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Summary record of the 5th meeting

Held at Headquarters, New York, on Wednesday, 14 October 2015, at 10 a.m.

Chair: Mr. Bhattarai .... (Nepal)

Chair of the Advisory Committee on Administrative and Budgetary Questions: Mr. Ruiz Massieu

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15-17807 (E)

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

Agenda item 131: Financial reports and audited financial statements, and reports of the Board of Auditors (A/70/5 (Vol. I), A/70/5 (Vol. I)/Corr.1, A/70/5 (Vol. III), A/70/5 (Vol. III)/Corr.1, A/70/5 (Vol. IV), A/70/5 (Vol. V), A/70/5/Add.1, A/70/5/Add.2, A/70/5/Add.3, A/70/5/Add.4, A/70/5/Add.4/Corr.1, A/70/5/Add.5, A/70/5/Add.6, A/70/5/Add.7, A/70/5/Add.8, A/70/5/Add.9, A/70/5/Add.10, A/70/5/Add.10/Corr.1, A/70/5/Add.11, A/70/5/Add.11/Corr.1, A/70/5/Add.12, A/70/5/Add.13, A/70/5/Add.14, A/70/5/Add.14/Corr.1, A/70/5/Add.15, A/70/322, A/70/322/Corr.1, A/70/322/Corr.2, A/70/338, A/70/338/Corr.1, A/70/338/Add.1 and A/70/380)

1. **Mr. Mkumba** (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 seventieth session, said that there were no qualified opinions for the 20 entities plus the United Nations peacekeeping operations audited during the period ended 31 December 2014. Fourteen of those entities had reported surpluses, some of which were attributable to late receipt of donations and delays in project implementation, while the remaining 6 had reported deficits and shown declining reserves as compared with 2013 balances. All entities, with the exception of the International Criminal Tribunal for Rwanda (ICTR) had demonstrated financial sustainability, as their total assets exceeded total liabilities. The financial ratios of all entities, with the exception of the United Nations Office for Project Services (UNOPS), had demonstrated their ability to meet short-term obligations from current assets. In addition, with the exception of the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) and the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women), all entities that had implemented the International Public Sector Accounting Standards (IPSAS) as at 2012 had shown declines in ratios of total assets to total liabilities and cash ratios, owing primarily to investments in long-term portfolios and changes in the discount rates used for actuarial valuation of post-employment benefits. Financial ratios greater than one could be attributed to contributions received at the end of the year or to funds received for multi-year projects or for projects that were not implemented. End-of-service liabilities had increased by 26 per cent owing to changes in inflation rates and discount rates used in actuarial valuations. Nine entities had funding plans but lacked funding strategies to meet their liabilities, while the remaining 11 had chosen a pay-as-you-go approach. Entities were advised to exercise caution in adopting the latter approach in order to avoid the risk of being unable to fund liabilities from existing resources.

2. In 2014, all entities had for the first time submitted IPSAS-compliant financial statements. A trend of ongoing improvement had been noted in the presentation of financial statements, despite a number of challenges encountered. For instance, only four of the nine entities that had implemented IPSAS as at 2012 had developed structured benefit realization plans to demonstrate how the adoption of IPSAS had achieved the intended objectives. Five of the remaining entities that had implemented IPSAS in 2014 had developed such plans, although they required improvement. The Board had therefore emphasized the need for clear benefit realization plans identify the benefits accrued from financial management within each entity. In addition, some processes implemented to ensure the timely presentation of high quality financial statements had been unsuccessful, as the initial drafts received had contained material misstatements, resulting in the need for significant adjustments and delays in the presentation of the final drafts. However, most of the issues encountered had stemmed from complications relating to the first-time use of IPSAS and were not necessarily indicative of an inability to produce high-quality financial statements in the future. Entities must work to develop and sustain strong financial functions with a view to preparing high-quality statements underpinned by more accurate data from financial systems.

3. With regard to accountability and governance for globally dispersed operations, variable progress had been made toward achieving an optimal balance between adequate flexibility and delegated authority, on the one hand, and the appropriate level of monitoring and control by headquarters, on the other. The United Nations Development Programme (UNDP), UNRWA and UN-Women had demonstrated clear accountability for resources and effective delegation of authority at their respective headquarters offices. While the United Nations Office on Drugs and Crime (UNODC) had improved its field-based financial system, its capacity to collate information from field

operations in a timely and effective manner remained limited.

4. While Secretariat entities had made progress in managing the six critical risks identified by senior management, enterprise risk management had still not been adequately implemented across the Organization as a whole, mainly owing to the lack of a formalized framework for that process. Likewise, there was a need to establish a clear and comprehensive project plan for implementation. With regard to implementing partners, progress had been achieved in improving the consistency of selection, monitoring and close-out of projects delivered; instituting a formal requirement for sharing information on the performance of implementing partners was under consideration.

5. While varying definitions of fraud and presumptive fraud across the United Nations system had posed a challenge for comparability of data, the overall incidence of those events had declined since 2013, although some entities had reported significant increases. Although 16 entities had developed counter-fraud policies in 2014, 13 of them did not have adequate strategies for implementation, and most policies primarily addressed internal fraud while focusing limited attention on external risks. In that regard, it was particularly essential for those entities with a global presence that were exposed to high risks of fraud through their work as third parties to consider their risk appetite and develop fraud response plans. To address irregularities observed in 2013, the Board had worked with United Nations entities in 2014 to develop a consistent approach to reporting fraud and would continue to assist them in reaching that goal.

6. System-wide deficiencies had been noted with regard to the cost-effective management of a broad range of core business services. Issues noted in the area of human resources had included an absence of databases and lack of integrated systems for managing contractual staff, as well as a lack of formal evaluations for those staff and failure to use the results for the intended purpose. In addition, workforce planning remained in its infancy, despite the Board's recommendation in 2013 report and General Assembly resolution 68/252. With regard to budget execution, the Board had underscored the need for the Administration to be aware of potential delays in the approval process. Other issues noted had included a failure to involve key offices in the budget process and, in the case of peacekeeping operations, variations between budgetary appropriations and final expenditures and the shifting of expenses among and within different categories on a routine basis. In view of those deficiencies, entities had been advised to review the identified weaknesses and to develop improved principles and methodologies to assist them in formulating realistic, consistent and reliable budgets, as well as to develop the tools and techniques necessary for more effective budgetary execution, management and monitoring.

7. As to major business transformation activities, UNDP had launched a restructuring initiative to strengthen the organization's regional presence, consolidate policy functions, rationalize management support functions and improve the ratio of staff to managers. Although a variety of information technology-enabled business change projects designed to improve administrative processes were at different stages of implementation, several common challenges had been encountered, including delays and budget overruns, as well as difficulties in establishing post-implementation support services such as help desks. Cognizant of the heavy demands that major business transformation projects such as Umoja, IPSAS, human resources reform and the United Nations real estate projects placed on the Secretariat, the Board had recommended that coordination of those projects should be strengthened.

8. Of the recommendations made by the Board up until the current reporting period, 49.6 per cent had been fully implemented, representing a decrease in the rate of implementation compared with the previous reporting period. The Administration must continue to strengthen its efforts to address the unimplemented recommendations.

9. **Mr. Ramanathan** (Deputy Controller, Office of Programme Planning, Budget and Accounts), 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 funds and programmes for the financial period ended 31 December 2014 (A/70/338 and A/70/338/Add.1), said that the report contained information further to the comments already submitted by the executive heads of the United Nations funds and programmes to the Board of Auditors. It also included information on the status of implementation, the office responsible, the estimated completion date and the priority assigned to each recommendation contained in the Board's reports, as well as an update on the status

of implementation of recommendations relating to prior bienniums. Every effort had been made to ensure compliance with the General Assembly's request concerning the implementation of the Board's recommendations. The executive heads had concurred with most of those recommendations, and the Administration had accepted all of the recommendations made to United Nations Secretariat entities in the relevant report of the Board for the year ended 31 December 2014.

10. In addition to the United Nations, the Food and Agriculture Organization (FAO) and the World Tourism Organization (UNWTO) had for the first time produced IPSAS-compliant financial statements in 2014. The Board's issuance of unqualified audit opinions for the full set of IPSAS-compliant statements submitted by all 20 audited entities represented a major milestone for the United Nations system. Of the 140 recommendations made to the Secretariat over the three previous bienniums, 84 had been fully implemented, 37 were under implementation, and 19 had been overtaken by events, reiterated or closed by the Board. Of the total of 526 recommendations made to the United Nations and its funds and programmes up until the current reporting period, 261 had been fully implemented, 206 were under implementation and 29 had not been implemented, while the remaining 30 had been either overtaken by events, reiterated or closed by the Board. While all accepted recommendations of the Board would be implemented in a timely manner, the main recommendations would be given the highest priority. Lastly, the organizations concerned were committed to fully implementing the Board's recommendations and were aware that doing so would contribute to the improved management of resources and efficiency of the United Nations funds and programmes.

11. **Mr. Ruiz Massieu** (Chair of the Advisory Committee on Administrative and Budgetary Questions), introducing the related report of the Advisory Committee (A/70/380), said that the Advisory Committee noted with satisfaction that all entities had received unmodified audit opinions and continued to find the Board's presentation of cross-cutting issues useful. While the Advisory Committee agreed with the Board on the need to address unimplemented recommendations in a timely manner, it noted that, because the use of IPSAS had become mandatory only at the start of the current reporting period, current implementation statistics might not be directly comparable to those of prior periods. The Advisory Committee also concurred in the need to strengthen coordination of major business transformation initiatives and would provide related recommendations in the context of its periodic reports on each of those initiatives.

12. With regard to workforce planning, the Advisory Committee agreed with the Board that the United Nations Secretariat should consider reviewing lessons learned from other entities that were comparatively advanced in that area, such as UNHCR and UNOPS. The Advisory Committee would return to that subject in greater depth in the context of its future discussions on human resources management. It was a matter of concern that the Board had not been in a position to provide assurance of the completeness or accuracy of the numbers of fraud cases reported by the Secretariat. In that connection, the Advisory Committee emphasized the essential role of the Office of Internal Oversight Services (OIOS) in all stages of the investigative process, including in monitoring cases. Lastly, agreed definitions of fraud and presumptive fraud were essential for developing effective counter-fraud policies and for ensuring compatibility and comparability of related data across the United Nations system; the United Nations System Chief Executives Board for Coordination was best suited to provide guidance in that regard.

13. **Ms. Lingenfelder** (South Africa), speaking on behalf of the Group of 77 and China, said that the observations, comments and recommendations of the Board of Auditors were essential for Member States to ensure that proper procedures and practices for the disclosure of information in the financial statements were being respected. The adoption of IPSAS had resulted in the continued improvement of the financial statements and the high quality of information contained in the Board's reports. With regard to cross-entity issues, the Group stressed the need for enhanced oversight, accountability and governance for globally dispersed operations. It concurred in the Board's view that more needed to be done to ensure that major business transformation initiatives were properly managed.

14. The Group welcomed the progress made in the implementation of the Board's recommendations and was pleased to note that the Secretariat had accepted all of the recommendations made for the year 2014. It

nevertheless concurred with the Board with regard to the need to address unimplemented recommendations as a matter of priority. It also agreed with the Board on the need to develop mechanisms to share information concerning implementing partners, and looked forward to further clarification of the observations of the Board and Advisory Committee regarding financial performance management, workforce management, management of enterprise risk and the risk of fraud, procurement and contract management, and special political missions. The Group also looked forward to detailed discussion of the Board's observations regarding specific entities, including the International Residual Mechanism for Criminal Tribunals, the United Nations University (UNU), the United Nations Children's Fund (UNICEF), the United Nations High Commissioner for Refugees (UNHCR), UNRWA, the United Nations Institute for Training and Research (UNITAR), UN-Women, the United Nations Human Settlements Programme (UN-Habitat) and UNOPS. In order to address the anomalies observed in the financial statements of the United Nations Joint Staff Pension Fund (UNJSPF), the Board's report on that entity should be considered as a separate report by the General Assembly. The Group looked forward to further discussion of that matter with Member States.

15. **Mr. De Preter** (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, Armenia, Georgia, the Republic of Moldova and Ukraine, said that he regretted the late issuance of the report of the Advisory Committee. The timely submission in all official languages of required documents, in particular those that dealt with time-sensitive issues with implications for the 2016-2017 regular budget, was crucial for fostering an environment of inclusivity and transparency that would facilitate a successful negotiated outcome. Through its reports and recommendations, the Board of Auditors had contributed to the development of a sounder, more cost-effective and transparent United Nations system, as well as to better governance and more efficient financial and operational management. The Board's unqualified audit opinions also provided Member States with independent assessments with respect to the use of their funds.

16. He welcomed the findings and recommendations of the Board on the financial position, performance and cash flows of the United Nations Secretariat. In that regard, the European Union concurred with the Board on the need for continuous improvement in the Organization's financial management practices and for the development of a comprehensive set of managerial tools and methodological frameworks to allow it to identify and seize opportunities to better manage and reduce costs. His delegation also agreed with the Board on the need for the United Nations to improve its understanding of its operational costs in order to manage them more effectively, and, in that regard, took note of the Board's comments relating to special political missions. He also welcomed the Board's efforts to assist the United Nations in developing a consistent approach to defining and reporting cases of fraud and expressed concern at the limited progress made in implementing the Board's previous recommendations on that issue. The Organization must therefore redouble its efforts to strengthen counter-fraud measures and establish a comprehensive counter-fraud strategy.

17. If effectively implemented, the business transformation and modernization projects that were being undertaken by the Administration would enhance the transparency, efficiency and cost-effectiveness of Organization's management. In that context, his delegation commended the roll-out of IPSAS to all entities, although it was concerned at the reported lack of financial expertise and structures necessary for the full realization of the related benefits. The European Union concurred with the Board on the need for a harmonized approach to business transformation projects and the need to develop an approach to managing and improving operations to enable continuous reform and improvements in departments. His delegation regretted the inadequate progress made in the area of enterprise risk management and agreed with the Board on the need to develop a comprehensive plan for its implementation. It also agreed with the Board's view that the Organization should improve the efficiency and strategic focus of its human resources management. Lastly, his delegation encouraged the Secretary-General to ensure the timely implementation of all of the Board of Auditors' recommendations.

18. **Mr. Conroy** (United States of America) said that expert oversight of United Nations operations and finances was essential to meeting Member States'

expectations. Unless Member States had the resolve to address the findings and recommendations of the Board of Auditors, however, the United Nations would not be able to carry out its mission. The Board had found that the United Nations was in a stable and healthy financial position and that the financial position was fairly presented in the financial statements. It was encouraging that 62 per cent of the Board's extant recommendations to the Secretariat had either been closed, implemented or were under implementation.

19. The United States welcomed the overall conclusions of the Board, particularly its emphasis on improving the United Nations' culture with regard to financial management practices. Improving efficiency and cost-effectiveness was no longer optional. In that regard, his delegation agreed with the Board on the need for a fundamental shift in the focus of the Organization's financial function from transactional, back-office tasks to strategic planning and implementation of priorities, in order to ensure that resources reached front-line activities that supported United Nations objectives.

20. The Organization's task of implementing new and expanded mandates when faced with ongoing financial constraints, while unenviable, should motivate it to focus careful attention on the report's findings and recommendations. His delegation was particularly concerned that the United Nations was not taking the appropriate steps to maximize benefits from IPSAS, Umoja and other processes such as enterprise risk management. As recommended by the Board, the Organization should undertake to rectify that situation by, inter alia, transforming the finance function into a more strategic value-adding service and engaging managers and staff in that process through training programmes to enhance financial literacy and management across the United Nations. The Organization should also develop methodologies for measuring, analysing and reporting the full costs of activities. Through modernizing its working methods on the basis of the Board's recommendations, the United Nations could become more efficient and effective in providing necessary services around the world.

21. **Mr. Podlesnykh** (Russian Federation) said that his delegation supported the Board of Auditors in its pursuit of greater effectiveness, transparency and accountability in the utilization of scarce budget resources, and its efforts to ensure compliance with rules, regulations and procedures and remedy any shortcomings found in the operation of the Secretariat. While the Russian Federation welcomed the issuance of unqualified audit opinions for all financial statements presented for the 2014 reporting period, it emphasized the importance of the Board's observations regarding the time frames and procedures for the drawdown of the ICTR and transfer of its assets and liabilities to the International Residual Mechanism for Criminal Tribunals; it trusted that the Secretariat would take urgent corrective measures and inform the General Assembly accordingly.

22. The system-wide implementation of IPSAS, though a lengthy process, was a significant reform initiative, and a step toward increasing the effectiveness and transparency of the Organization's work. As expected in the first year of that transition, not all standards had been reflected in the financial statements presented, and the Board had identified a number of shortcomings to be addressed in the future. His delegation intended to follow closely the progress in that regard. The Russian Federation agreed with the Board on the need to identify the benefits realized from the implementation of IPSAS, as it had previously recommended in the case of Umoja, looked forward to detailed information from the Secretariat on progress made in those areas and emphasized that the success of any reform measures must be measured in terms of practical results.

23. **Mr. Mkumba** (Chair of the Audit Operations Committee of the Board of Auditors) said that delegations' comments would assist the Board in improving future reports. He looked forward to a more detailed discussion of the current year's reports during informal consultations.

24. **Mr. Ruiz Massieu** (Chair of the Advisory Committee on Administrative and Budgetary Questions) said that the report of the Advisory Committee had, in fact, been issued in accordance with the timetables agreed upon with the Department for General Assembly and Conference Management and the Fifth Committee. However, if earlier issuance of the Advisory Committee's report was desired, suggestions from delegations as to how to improve the timely issuance of documentation would be welcome.

The meeting rose at 11.00 a.m.