the issuance of unqualified audit opinions for all the audited entities, and the view of the Board that the Organization's financial position was stable and healthy.

36. His delegation was, however, concerned at the significant level of outstanding assessments. As at 30 September 2017, outstanding assessments had been $3.65 billion, and the situation had not improved in 2018. Adequate cash reserves were essential to ensure sound financial management and enable the United Nations to meet its financial obligations in a timely manner. Member States must, therefore, pay their assessments on time. His delegation hoped that the Board would examine that issue in a future report.

37. Turning to human resources management, he said that the report of the Secretary-General on the global human resources strategy 2019–2021 (A/73/372) included several goals that had not been achieved during previous reform efforts. The Board had noted that the use of temporary assignments was not fully in line with the Staff Regulations and Rules of the United Nations. In addition, with regard to the selection of consultants, the Board had noticed the repeated shortlisting of unavailable or unsuitable candidates, which restricted competition and hindered fair selection. Such concerns should be addressed immediately.

38. **Mr. Kapambwe** (Zambia) said that his delegation welcomed the issuance of unqualified audit opinions for all the audited entities and the view that the financial health of the United Nations remained sound, with a financial ratio for 2017 of 3.88, compared with 3.41 in 2016. However, his delegation was concerned that long-term employee benefit liabilities had increased from $4,234.16 million in 2016 to $4,940.30 million in 2017. While those liabilities were covered by a large asset base, they could have a negative impact on the regular budget if increases continued to be underfunded.

39. His delegation noted with concern that the Anti-Fraud and Anti-Corruption Framework had not been operationalized in all United Nations offices. In addition, not all staff members had completed the mandatory anti-fraud training course, and no dedicated procurement-related anti-fraud training had been provided for the personnel of the Procurement Division. His delegation welcomed, therefore, the call for more importance to be attached to fraud-related training, in particular for staff of the Procurement Division.

40. Every effort should be made to ensure that the Board's recommendations were implemented. While the number of recommendations that had not been implemented remained high, his delegation was pleased that the implementation rate for 2017 had improved compared with 2016.

The meeting rose at 10.45 a.m.