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Summary record of the 7th meeting
Held at Headquarters, New York, on Friday, 12 October 2012, at 10 a.m.

Chair: Mr. Berger. . . . . (Germany)
Chairman of the Advisory Committee on Administrative and Budgetary Questions: Mr. Kelapile

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12-54576 (E)

The meeting was called to order at 10.10 a.m.

Agenda item 128: Financial reports and audited financial statements, and reports of the Board of Auditors (A/67/5 (Vols. I and Corr.1, III and IV) and Add.1-5 and Add.6 and Add.6/Corr.1 and Add.7 and Add.8 and Add.8/Corr.1 and Add.9 and Add.9/Corr.1 and Add.10-13, A/67/173, A/67/319 and Add.1 and A/67/381)

1. **Mr. Liu** Yu (Chair of the Audit Operations Committee of the United Nations Board of Auditors), introducing the Board of Auditors' reports to the General Assembly at its sixty-seventh session, said that, of the 17 entities audited, all but 2 — the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women) and the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) — had received clear audit opinions. The "emphasis of matter" and "other matter" paragraphs in the report on UN-Women were partly explained by the fact that, being in its first year of operation, the entity had inadequate internal controls. In addition, three of the four entities that had merged to form UN-Women had transferred their assets as at 1 January 2011, while the assets of the fourth, the United Nations Development Fund for Women (UNIFEM), had been transferred on 2 July 2010. As a result, the activities of UNIFEM for the period 2 July to 31 December 2010 were included as an annex to the financial statements of UN-Women. The other matter paragraph in the UNRWA report related to the Agency's financial position as at 31 December 2011. It highlighted the financial pressure on the Agency, including a deficit of $33.67 million in regular unearmarked funds, low reserves and limited cash, which affected both its operating activities and its internal controls.

2. The Board had issued 338 recommendations in 2010-2011. Of the 546 recommendations made in 2008-2009, 69 per cent had been fully implemented, 24 per cent were under implementation and 7 per cent had not been implemented. The Board was generally content with the implementation rate.

3. The Board had made a number of important findings that reflected common themes across entities. There was inadequate transparency and management information to explain the reasons for the overall level of cash held or to provide meaningful disclosures regarding movements in cash balances for most entities. There was also inconsistent disclosure of end-of-service liabilities in the financial statements and no clear funding plans to meet those liabilities for most entities.

4. While a number of entities were on track to implement the International Public Sector Accounting Standards (IPSAS) on schedule, there was a high risk that the Standards would not be implemented for peacekeeping operations by July 2013 and for the rest of the United Nations by January 2014, mainly owing to the complexity of transactions and the changes in implementation strategy, which now relied heavily on the legacy Integrated Management Information System. Even for those entities that were on track for successful implementation, the Board had highlighted specific risks relating to property, plant and equipment, inventories and leave balances. Moreover, there was a lack of comprehensive benefits realization and change management plans that would ensure the success of IPSAS implementation as a major business transformation.

5. Better budget management was required in a number of areas. In particular, the Board had observed significant unjustified disparities between budget assumptions in several organizations' budget proposals and relevant historical data; insufficient discipline in budget implementation; and limited consideration of programme performance information against financial performance information. There were also weaknesses in asset management for both expendable and non-expendable property. Controls did not provide adequate assurance of the accuracy and completeness of the value of property, presenting a key risk under IPSAS, which required a full accounting for assets. There was also a high risk of loss or wastage from unused non-expendable property.

6. For effective programme and project management, organizations must have measurable objectives and implementable workplans with proportional resource requirements and must monitor plans and resources to achieve expected objectives. One of the deficiencies detected by the Board was the failure of organizations to align clearly outcomes, inputs and indicators with their strategies. In the United Nations Secretariat, for example, none of the 85 indicators of achievement reviewed by the Board focused on outcomes. Twenty-one per cent did not clearly relate to the expected accomplishments they were intended to address. At the United Nations

Children's Fund (UNICEF), 37 of the 59 performance indicators could not be directly linked to activities in UNICEF country programmes. Another deficiency was the failure to monitor adequately and evaluate projects and programmes in order to provide assurance that funding had been used for its intended purpose and that expenditure had provided value for money, especially for funds disbursed to implementing partners. For example, in examining the management by the Office for the Coordination of Humanitarian Affairs of its active emergency response funds in 2010-2011, the Board had identified a weak level of control over payments made to non-governmental organizations (NGOs). There were significant delays in obtaining financial and progress reports from NGOs and the Office's site visits and spot checks were inadequate.

7. Lastly, the Board had found issues in major United Nations business transformation projects — the capital master plan, Umoja and IPSAS implementation — currently under way to modernize the Organization. There was inadequate analysis of the Organization's capacity to manage change. Funding was approved and projects were commenced without clear agreement on the intended benefits. There had been a failure to develop a benefits realization plan and assign clear accountability and responsibility for delivery. There was ineffective governance of project implementation, including ineffective steering committees; insufficient or nonexistent action plans; lack of an effective mechanism to capture information in order to monitor and evaluate progress; and an absence of transparent and robust progress reporting. In general, the Board had concluded that senior management should exert more integrated and holistic control over the direction and delivery of business transformation programmes.

8. With respect to procurement and contract management, the Board had noted that competition for the provision of goods and services was too often lacking. There was frequent use of waivers of competitive bidding, splitting of awards and ex post facto approvals that were not adequately supported or that resulted from poor procurement processes. Inadequate requisition planning and procurement management exposed organizations to risks of approval on an exigency basis, ex post facto approvals and insufficient consideration of stocks before making requisitions.

9. In respect of funds and programmes, there was 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. Controls over funds utilized by implementing partners should also be adequately monitored. Weaknesses in fund-raising activities carried out on behalf of UNICEF by national committees resulted in incomplete recognition of income from donations. Some committees also had higher retention rates than the target of 25 per cent. In essence, there was lack of effective oversight by UNICEF over the activities of national committees.

10. All of the deficiencies identified by the Board in the biennium 2010-2011 could be linked to governance weaknesses, including in the accountability system, the internal control framework and risk management at the organizational level.

11. **Mr. Ramanathan** (Deputy Controller), introducing the report of the Secretary-General on the implementation of the recommendations of the Board of Auditors contained in its reports on the United Nations and the funds and programmes for the biennium ended 31 December 2011 (A/67/319 and Add.1), indicated that document A/67/319 contained information on the United Nations and the capital master plan, while its addendum, A/67/319/Add.1, contained information on other United Nations entities.

12. Every effort had been made to comply with the General Assembly's requests to indicate priorities, time frames, the office holders responsible the implementation of recommendations and the reasons for delays in the implementation of recommendations from prior periods. As noted by the Board of Auditors, 65 per cent of recommendations made prior to 31 December 2009 had been implemented, representing an improvement over the implementation rate of 59 per cent for the previous biennium. For those recommendations that had not been implemented by July 2012, the reasons were provided in the Secretary-General's report. While all accepted recommendations would be implemented in a timely manner, the most important recommendations — categorized by the Board as "main" recommendations — would be given high priority.

13. **Mr. Kelapile** (Chairman of the Advisory Committee on Administrative and Budgetary Questions), introducing the related report of the Advisory Committee (A/67/381), said that the reports of the Board of Auditors on the capital master plan,

Umoja and IPSAS implementation (A/67/5 (Vol. V), A/67/164 and A/67/168, respectively), which highlighted the progress in and challenges of managing business transformation across the Organization, would be of particular interest to Member States. The fact that the Board had given none of the entities audited a qualified audit opinion, although it had drawn attention to specific matters of concern for UNRWA and UN-Women, represented an improvement on the previous biennium and was partially owing to the application of stricter criteria under the revised International Standards on Auditing. The Advisory Committee reiterated the importance of full and rapid implementation of the Board's recommendations and of greater management attention to addressing the root causes of problems. In particular, the Board had made repeated observations on unresolved cross-cutting issues such as inconsistent treatment of end-of-service liabilities and deficiencies in controls over non-expendable property.

14. Overall, the Advisory Committee had highlighted five issues of concern. First, the Board continued to make observations about the status of preparations in the United Nations and its funds and programmes for the implementation of IPSAS. While implementation was on track in seven funds and programmes, the United Nations Secretariat, the peacekeeping operations, UN-Women and the United Nations University (UNU) were at high risk of missing the target dates for production of IPSAS-compliant financial statements. The Committee recommended that extra effort should be exerted by each entity in which the Board had identified problems.

15. Second, the Board had commented on the fact that the United Nations was implementing a number of large-scale business transformation projects simultaneously, including the capital master plan, Umoja and IPSAS implementation, all of which were challenging in scope but crucial for modernizing the Organization. The Board had highlighted the need for a realistic assessment of the Organization's ability to absorb those fundamental changes while continuing to deliver its ongoing mandates. It had also pointed out that a clearly articulated end-state vision for change was required for projects of that nature, together with more complete and transparent reporting of costs from the outset and more effective internal governance mechanisms. The Advisory Committee expected that the lessons learned from those experiences would be incorporated into current and future projects of a similar nature.

16. Third, the Board has again found serious problems in the implementation of results-based budgeting and results-based management; in particular, it had found that workplans were not effectively aligned with the Organization's strategic goals and that indicators of achievement were not focused on outcomes. The opportunity to make improvements in the 2014-2015 strategic framework had been missed, raising serious concerns about the purpose and value of the task force established by the Secretary-General in 2011 to develop a conceptual framework for results-based management. The Advisory Committee expected that improvements would be reflected in the strategic framework for 2016-2017.

17. Fourth, the Board had raised concerns about the weak controls over monies provided to third parties by the Office for the Coordination of Humanitarian Affairs and gaps in project oversight, a situation that was reminiscent of previous observations regarding nationally executed projects in funds and programmes with an extensive field presence. Given that the Board had noted improvements in project management by the United Nations Population Fund (UNFPA) and the Office of the United Nations High Commissioner for Refugees (UNHCR) in the biennium under review, the Advisory Committee recommended that the lessons learned from those experiences should be applied to all field-based operations.

18. Lastly, the Board's observations about the adequacy of internal auditing arrangements at UNHCR, UNU and the United Nations Institute for Training and Research (UNITAR) might reflect a more fundamental problem. The Advisory Committee looked forward to reviewing the results of the analysis of alternatives available to improve the internal audit capacities of different entities, bearing in mind the remit of the Office of Internal Oversight Services (OIOS) under General Assembly resolution 48/218 B. The Advisory Committee also shared the Board's view that OIOS should finalize its report on the optimal structure and resourcing of its investigation capacity in a timely manner.

19. The roll-out of the new IPSAS system in several entities as early as 2013 would increase significantly the number of reports to be examined by the Board of Auditors; additional time would be required by the

intergovernmental bodies to review those reports. It was the Advisory Committee's view that the matter required urgent attention.

20. **Mr. Mihoubi** (Algeria), speaking on behalf of the Group of 77 and China, said that the Group welcomed the concise summary of the principal findings of the Board of Auditors. The observations and recommendations of the oversight mechanisms were fundamental to improving the work of the United Nations. The Group would scrutinize the situation of the two entities that had received emphasis of matter or other matter paragraphs to ensure that the General Assembly took appropriate decisions aimed at having them mitigate the risks. Noting that no entity had received a qualified audit opinion for the period under consideration, he expressed the hope that the positive trend would continue.

21. Despite the improvement in the rate of full implementation of the Board's recommendations for the biennium 2008-2009, the Group noted with concern that the number of recommendations under implementation had increased from 3 per cent to 6 per cent. A follow-up mechanism was needed to address the root causes of the problems identified; otherwise, the Board would continue to find deficiencies in internal controls in such areas as IPSAS implementation, financial and asset management, procurement and contract management, and performance and financial reporting.

22. There was a need for a realistic assessment of the Organization's ability to absorb the Umoja enterprise resource planning project, IPSAS implementation, the capital master plan and the global field support strategy simultaneously while delivering on mandates. Member States should also be given an end-state vision of each project and an action plan to implement them. During informal consultations, the Group would request the Secretariat to provide specific proposals for having the respective steering committees take action to avoid the current $430 million cost overrun for the capital master plan and to accelerate the consolidation of Umoja.

23. The Group concurred that United Nations entities might not be capable of meeting their end-of-service liabilities and that funding for voluntarily funded entities was unpredictable and could pose challenges for the funding arrangements for future liabilities, leaving United Nations staff or retirees at risk after years of dedicated work.

24. He noted the seriousness of the findings on results-based budgeting and results-based management set out in the Board of Auditors' report (A/67/5 (Vol. I)), including the Secretary-General's failure to assign responsibility to a member of his senior management team for delivering results-based management despite the mandate contained in General Assembly resolution 64/259; workplans that were not aligned with the Organization's strategic goals, creating a risk of misallocation of resources; and indicators of achievement that were not focused on outcomes. Moreover, the Advisory Committee had found that the comments of oversight bodies had had little impact on how the results-based-budgeting framework had been presented over the years. The Group wondered why the Secretariat had postponed the implementation of a mandate from the Assembly without reporting on the matter.

25. The Group was concerned that the deficiencies in procurement and contract management entailed reputational risk for the Organization and could lead to a lack of accountability and transparency in procurement. It also concurred with the conclusions of the Board of Auditors and the Advisory Committee regarding discrepancies in accounting for non-expendable property.

26. The Group requested an update on the establishment of an internal audit service for UNHCR; it appeared that some risk had arisen from the failure to comply with General Assembly resolution 66/232 in that respect.

27. Noting that IPSAS would require the production of annual rather than biennial financial reports, he wondered how the Organization would address the resulting challenges for the work programmes of the Board of Auditors, the Fifth Committee, the Advisory Committee and other intergovernmental bodies. The Assembly should address the issue as a matter of urgency during the main part of its sixty-seventh session.

28. **Ms. Norman** (United States of America) said that her delegation supported the conclusions of the Board of Auditors and the Advisory Committee, which should be accepted by the Fifth Committee. She commended the Organization for the decrease in the number of audits with modified opinions since 2009 and the increase in the number of fully implemented recommendations. A number of organizations had made

improvements since the previous audit of their financial statements, including UNHCR, the United Nations Environment Programme (UNEP), UNFPA, UN-Habitat and the International Criminal Tribunal for Rwanda; she urged United Nations organizations to address partially implemented and unimplemented recommendations expeditiously.

29. Her delegation was concerned at the findings on UNRWA and UN-Women that had led the Board to draw attention to particular matters in its audit opinion. UNRWA should develop a funding strategy that would enable it to honour its end-of-service liabilities. Her delegation would further engage with UN-Women regarding its internal control framework and other management matters. She also expressed concern that UNHCR, which had made progress in some areas, had not yet implemented an organization-wide approach to risk management.

30. She welcomed the progress made by the funds and programmes towards producing IPSAS-compliant financial statements for 2012. It was a matter of concern that the peacekeeping operations and the United Nations might not meet their deadlines for IPSAS implementation, especially if that depended on satisfactory progress of the Umoja project. She urged agencies to complete the work required for IPSAS compliance in order to enhance transparency and foster cost-effective decision-making.

31. IPSAS would result in better reporting of end-of-service liabilities, which had increased significantly. The absence of funding plans to address them did not mean that United Nations system organizations would be unable to meet their current liabilities. Given the prevailing economic climate and the financial constraints on Member States, providing funding for the full amount of liabilities would be difficult for the foreseeable future.

32. Her delegation would continue to monitor the management of expendable and non-expendable property, high cash and investment balances maintained by United Nations system entities, and deficiencies in procurement and contract management, about which it had had longstanding concerns. She urged United Nations organizations to implement the Board’s recommendations as a matter of priority.

33. Lastly, she expressed concern at the Board’s finding that the deficiencies identified stemmed from weaknesses in the system of rules and regulations by which organizations were operated and controlled. The accountability systems and internal control frameworks of those organizations must be improved; the Board of Auditors performed an important function in that respect.

The meeting rose at 10.55 a.m.