United Nations A/74/202

General Assembly

Distr.: General
22 July 2019

Original: English

Seventy-fourth session
Item 134 of the provisional agenda*
Financial reports and audited financial statements, and reports of the Board of Auditors

Concise summary of the principal findings and conclusions contained in the reports of the Board of Auditors for the annual financial period 2018

Note by the Secretary-General

The Secretary-General has the honour to transmit to the members of the General Assembly, pursuant to resolution 47/211, a concise summary of the principal findings and conclusions contained in the reports of the Board of Auditors on its audit of accounts for the year ended 31 December 2018.

* A/74/150.

19-12433 (E) 210819

Letters of transmittal

Letter dated 24 July 2019 from the Chair of the Board of Auditors addressed to the President of the General Assembly

I have the honour to transmit to you a concise summary of the principal findings and conclusions contained in the reports of the Board of Auditors for the annual financial period 2018.

(*Signed*) Kay **Scheller**
President of the German Federal Court of Auditors
Chair of the Board of Auditors

Letter dated 24 July 2019 from the Chair of the Board of Auditors addressed to the Secretary-General

I have the honour to transmit to you the concise summary of the principal findings, conclusions and recommendations contained in the reports prepared by the Board of Auditors for the General Assembly at its seventy-fourth session.

(*Signed*) Kay **Scheller**
President of the German Federal Court of Auditors
Chair of the Board of Auditors

Contents

Abbreviations

ICT	Information and communications technology
IPSAS	International Public Sector Accounting Standards
IRMCT	International Residual Mechanism for Criminal Tribunals
ITC	International Trade Centre
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFPA	United Nations Population Fund
UN-Habitat	United Nations Human Settlements Programme
UNHCR	Office of the United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNITAR	United Nations Institute for Training and Research
UNJSPF	United Nations Joint Staff Pension Fund
UNODC	United Nations Office on Drugs and Crime
UNOPS	United Nations Office for Project Services
UNRWA	United Nations Relief and Works Agency for Palestine Refugees in the Near East
UNU	United Nations University
UN-Women	United Nations Entity for Gender Equality and the Empowerment of Women

Concise summary of the principal findings and conclusions contained in the reports of the Board of Auditors for the annual financial period 2018

Summary

The General Assembly, in its resolution 47/211, invited the Board of Auditors to report in a consolidated fashion on major deficiencies in programme and financial management and cases of inappropriate or fraudulent use of resources, together with the measures taken by the relevant entities. The findings and conclusions included in the present report relate to the common themes and major issues identified in the Board's reports addressed to the General Assembly on 18 entities (see annex I). The contents of the Board's reports to the Security Council and other governing bodies are not summarized herein.

The present report summarizes the major issues, including on performance matters, set out in the separate reports on the United Nations entities submitted to the General Assembly. Most of the issues contained in the present report are of a cross-cutting nature on the predetermined audit themes based on established audit risks and special requests by the Advisory Committee on Administrative and Budgetary Questions.

I. Scope and mandate

1. The present report includes findings and conclusions identified in the reports of the Board of Auditors for 2018, addressed to the General Assembly, on 18 entities, including the United Nations peacekeeping operations[1] (see annex I). The Board has continued to provide information on cross-entity issues, as requested by the Chair of the Advisory Committee on Administrative and Budgetary Questions on 27 January 2014 and reiterated on 19 February 2015, and on the understanding that the Committee still finds the presentation useful (see A/70/380).

2. The Board has therefore continued to report on key trends and cross-entity issues in its entity-level reports and included commentary in the present summary report on financial performance, cash and investment management, employee benefit liabilities, receivables, expenses and budget management. In addition, the Board has included a snapshot of the United Nations reform activities and the preparedness of the different United Nations entities for the reform. The focus in this regard is on the reports on the United Nations (Vol. I), United Nations peacekeeping operations and UNDP. The Board has compiled the responses received from the United Nations entities in the present report.

II. Overall matters for the United Nations

A. Audit opinions

3. The Board of Auditors audited the financial statements and reviewed the operations of 18 organizations (see annex I), in accordance with General Assembly resolution 74 (I) of 7 December 1946.

4. All 18 entities received unqualified audit opinions (for a definition of the types of audit opinions, see annex II). Of those, United Nations peacekeeping operations received an unqualified opinion with an emphasis of matter. "Emphasis of matter" is to draw users' attention to a matter presented or disclosed in the financial report that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial report.

5. The Board has issued short-form reports reflecting its audit opinions, together with long-form reports, which contain detailed findings and recommendations arising from each audit.

[1] To better support the General Assembly in its governance role, the Board includes the financial figures for United Nations peacekeeping operations in the present report to provide a more comprehensive picture. The peacekeeping operations have an annual financial cycle ending 30 June; therefore, the figures related to those operations are as at that date unless otherwise indicated.

B. Financial performance

Net results

6. A comparison of the net results of the financial performance of the audited entities at the end of 2017 and 2018 is presented in table 1. The Board analysed the financial statements of the 17 audited entities[2] and noted that 13 entities[3] closed the financial year with a surplus, while 4 entities[4] recorded a deficit. Of those four entities, only one (UN-Habitat) had recorded a deficit in the previous financial year. Two entities that had recorded a deficit in the previous financial year (UNRWA and IRMCT) recorded a surplus for 2018. Three entities that closed the financial year with a deficit (United Nations peacekeeping operations, UNITAR and UNU) had recorded a surplus the previous year.[5]

7. The primary reason for the deficit of $212.5 million in 2018 in the United Nations peacekeeping operations financial statements was a decrease in assessed contributions. For UN-Habitat, total revenue increased by $9.9 million. The increase was attributable mainly to an increase in voluntary contributions of $19.8 million. In addition, with a reduction in total expenses of $11.8 million, UN-Habitat was able to reduce its total deficit from $28.7 million in 2017 to $7.0 million in 2018. For UNU, the deficit of $32.1 million resulted mainly from lower revenues owing to unrealized investment losses.

8. The Board noted that nine entities[6] had improved their position of surplus/deficit, whereas the remaining eight entities had seen a decline in that respect. The reasons for the changes in the results included restated financial statements (UNDP) and foreign exchange losses of $19 million in 2018 compared with foreign exchange gains of $94 million in 2017 (UNHCR). The reasons for these changes are detailed in the individual audit reports of the entities.

Table 1
Comparison of surplus/deficit and net assets of different entities
(Thousands of United States dollars)

	Surplus or deficit		*Net assets*	
Entity	*2018*	*2017*	*2018*	*2017*
United Nations (Vol. I)	523 110	292 362	3 213 895	2 143 238
United Nations peacekeeping operations	(212 517)	11 583	823 148	789 006
ITC	21 424	38 915	32 856	7 337
UNCDF	7 934	3 914	107 803	98 521
UNDP	420 200	141 649	5 378 243	4 641 601
UNEP	183 217	93 680	1 658 045	1 460 384
UNFPA	204 300	185 680	1 080 323	841 511
UN-Habitat	(7 004)	(28 674)	315 250	315 940

[2] UNJSPF is not included because it follows International Accounting Standard 26 and IPSAS for financial reporting purposes.
[3] United Nations (Vol. I), ITC, UNCDF, UNDP, UNEP, UNFPA, UNICEF, UNHCR, UNODC, UNOPS, UNRWA, UN-Women and IRMCT.
[4] United Nations peacekeeping operations, UN-Habitat, UNITAR and UNU.
[5] For UNDP and UNHCR, figures in the concise summary for 2017 changed and are not directly comparable due to restatements. The 2017 accounts for UNU were also restated due to changes in application of policy.
[6] United Nations (Vol. I), UNCDF, UNDP, UNEP, UN-Habitat, UNFPA, UNOPS, UNRWA and IRMCT.

Entity	Surplus or deficit 2018	Surplus or deficit 2017	Net assets 2018	Net assets 2017
UNICEF	722 676	788 593	7 465 448	6 593 772
UNITAR	(2 591)	4 626	23 498	25 623
UNHCR	255 775	379 457	2 319 125	1 975 034
UNODC	76 875	83 382	687 038	598 384
UNOPS	38 427	28 966	192 915	158 640
UNRWA	105 014	(71 552)	239 274	41 847
UNU	(32 109)	8 891[a]	415 191	445 442[b]
UN-Women	24 458	39 635	413 477	382 883
IRMCT	11 979	(8 255)	53 990	(7 387)

Source: Financial statements of the individual entities.

[a] The difference between the figures in the concise summary for 2017 (-$1 million) and the same figure for 2017 in the present report ($8.9 million) is due to a retroactive adjustment made by UNU for the 2017 financial statement.

[b] See footnote *a*; in 2017 the reported figure was $420.8 million.

9. The two columns on the right of table 1 set out changes in net assets over two years (2017 and 2018). The Board noted that IRMCT had negative net assets in 2017, whereas it had positive net assets in 2018. In 2018, all 18 entities covered in the present report showed positive net assets, which in some entities (for example, UNDP) were attributable to new assessments following restated financial statements.

10. The net assets of three entities[7] had declined slightly over the previous year. The decline in net assets for UNITAR and UN-Habitat reflected the combined effect of a deficit and an actuarial gain recorded during the year. For UNU, the decrease in net assets was primarily attributable to unrealized investment losses in the Endowment Fund. The net assets of the remaining 14 entities[8] had been stable or increased compared with the previous year.

11. The increases were attributable to actuarial gains from the valuation of employee benefit liabilities (for example, United Nations (Vol. I), United Nations peacekeeping operations, UNDP, UNICEF, UNHCR and UNODC) and an increase in contributions (UNEP). Detailed reasons for these changes are discussed in the individual audit reports of the entities.

Ratios

12. Ratio analysis is a quantitative analysis of information provided in the financial statements. Four main ratios are discussed in the present report: assets to liabilities ratio (total assets to total liabilities), current ratio (current assets to current liabilities), quick ratio (cash + short-term investments + accounts receivable to current liabilities) and cash ratio (cash + short-term investments to current liabilities).

13. Ratio analysis provides an assessment of financial sustainability and liquidity across United Nations entities (see table 2 (ratio analysis) and figure I (quick ratios)). In general, a ratio of 1:1 is considered to be a sound indicator of financial sustainability and/or liquidity. Detailed explanations of each individual ratio are indicated in the footnotes to table 2.

[7] UNITAR, UN-Habitat and UNU.

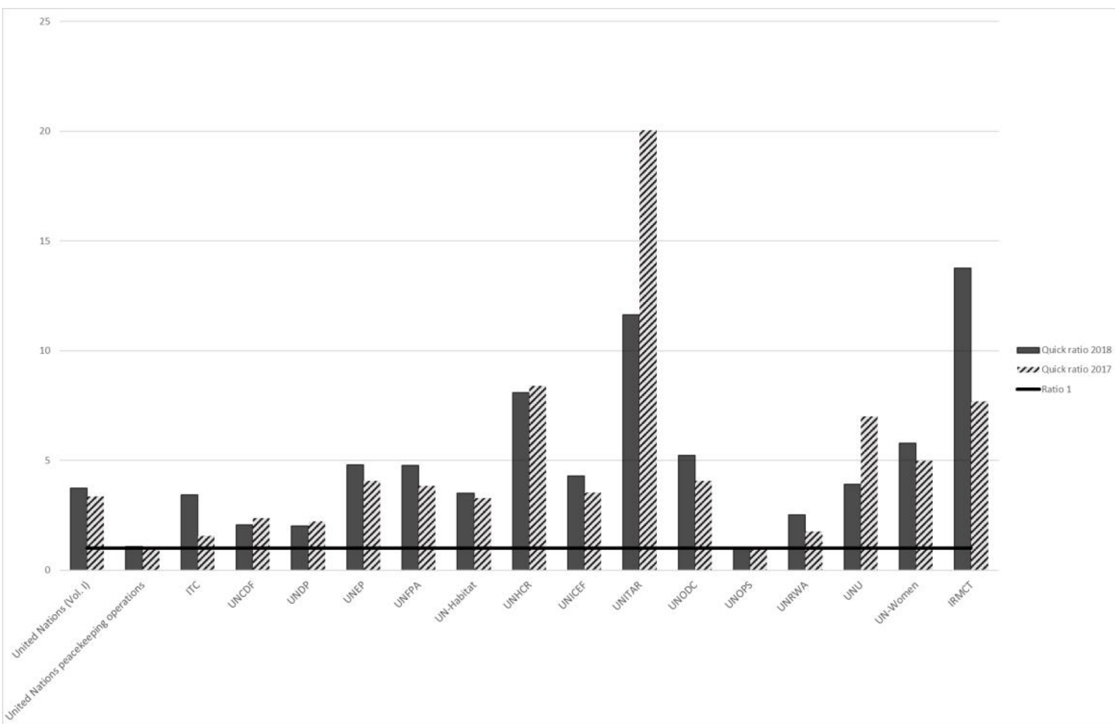
[8] United Nations (Vol. I), United Nations peacekeeping operations, ITC, UNCDF, UNDP, UNEP, UNFPA, UNICEF, UNHCR, UNODC, UNOPS, UNRWA, UN-Women and IRMCT.

14. All 17 entities[9] indicated more assets than liabilities, thus showing sound financial positions. Some entities (United Nations peacekeeping operations: 1.19; ITC: 1.14; UNOPS: 1.09; UNRWA: 1.29; IRMCT: 1.32) have an assets to liabilities ratio close to 1. A ratio above 1 indicates an entity's ability to meet its overall obligations. As the major part of their liability is of a long-term nature (employee benefit liability), there is no immediate threat to their solvency, but these entities need to strengthen their asset position over the long term.

15. The Board further noted that United Nations peacekeeping operations and UNOPS had cash ratios of less than 1:1, which indicates pressure on the liquidity side. For United Nations peacekeeping operations, it was significantly below 1 (0.45). The main reason for its low cash ratio was non-payment of assessed contributions, which leads to pressure on the liquidity side and a decreased cash ratio, even lower than in 2017 (0.66). Furthermore, the Board noted that in 2018 the current ratio (0.96), quick ratio (0.95) and cash ratio (0.91) of UNOPS were below 1.

16. For UNOPS, those low ratios would normally raise concern over the liquidity of the entity; however, the trend reflects a continued policy of longer-term investments that can also be liquidated at any time. Therefore, the surplus and the net assets of UNOPS increased (see table 1), but the liquidity ratios decreased. These long-term investments are not reflected in the liquidity ratio calculation but may be seen as a reserve to provide sufficient liquidity to meet operational needs if required.

Figure I
Quick ratio 2018 compared with 2017



Source: Audit reports of the Board.

17. In general, the financial position of all entities remained strong or at least sufficient. The solvency ratios and liquidity ratios were comfortably high for most of the entities and, in the case of entities for which these ratios were near 1:1 or less,

[9] UNJSPF is not included in the analysis owing to the differing nature of its operations.

there was no immediate threat to their solvency. However, even if the ratios in general are showing sufficient solvency and the liquidity ratios are sufficient (with the exception of United Nations peacekeeping operations), it is possible that from a short-term perspective there might be pressure on the liquidity side (see, for example, A/73/5 (Vol. II), chap. II, para. 20).

18. The Board noted low liquidity in the regular budget during 2018 (see A/74/5 (Vol. I), chap. II, para. 25). The Board noticed that amounts borrowed from the Working Capital Fund in 2017 could not be repaid in 2018. Furthermore, amounts of $201 million borrowed from the United Nations Special Account and $301.66 million borrowed from closed peacekeeping missions were used to cover temporary liquidity mismatches. Of these borrowings, $28.24 million borrowed from the Special Account and $301.66 million borrowed from closed peacekeeping missions were recouped by the end of the year.

19. The current assets of UNITAR cover its current liabilities. Its ratios declined because its current liabilities have increased. The decrease in the current, quick and cash ratios has been driven by a 22.7 per cent increase in current accounts payable and accrued liabilities.

20. The Board further noted that the cash, cash equivalents and investments of IRMCT amounted to $157.19 million in 2018. This represents an increase of $86.58 million (2017: $70.61 million), which was a result of the incorporation of the International Tribunal for the Former Yugoslavia into the Mechanism, bringing with it $74.24 million in cash and investments. The significant increase in the IRMCT quick ratio in 2018 is a result of this development.

Table 2
Ratio analysis as at 31 December 2018

	Asset to liabilities ratio: total assets/ total liabilities[a]		*Current ratio: current assets/ current liabilities*[b]		*Quick ratio: (cash + short-term investments + accounts receivable)/ current liabilities*[c]		*Cash ratio: (cash + short-term investments)/ current liabilities*[d]	
Entity	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*
United Nations (Vol. I)	1.54	1.35	4.23	3.88	3.84	3.51	2.84	2.42
United Nations peacekeeping operations	1.19	1.19	1.25	1.22	1.08	1.06	0.45	0.66
ITC	1.14	1.05	3.52	1.64	3.43	1.57	1.86	0.85
UNCDF	1.96	2.16	2.09	2.39	2.07	2.38	1.00	1.05
UNDP	1.80	1.77	2.08	2.29	2.02	2.22	1.33	1.60
UNEP	4.88	4.63	6.07	5.41	4.80	4.08	3.24	2.66
UNFPA	3.04	2.57	5.31	4.30	4.77	3.85	3.69	2.78
UN-Habitat	3.17	3.20	3.88	3.60	3.52	3.28	2.01	1.71
UNICEF	3.46	2.96	5.45	4.58	4.29	3.55	2.90	2.56
UNITAR	2.88	3.23	11.93	22.68	11.63	20.04	7.30	12.22
UNHCR	3.35	2.98	9.53	9.86	8.10	8.39	4.03	4.32
UNODC	3.03	2.73	5.44	4.18	5.24	4.07	4.30	2.92
UNOPS	1.09	1.09	0.96	1.02	0.95	1.01	0.91	0.95
UNRWA	1.29	1.04	3.06	2.27	2.52	1.78[e]	2.00	1.34
UNU	6.72	7.66	3.96	7.05	3.92	7.01	2.13	4.69
UN-Women	4.23	4.07	6.60	6.17	5.80	4.99	5.42	4.04
IRMCT	1.32	0.94	13.85	7.88	13.77	7.69	10.25	5.19

(Footnotes on following page)

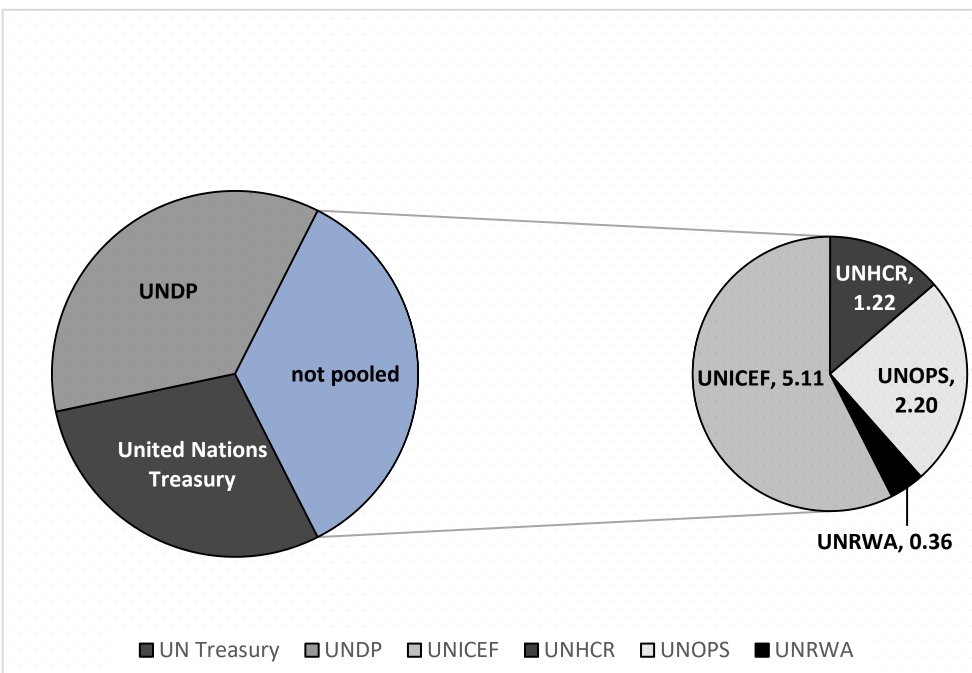
(Footnotes to Table 2)

Source: Audit reports of the Board.
[a] A high ratio of at least 1 or more indicates an entity's ability to meet its overall obligations.
[b] A high ratio of at least 1 or more indicates an entity's ability to pay off its current liabilities.
[c] The quick ratio is more conservative than the current ratio, because it excludes inventory and other current assets, which are more difficult to turn into cash. A higher ratio means a more liquid current position.
[d] The cash ratio is an indicator of an entity's liquidity; it measures the amount of cash, cash equivalents or invested funds that are in current assets to cover current liabilities.
[e] Due to a recalculation the figure in the concise summary for 2017 (1.46) differs from the figure for 2017 in the present report (1.78).

C. Cash and investment management

21. The United Nations and several of its funds and programmes manage significant cash and investments. The administrations have in some cases established specialized treasury functions to support their individual needs, and some also provide cash management services to other organizations. With the implementation of the Umoja enterprise resource planning system, the United Nations implemented a house bank system in which bank accounts are no longer associated with individual entities. In the house bank system, bank accounts are maintained by currency and country, and all participating entities use them for carrying out transactions. Similarly, the United Nations Treasury maintains an investment pool to invest the pooled amount of participating entities.

Figure II
United Nations cash and investment pooling and others 2018
(Billions of United States dollars)



Source: Financial statements and information provided by the different entities.

22. As at 31 December 2018, a total of eight entities[10] covered in the present report were participating in the investment pool maintained by the United Nations Treasury (see also para. 55), which managed cash and investments of $7.38 billion in its investment pool. In addition, UNDP manages investments for its own programme and for other United Nations entities under service-level agreements covering five entities[11] included in the present report.

23. As cash balances and the number of accounts, transactions and payment currencies increase, there is a greater need for professional management of cash and investments, so that risks and returns are properly managed. Furthermore, it is vital for the United Nations and its funds and programmes to manage public funds by means of a strategy to safeguard the funds, ensure the continuous availability of cash needed to maintain operations and the optimum level of investments that should be held to underpin the delivery of their activities. Cash and investment pooling is the most desirable model for ensuring effective cash and investment management. This decreases the cost of transactions and provides expert investment management services to the participating entities.

24. In general, investments (short-term and long-term investments, see table 3) are increasing, some significantly. Investments are above $1 billion for 6 entities (United Nations (Vol. I), United Nations peacekeeping operations, UNDP, UNFPA, UNICEF and UNOPS). The status of cash, cash equivalents and investments for 17 entities,[12] as at 31 December 2018 is shown in table 3.

Table 3
Cash, cash equivalents and investments as at 31 December 2018

(Thousands of United States dollars)

	Cash and cash equivalents		*Investments (long + short term)*		*Total assets*		*Cash and investments as a percentage of total assets*		
Entity	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*	*With whom have the resources been pooled?*
United Nations (Vol. I)	366 242	272 239	3 187 391	2 862 488	9 182 108	8 320 611	38.70	37.67	United Nations Treasury
United Nations peacekeeping operations	88 754	280 876	1 326 517	1 760 167	5.049.879	5 002 125	28.03	40.80	United Nations Treasury
ITC	8 960	4 303	82 661	50 249	273 562	167 177	33.49	32.63	United Nations Treasury
UNCDF	5 274	3 867	107 307	91 583	220 443	183 090	51.07	52.13	UNDP
UNDP[a]	1 066 555	1 045 936	6 237 157	5 665 711	12 110 520	10 662 592	60.31	62.95	UNDP
UNEP	81 626	54 916	753 953	642 454	2 085 355	1 863 178	40.07	37.43	United Nations Treasury
UNFPA	150 877	184 391	1 001 147	776 127	1 609 481	1 376 230	71.58	69.79	UNDP

[10] United Nations (Vol. I), United Nations peacekeeping operations, ITC, UNEP, UN-Habitat, UNODC, UNU and IRMCT.

[11] UNCDF, UNDP, UNFPA, UNITAR and UN-Women. The figures in table 3 for UNDP and UNCDF were derived from the financial statements and include cash and bank balances that are not part of investments. Apart from this, the investments balances shown also include investments outsourced by UNDP to external fund managers. The figures for UNFPA, UNITAR and UN-Women were derived from the financial statements of the individual entities. UNDP is also managing investments of the United Nations System Staff College, which is covered by the audit of United Nations (Vol. I) so it does not have individual financial statements audited by the Board and is therefore not included as an individual entity in the present report.

[12] Except for UNJSPF.

Entity	Cash and cash equivalents 2018	Cash and cash equivalents 2017	Investments (long + short term) 2018	Investments (long + short term) 2017	Total assets 2018	Total assets 2017	Cash and investments as a percentage of total assets 2018	Cash and investments as a percentage of total assets 2017	With whom have the resources been pooled?
UN-Habitat	21 613	16 904	198 848	196 615	460 502	459 651	47.87	46.45	United Nations Treasury
UNICEF	995 259	883 578	4 114 670	4 217 328	10 505 168	9 952 696	48.64	51.25	Not pooled
UNITAR	2 381	4 324	21 424	13 062	36 004	37 124	66.12	46.83	UNDP
UNHCR	965 055	945 635	250 000	170 000	3 304 669	2 972 565	36.77	37.53	Not pooled
UNODC	70 276	53 995	648 913	570 099	1 026 126	944 400	70.09	66.08	United Nations Treasury
UNOPS	537 888	436 118	1 663 480	1 436 478	2 317 458	1 996 474	94.99	93.80	Not pooled
UNRWA	362 625	271 423	–	–	1 062 456	985 984	34.13	27.53	Not pooled
UNU	21 851	27 493	369 279	390 228	487 781	512 304	80.19	81.54	United Nations Treasury
UN-Women	57 295	71 176	413 270	330 490	541 481	507 693	86.90	79.51	UNDP
IRMCT	15 367	5 561	141 825	65 047	223 669	115 325	70.28	61.23	United Nations Treasury

Source: Financial statements of the individual entities.

[a] This includes the following funds held in trust balances: cash $330 million in 2018 (2017: $209 million) and investments $456 million in 2018 (2017: $326 million).

D. Employee benefit liabilities

25. Post-employment benefits are those payable after completion of employment, but exclude termination payments. Post-employment benefits include pension plans, post-employment medical care (after-service health insurance), repatriation grants and other lump sums payable after the completion of employment. Pensionary benefits are paid through UNJSPF.

26. The status of employee benefit liabilities (excluding pensionary benefits) in different entities is presented in table 4 (see also para. 49).

27. Employee benefit liabilities increased over the year for 3 entities (UNITAR, UNOPS and IRMCT), decreased for 15 entities and were among the major liabilities for most entities. The main reasons for the decreases were higher discount rates used in the actuarial valuations. For 12 entities, such liabilities were more than one quarter (25 per cent) of total liabilities, for 7 entities they were more than half of total liabilities. For United Nations (Vol. I), UNITAR, UNHCR and UNRWA, employee benefit liabilities were even higher than 75 per cent, with UNRWA reaching 88.18 per cent.

28. After-service health insurance is a health insurance plan for former staff members and their dependents. After-service health insurance is available only as a continuation, without interruption between active service and retirement status, of previous active-service coverage in a contributory health insurance plan of the United Nations.

29. In 2018 the highest amounts for after-service health insurance (with accounts of more than $1 billion) were held by the United Nations (Vol. I), United Nations peacekeeping operations, UNDP and UNICEF.

Table 4
Status of employee benefit liabilities in different entities as at 31 December 2018
(Thousands of United States dollars)

	Total employee benefit liabilities[a]		*Total liabilities*		*Total employee benefit liabilities as a percentage of total liabilities*		*After-service health insurance*	
Entity	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*
United Nations (Vol. I)	4 820 748	5 170 187	5 968 213	6 177 373	80.77	83.70	4 274 895	4 589 268
United Nations peacekeeping operations	1 730 184	1 839 194	4 226 731	4 213 119	40.93	43.65	1 367 178	1 411 226
ITC	88 898	91 332	240 706	159 840	36.93	57.14	78 117	79 268
UNCDF	13 388	14 202	112 630	84 569	11.89	16.79	8 632	9 049
UNDP	1 325 242	1 616 763	6 732 277	6 020 991	19.69	26.85	1 036 847	1 316 407
UNEP	194 520	206 049	427 310	402 794	45.52	51.15	155 897	166 343
UNFPA	387 261	415 803	529 158	534 719	73.18	77.76	332 798	359 921
UN-Habitat	45 247	48 601	145 252	143 711	31.15	33.82	34 707	37 780
UNICEF	1 532 289	1 638 022	3 039 720	3 358 924	50.41	48.77	1 287 169	1 390 497
UNITAR	10 556	10 260	12 506	11 501	84.41	89.21	8 351	8 060
UNHCR	776 675	818 364	985 545	997 531	78.81	82.04	588 581	633 273
UNJSPF	87 891	94 363	362 889	411 292	24.22	22.94	80 477	86 601
UNODC	116 597	120 657	339 088	346 016	34.39	34.87	87 962	91 350
UNOPS	109 292	105 746	2 124 543	1 837 834	5.14	5.75	67 631	66 464
UNRWA	725 850	815 122	823 182	944 137	88.18	86.34	585	654
UNU	16 173	16 935	72 590	66 862	22.28	25.33	11 191	11 818
UN-Women	90 018	92 850	128 004	124 810	70.32	74.39	64 238	67 953
IRMCT[b]	122 784	95 169	169 679	122 712	72.36	77.55	105 359	79 039

Source: Financial statements and information provided by the individual entities.
[a] Excluding pension liabilities.
[b] Excluding pension liabilities of judges.

E. Receivables

30. Receivables are considered to be cash or other assets owed to the organization by another party. Receivables are recognized when a binding transfer arrangement is in place, but cash or other assets have not been received. The Board split receivables into three categories:

(a) Total receivables (assessed contributions, voluntary contributions and other receivables);

(b) Receivables outstanding for one year or longer;

(c) Receivables from other United Nations entities.

31. As at 31 December 2018, the 17[13] United Nations entities included in table 5 accumulated total receivables (assessed contributions, voluntary contributions and other receivables) of $14,272 million. Receivables outstanding for one year or longer

[13] Except UNJSPF.

totalled $1,714 million, while receivables from other United Nations entities amounted to $780 million.

32. The entity with the highest receivables is UNDP. That high amount is due to commitments and agreements with funding partners, including those made for future years.

33. UNEP is the only entity with receivables from other United Nations entities of more than $50 million, recording a total of $566.2 million in 2018, which is about four times higher than all the other 16 entities combined. This is because there are agreements between UNEP, the Global Environment Facility and the World Bank that cover more than one year, and those funds are disbursed to UNEP from the Facility in tranches of $20 million every two to three months depending on cash flow needs.

34. The receivables of most of the entities are outstanding for less than one year; for United Nations peacekeeping operations $0.38 billion, or approximately 24 per cent, of the total receivables ($1.6 billion) have been outstanding for one year or more.

Table 5
Receivables as at 31 December 2018
(Thousands of United States dollars)

	Total receivables (assessed contributions, voluntary contributions and other receivables)		*Receivables outstanding for one year or more*		*Receivables from other United Nations entities*	
Entity	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*
United Nations (Vol. I)	1 163 116	1 078 631	880 008	561 900	45 000	74 074
United Nations peacekeeping operations	1 600 235	969 731	384 922	264 496	17 805	20 740
ITC	174 562	105 992	–	169	2 195	89
UNCDF	105 390	86 547	53	74	7 920	5 911
UNDP	4 424 859	3 604 790	4 561	3 747	22 164	60
UNEP	819 591	752 555	217 439	199 207	566 199	543 287
UNFPA	350 615	327 523	772	49	5 985	3 076
UN-Habitat	184 682	197 372	29 185	45 399	10 923	19 769
UNICEF	3 398 522	2 756 843	1 461	1 376	48 013	35 455
UNITAR	11 508	15 966	1 561	4 831	–	84
UNHCR	1 457 323	1 305 680	39 226	10 371	33 075	23 442
UNODC	260 552	290 784	113 513	99 258	6 979	1 255
UNOPS	81 913	103 717	1 465	5 951	11 335	21 559
UNRWA	66 585	64 425	3 588	4 497	609	1 637
UNU	46 041	43 215	2 212	1 932	1 333	409
UN-Women	19 504	41 866	25	474	–	3 525
IRMCT	50 579	26 510	34 153	7 790	27	14 865

Source: Financial statements and information provided by the individual entities.

F. Expenses

35. Table 6 below shows that, as at 30 June 2018, United Nations peacekeeping operations had the highest amount of expenses of all 18 entities. Total expenses of United Nations peacekeeping operations amounted to $7,956 million, which is a

decrease of approximately $307 million compared with 2017. Of United Nations peacekeeping operations total expenses, 24.32 per cent were staff costs, which amounted to a total of $1,935 million in 2018, almost the same amount as in 2017 ($1,936 million). In 2018, the number of staff members decreased slightly to 15,048, compared with 15,770 in 2017.

36. The Board noticed that UNRWA had a high number of staff, a total of 29,628 staff as at 31 December 2018, the highest number of staff of all 18 entities covered in the present report. This is almost twice as many as United Nations peacekeeping operations, for example, with a total of 15,048. The Board attributes this, among other reasons, to UNRWA being a work agency.

37. The Board also noticed that IRMCT was the entity for which staff costs accounted for the highest percentage of total expenses – 74.43 per cent as at 31 December 2018. The staff costs to total costs ratio is higher, not because the staff costs of IRMCT are high, but because the non-staff costs are low. Even if these employees perform the same functions as staff, they are provided as contractors, and so their costs are accounted for under non-staff group of experts.

38. By contrast, staff costs accounted for the lowest percentage of total expenses at UNOPS, a total of 13.42 per cent as at 31 December 2018. The Board attributes this to UNOPS being a United Nations entity that focuses on supporting and managing the implementation of projects for the United Nations system and its partners.

39. Furthermore, the Board noted that UNRWA has average staff costs per staff member of $22,740 per year. Other United Nations entities, such as UNITAR ($227,190), have higher staff costs per staff member because they have many senior positions. UNU contractors hired under personnel services agreements are considered as employees for IPSAS reporting but are not counted as staff according to the staff rules and regulations. Therefore, personnel services agreement salaries are removed from the staff costs per staff member calculation in table 6.

Table 6
Total expenses and staff costs for the year ended 31 December 2018

(Thousands of United States dollars and number of staff members)

	Total expenses		*Staff costs (employee salaries, benefits and allowances)*		*Number of staff members*		*Staff costs as a percentage of total expenses*		*Staff costs per staff member*	
Entity	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*
United Nations (Vol. I)	6 267 316	5 788 872	2 543 154	2 437 107	19 150	19 080	40.58	42.10	132.80	127.73
United Nations peacekeeping operations	7 956 816	8 263 932	1 935 390	1 936 894	15 048	15 770	24.32	23.44	128.61	122.82
ITC	98 687	88 210	51 726	54 114[a]	323	299	52.41	61.35	160.14	180.98
UNCDF	60 855	64 585	20 915	19 350	144	136	34.37	29.96	145.24	142.28
UNDP	5 096 827	5 094 775	865 059	882 598	7 011	7 203	16.97	17.32	123.39	122.53
UNEP	558 532	562 235	177 816	170 305	1 276	1 278	31.84	30.29	139.35	133.26
UNFPA	1 086 020	926 869	290 046	265 916	2 785	2 648	26.71	28.69	104.15	100.42
UN-Habitat	185 748	197 482	45 868	44 616	293	291	24.69	22.59	156.55	153.32
UNICEF	5 969 757	5 863 433	1 416 290	1 310 272	13 741	14 195	23.72	22.35	103.07	92.31
UNITAR	28 584	28 129	10 678	10 829	47	48	37.36	38.50	227.19	225.60
UNHCR	4 082 519	3 850 955	996 364	929 722	12 240	11 621	24.41	24.14	81.40	80.00

Entity	Total expenses		Staff costs (employee salaries, benefits and allowances)		Number of staff members		Staff costs as a percentage of total expenses		Staff costs per staff member	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
UNJSPF	70 119	97 400	36 124	34 007	276	272	51.52	34.91	129.94	125.03
UNODC	332 270	308 703	120 018	107 403	840	804	36.12	34.79	142.88	133.59
UNOPS	923 668	815 855	123 977	125 670	756	766	13.42	15.40	163.99	164.06
UNRWA	1 190 223	1 310 444	673 816	695 982	29 628	31 042	56.61	53.11	22.74	22.42
UNU[b]	90 538	107 838	26 711	23 849	121	116	29.50	22.12	145.65	121.84
UN-Women	380 260	338 615	126 584	115 870	992	816	33.29	34.22	127.60	142.00
IRMCT	89 912	74 106	66 918	56 955	501	492	74.43	76.86	133.57	115.76

Source: Financial statements and information provided by the individual entities.

[a] This figure reported by the entity has been restated for comparability, so it is slightly different to the report of last year.

[b] Figures for staff costs per staff member are calculated without salaries for personnel services agreements.

G. Budget management

40. In each organization, the budget is a key tool for deciding how resources are to be allocated to deliver strategic objectives. Budgets should reflect an organization's priorities and aspirations and communicate management's view on the resources required to achieve them.

Table 7
Status of the budget at different entities for the year ended 31 December 2018
(Thousands of United States dollars)

Entity	Total budget 2018			Number of budgets
	Appropriation	Expenditure	Difference	
United Nations (Vol. I)	2 875 708	2 815 270	60 438	2
United Nations peacekeeping operations	7 497 550	7 423 742	73 808	18
ITC	37 604	36 348	1 256	1
UNCDF	14 458	11 430	3 028	1
UNDP	660 004	555 436	104 568	1
UNEP	95 513	85 180	10 333	5
UNFPA	388 133	374 693	13 440	1
UN-Habitat	21 643	19 522	2 121	2
UNICEF	6 267 931	5 946 390	321 541	6
UNITAR	26 073	28 219	(2 146)	3
UNHCR	8 220 453	4 226 254	3 994 199	1
UNJSPF	95 767	91 893	3 874	2
UNODC	349 239	332 956	16 283	2
UNOPS	71 172	59 088	12 084	1
UNRWA	1 111 822	975 116	136 706	1
UNU	56 336	52 838	3 498	1
UN-Women	403 528	368 620	34 908	2
IRMCT	98 380	86 517	11 863	1

Source: Information provided by the individual entities.

41. The Board noted that, of the 18 entities covered, at least 17 have budget expenditure under the appropriated budget. UNITAR is the only entity to have budget expenditure slightly higher than appropriated. The difference was due to increased resource mobilization and the corresponding increased spending on the delivery of programme activities. Expenditure for UNDP, UNICEF, UNWRA and UNHCR was lower than the appropriated budget by more than $100 million.

42. The total budget for UNHCR is prepared on the basis of a global needs assessment methodology. An assessment of the needs of persons of concern to UNHCR serves as the basis for the formulation of programme budget estimates; this estimation might deviate from the expenditure. However, the available funds in 2018 amounted to $4,710 million. UNHCR is one of the few agencies that use the needs-based budgeting methodology, which is not immediately comparable with the methodology of other agencies. UNHCR is using this budgeting methodology at the request of its member states.

43. For UNDP, the uncertainty of voluntary contributions to regular resources resulted in the variance stated. This resulted in lower overall budget expenditure compared with the annual budget for 2018. The volatile nature of funding affects planning and deliveries in entities such as UNHCR and UNDP.

44. As for UNRWA, the variation in budgetary utilization is due to various factors, such as management action to reduce the cash shortfall, cash and food distribution from the social safety net programme, and other budget reserves.

45. For UNICEF the variance is due, among other factors, to local conditions that have had an impact on the launch of implementing activities.

46. The Board noted that nine entities had multiple budgets for different purposes. All entities had a budget that was directly linked to statements of comparison of budget and actual amounts in the financial statements.

III. Findings and recommendations

A. Key findings and recommendations

47. The audit mandate of the Board is derived from article VII of the Financial Regulations and Rules of the United Nations. According to regulation 7.5, the Board may make observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of the Organization. In the following section, the Board therefore presents its key findings and recommendations resulting from the financial and performance audits that it conducted for the year ended 31 December 2018. The Board highlights the major findings and recommendations with respect to the 18 United Nations entities covered in the present report.

United Nations (Vol. I)

48. The apportionment of the liability for retirees was done on the basis of the proportion of retirees pertaining to 2009, as the Administration was unable to segregate the current proportion of retirees pertaining to the two entities. This affected the accuracy of the liabilities as reflected in the financial statements for volume I.

49. The staff costs as reported in the financial statements for volume I were funded through both the regular budget and extrabudgetary resources. The long-term employee benefit liabilities (see also para. 26), however, were not divided between these two fund groups. Identification of the share of after-service health insurance

liability pertaining to extrabudgetary resources and its reflection in the financial statements would contribute to improved transparency and assist in monitoring the funding levels achieved against the liability.

50. End-of-service benefits valuation by the actuary is based on the participant data, retiree medical information and other information provided by the United Nations. Accuracy of the valuation exercise depends on the accuracy of the information provided. The Board noted gaps and anomalies in the information provided to the actuary and in the respective Umoja data. The Board also noted that some key assumptions that could potentially affect the valuation of after-service health insurance liabilities were not up to date.

51. The United Nations has established health and dental self-insurance plans for its staff and retirees. The Board noted a lack of an adequate internal control mechanism to provide assurance over and maintain the costs of the health insurance programme. In addition, variances were seen in the list of medical insurance fraud and presumptive fraud cases provided by the office of the Controller and the list provided by the Health and Life Insurance Section. The Board noted that the contractual framework for the reporting of fraud and presumptive fraud cases by the third-party administrators was not uniform. The Board found only a single agreement that provided for reporting of fraud and presumptive fraud. Moreover, there was no information on or assessment of the status of recovery of amounts fraudulently obtained, no follow-up on recovery of such amounts and no enabling framework regarding accountability for recoveries in cases of fraudulent claims from active staff members and retirees in the agreements with the third-party administrators.

52. **The Board recommends that the Administration revise the basis for apportionment of the after-service health insurance liability between retirees of the United Nations as reported in volume I and those of peacekeeping operations to reflect their current proportion.**

53. **The Board also recommends that the Administration value and disclose separately in the financial statements the employee benefit liability for regular budget and extrabudgetary resources.**

54. The processes and procedures adopted for cash management and payment processing after the introduction of Umoja and the related roles and duties of the responsible staff were not formally approved and documented. There was no mechanism to forecast cash outflows (beyond the next two days), and information on cash inflows was available on a daily basis only after the completion of transfers of funds from all contribution-receiving bank accounts.

55. The Treasury manages a significant amount of resources. Investments managed by the Treasury amounted to $6.74 billion as at 31 December 2018 for the United Nations as reported in volume I and other United Nations entities participating in the cash pool. The Board noted that the information considered in making investment decisions and the decision-making process were not documented. Furthermore, the present system of estimating cash flows was inadequate and the lack of documented criteria for ascertaining the amount of available liquid cash worked as a constraint on taking optimal investment decisions.

56. The United Nations uses various currencies because of the inherent nature of its global operations, but hedging is not carried out for currencies other than the euro and the Swiss franc. A robust system to assess requirements for various currencies, based on a comprehensive analysis of historical trends and plans for the respective year, would promote better management of foreign currency risks. The Administration had agreements for currency hedging with only three banks. The practice followed by the Administration was to split contracts equally among those

three banks, resulting in the award of the contract becoming a fait accompli, irrespective of the rates offered by the individual banks. This does not appear to be in the interest of the United Nations in terms of obtaining the most competitive rates.

57. **The Board recommends that the Administration document and formally approve the processes to be followed for the cash management function after Umoja, and finalize, formalize and document the structure, roles and duties of related staff. The Board also recommends that the Administration document the processes underlying investment decisions and transparently record reasons for choosing a particular investment instrument, trading partner or period of maturity.**

58. **The Board further recommends that the Administration improve the system of forecasting cash flows, and assess liquidity requirements to support effective cash management and optimal investment decisions; carry out a review of the hedging programme, increase the number of counterparties having International Swaps and Derivatives Association agreements, and revise the policy of equal splitting of agreements among the counterparties so as to derive advantage from the most competitive market rates while limiting credit exposure in accordance with the defined guidelines.**

59. At the global level, a substantial number of indicators for review and follow-up of the Sustainable Development Goals remain in tiers II and III in the absence of an accepted methodology, standards of measurement and data. Regional disparities in data availability and inadequate data disaggregation by age and gender were noted. None of the indicators for the targets to be achieved by 2020 had reached tier I, which raised concerns about their measurability and hence the ability to assess their achievement.

60. A significant identified need existed for augmenting capacity in the area of data and statistics, across the regions; that need was not being fully met at present. The Department of Economic and Social Affairs of the Secretariat did not reflect the specific needs expressed by countries in the voluntary national reviews when identifying their capacity-building requirements. Capacity development projects taken up under the United Nations Development Account were delayed and carried over to subsequent tranches.

61. Obtaining funding is a critical requirement for implementation of the Sustainable Development Goals. Financing constraints were often faced by Member States across the regions in their efforts to advance the Goals. The Department of Economic and Social Affairs and the regional commissions are mandated to provide capacity-building support and policy advice to meet needs for finances. There is a need for a more focused and regular feedback mechanism on the policy prescriptions regarding financing, and hence a case for more structured engagement of the Department with the regional commissions and Member States in this regard.

62. **The Board recommends that the Administration intensify efforts towards the development of indicators and ensuring availability of data related to them, in collaboration with the custodian agencies; establish appropriate processes to ensure consistency in reporting, and inform the stakeholders through disclosures about changes and inconsistencies in critical data when publishing them.**

63. **The Board also recommends that the Administration, in the context of reform, set up structured protocols for collaboration among the Department of Economic and Social Affairs, the regional commissions, United Nations country teams and concerned Member States for financing support, so as to obtain feedback on the financing policies.**

64. **The Board further recommends that the Administration ensure the timely completion of project activities under the United Nations Development Account in**

support of Member States' capacity-building needs, which would complement the implementation of the 2030 Agenda for Sustainable Development.

65. On several occasions, the General Assembly and oversight bodies have requested and recommended the development of performance indicators for the procurement function. For example, the Assembly has requested the development of a comprehensive system to measure the function's efficiency and cost-effectiveness. The Board acknowledges the various efforts made by the Procurement Division to monitor and measure its performance, in particular that of its sections. However, the Board found that the Division did not have in place a comprehensive framework and system to routinely measure and report in a coherent manner concerning whether its objective to ensure efficient, cost-effective, transparent, timely and high-quality procurement had been met. The Board could not identify a formal strategy to specify relevant performance measures for the procurement function or for their implementation.

66. If the procurement value is below $40,000, the procurement officer may obtain informal quotes via telephone, email, fax or in person or via quotations available on the Internet (the request for quotations method). The Board found that 20 out of 168 purchase orders (12 per cent) made under requests for quotations exceeded the threshold of $40,000. The Board reviewed seven cases in detail and noted that in none of those cases had requisitioners and procurement officers substantiated the estimated value. In three of the seven cases, one sole vendor submitted a quotation. In another three cases, the Procurement Division received two quotations. In one of these cases, the vendor withdrew the quote and, in another case, the quote was not technically compliant.

67. **The Board recommends that the Administration implement a comprehensive system to coherently measure the efficiency, effectiveness and cost-effectiveness of the procurement function in line with related requests from the General Assembly and previous oversight recommendations, and regularly inform the Assembly about progress in that regard. The Board also recommends that the Administration ensure that the procurement policy framework clearly requires that procurement officers substantiate their estimation of the target value before initiating a request for quotations and that the framework sets out how to proceed with the procurement process if the value exceeds the established threshold. The procurement policy framework should clearly require that procurement staff must obtain at least three quotations so as to ensure economy, efficiency and fair market prices. In exceptional cases where only one quotation is received, the reasons for selecting that quotation need to be recorded.**

68. Digitization of 2.54 million documents identified as important was pending even two decades after the adoption of the General Assembly resolution on the subject. Slow progress on digitization of 5,964 maps poses a risk of further deterioration and loss. The digitization of the remaining assets in the audiovisual archives needs to be accelerated to prevent further deterioration and aid preservation. Providing a single point of access to United Nations information has not yet been achieved in the absence of harmonization of the libraries of the United Nations Secretariat that do have an online repository.

69. **The Board recommends that the Administration accelerate the digitization of the audiovisual archives, assess requirements for additional funds for the project and make efforts to obtain such funds in order to complete the digitization of important United Nations documents and audiovisual records.**

70. The Board noted delays in disbursement for 21 per cent of country-based pooled funds under multi-partner trust fund administrative arrangement projects and for 3.89 per cent of country-based pooled fund projects. The Board also noted that there was

a significant backlog in monitoring visits and financial spot checks related to country-based pooled funds, including those under multi-partner trust fund administrative arrangements.

71. Financial and programmatic reporting by the implementing partners is an important aspect of the accountability framework in the Office for the Coordination of Humanitarian Affairs of the Secretariat. The Board noted delays in the submission of final financial statements pertaining to country-based pooled fund projects by United Nations partners and non-governmental organizations (NGOs) in 60.78 per cent and 37.20 per cent of cases, respectively. Furthermore, of the 272 projects processed by the Office for the Coordination of Humanitarian Affairs in the Democratic Republic of the Congo during 2018, 247 were awarded to NGOs with a value of $166.84 million. The Board noticed instances of non-compliance with the provisions of the Democratic Republic of the Congo Humanitarian Fund Operational Manual in awarding a large number of these projects, including awarding projects to NGOs without following the prescribed budget ceilings corresponding to their risk ratings and awarding projects to ineligible NGOs.

72. The Office for the Coordination of Humanitarian Affairs used various information technology systems for financial management that were not integrated with Umoja. The Board noted that this led to duplication of efforts in the recording, regular monitoring and reconciliation of transactions. Furthermore, during a test check of data in the Democratic Republic of the Congo, the Board noticed significant issues in the data relating to country-based pooled fund projects in the grant management system. Dual management of country-based pooled funds under multi-partner trust fund administrative arrangements (the managing agent for the common humanitarian fund in the Democratic Republic of the Congo was UNDP, while the Multi-Partner Trust Fund Office was the administrative agent) also contributed to data management issues.

73. The Board recommends that the Administration make sustained efforts to improve monitoring visits and financial spot checks to carry out important assurance and monitoring activities concerning the implementing partners and to ensure timely receipt of financial and programmatic reports for effective monitoring of implementing partners.

74. The Board also recommends that the Administration make sustained and time-bound efforts to clear the backlog of audits and follow up on pending audit recommendations, and take the action necessary to ensure that all pending refunds are received back from implementing partners in a timely fashion.

75. The Board further recommends that the Administration prepare a definite plan with clear timelines for migration to Umoja Extension 2 functionalities so as to eliminate duplication of efforts and minimize investment in software systems.

76. The Board acknowledges that the strategic heritage plan team has taken substantial steps in the construction of building H and the design and tender procedure for the renovation of the Palais des Nations. Nevertheless, there are areas of concern related to the timely completion of the project, and further enhancements are needed in the field of project governance. Moreover, the United Nations Office at Geneva has not yet established a handover procedure manual with clear lines of responsibilities to ensure a smooth handover from the contractor.

77. The current strategic heritage plan independent risk management firm does not report directly to the project owner. The United Nations Office at Geneva has not yet established comprehensive handover procedures. Thus, it is unclear which requirements (documents, pre-handover meetings, schedule, etc.) are necessary for the handover.

78. The Board recommends that the Administration require that the risk management firm send the quarterly risk report directly to the project owner rather than through the office of the project executive, as is current practice.

79. The Board also recommends that the Administration ensure that the strategic heritage plan team develops a handover procedure manual in close cooperation with the Facilities Management Section of the United Nations Office at Geneva. This would ensure that the responsibilities, procedures and expected handover documents are clear for the strategic heritage plan team and the Section. The goal must be to hand over the sections from the contractor to the strategic heritage plan team and the Facilities Management Section at the same time.

80. The project planning for the flexible workplace project at the United Nations Secretariat underwent frequent changes in terms of the extent and budgeting of the project, leading to delays and the postponement of the potential benefits of the project. The findings in the post-occupancy evaluation report indicated that the advantages of mobility and using the collaboration spaces were not fully utilized. The Board recommends that the Administration monitor and manage the remaining work to ensure completion of the flexible workspace project by 2020, within the estimated cost.

81. In view of the additional extensions to works under the Africa Hall project at the Economic Commission for Africa, the project bears a higher risk of cost escalation and time delays. The Board recommends that the Administration minimize the accumulated delays, without compromising quality, to avoid the risk of cost escalation in the Africa Hall project.

United Nations Capital Development Fund

82. After discussions with the Board, UNCDF refined its accounting policy for receivables from non-exchange transactions. Under the new policy, UNCDF recognizes receivables from non-exchange transactions in full at the time the agreement is signed, with the exception of agreements that have performance conditions beyond the control of UNCDF. UNCDF defers revenue associated with receivables expected to be received in future periods on the statement of financial position until conditions in contribution agreements, if any, are met or until funds are to be transferred to UNCDF and intended to be utilized.

83. The Board welcomes the refined approach of UNCDF on the asset recognition criteria of IPSAS 23: Revenue from non-exchange transactions for reviewed agreements. At the same time, the Board encourages and expects UNCDF to continue its analysis of contribution agreements and to use all available information to further enhance the assessment of contribution agreements in accordance with IPSAS 23, in particular with regard to the substance-over-form criteria.

84. The Board recommends that UNCDF continue to refine its policies and procedures and to review its contribution agreements in order to establish an enhanced basis for decision-making on the recognition of non-exchange transactions in line with IPSAS 23.

United Nations Development Programme

85. In response to discussions with the Board, UNDP refined its accounting policy for receivables from non-exchange transactions. Under the new policy, UNDP recognizes receivables from non-exchange transactions in full at the time the agreement is signed, with the exception of agreements that have performance conditions beyond the control of UNDP. UNDP defers revenue associated with receivables expected to be received in future periods on the statement of financial

position until the conditions in contribution agreements, if any, are met or until funds are to be transferred to UNDP and intended to be utilized.

86. The Board holds that UNDP should continue to review the substance and form of contribution agreements to conclude if there should be any further refinements to the non-exchange transactions accounting policy. The Board also holds that UNDP should use all available information to further enhance the assessment of contribution agreements in accordance with IPSAS 23: Revenue from non-exchange transactions, in particular with regard to the substance-over-form criteria. The Board trusts that UNDP takes action if the analysis reveals that a further refinement of policies and procedures is needed.

87. **The Board recommends that UNDP continue to refine its policies and procedures and to review its contribution agreements in order to establish an enhanced basis for decision-making on the recognition of non-exchange transactions in line with IPSAS 23.**

88. Pursuant to its financial regulation and rules UNDP must maintain an internal financial control mechanism. The Board's audit did not highlight any significant weaknesses in the financial controls examined and tested. At the same time, the Board noted some matters of non-compliance with regard to the UNDP internal control framework. For instance, requisitions and purchase orders had been approved by the same person acting as first and second authority in the same transaction, which is not permitted for transactions exceeding $2,500 according to the operational guide of the internal control framework.

89. With regard to bank signatories, the Board noted a signatory who also held the vendor approver role, which is not permitted according to the operational guide. Furthermore, the Board noted that service contract holders performed internal control functions, including reviews as second level of authority for transactions such as payroll, which is not in line with the Programme's current policy on service contracts.

90. The Board acknowledges that in some cases UNDP took immediate action to remove conflicting levels of authorities when the Board informed UNDP of its observations during the audit process. At the same time, the Board is of the opinion that the findings revealed different levels of maturity and awareness among bureaux and country offices with regard to the corporate internal control framework. Therefore, the Board holds that further enhancement is necessary.

91. **The Board recommends that UNDP further refine its internal control framework to strengthen its implementation.**

92. **The Board also recommends that UNDP consider the feasibility of incorporating more automated controls into its enterprise resource planning system or supplementary related information technology systems to enhance compliance with the corporate internal control framework.**

93. The harmonized approach to cash transfers is a common operational framework for transferring cash to government and non-governmental implementing partners. Implementation of the framework includes, among other things, microassessments of the implementing partners' financial management capacity, as well as assurance activities to determine whether funds transferred have been used for their intended purpose and in accordance with the workplan.

94. Each agency using the microassessment has to document its understanding of the assessment and the overall risk rating and its recognition of the identified risks and effects specific to the agency, including any impact of those risks on programme design. The Board noted that the country offices did not document their understanding of the assessment and the overall risk rating. Also, country offices did not document

recognition of the identified risks and effects specific to UNDP for any of the microassessments reviewed.

95. The coverage, type and frequency of assurance activities are guided by the overall risk rating associated with the implementing partner, as determined by means of the microassessment. In accordance with the harmonized approach to cash transfers framework and the corresponding UNDP policy on the approach, each country office prepares an assurance activity plan at the beginning of the programme cycle and updates it annually. The plan sets out the required assurance activities for each implementing partner.

96. The Board's analysis revealed that assurance activity plans did not in all cases include all necessary assurance activities. The analysis also revealed that assurance activities planned were not always in line with requirements of the harmonized approach to cash transfers framework. The Board also noted that assurance activity plans did not consistently include information on whether planned assurance activities had been carried out. The Board further noted that country offices did not include such verification of the completeness of assurance activities carried out in any other reporting.

97. **The Board recommends that UNDP ensure that country offices document the review of and conclusions drawn from microassessments.**

98. **The Board also recommends that UNDP revise its policy on the harmonized approach to cash transfers and clarify that management in country offices is required to conduct a control designed to review the completeness of assurance activities performed and the completeness of follow-up actions taken.**

99. The UNDP policy on service contracts guides country offices on how to manage the service contract modality, while the individual contract modality is governed by the individual contract policy. UNDP uses service contracts in country offices and regional centres to hire national personnel for non-core support services at the UNDP office or for development projects. Individual contracts are used to hire personnel to perform time-bound and non-staff tasks aimed at delivering clear and quantifiable outputs. The Board found that UNDP did not always use the two contract modalities as intended in accordance with the respective policies.

100. The Board further noted that, under the policy on service contracts, regional bureaux directors were authorized to grant a waiver of competitive recruitment for up to 20 service contracts per annum. The Board noted that, in several cases, country offices used the opportunity of waiving competitive bidding to fast-track deployment.

101. The Board holds that without competition in the recruitment process and by not comparing the candidates, UNDP might not be able to ensure that a suitable candidate is the best qualified person for the job. The Board therefore holds that competitiveness in a recruitment process should not be waived as it bears the risk that candidates might join UNDP and the United Nations system without having gone through a regular competitive recruitment process.

102. The Board noted various matters of non-compliance with requirements established in the individual contract policy, including improper use of exceptions for direct contracting, limited effective competition, not awarding the contract to the best qualified candidate and not documenting value-for-money considerations. The Board also sees room for enhancing contract drafting and management.

103. **The Board recommends that UNDP enhance its policies and guidelines with regard to the use of the P-6 and P-7 grades in order to provide guidance on the circumstances in which these grades may be used.**

104. The Board also recommends that UNDP review the policies on service contracts and individual contracts in order to establish clear criteria for assessing what constitutes a staff task or function and which tasks and functions may be transferred to contractual modalities other than regular staff contracts.

105. The Board recommends that UNDP review its policy on service contracts, including the requirements for waiving competitive recruitment and the use of such waivers.

106. Furthermore, the Board recommends that UNDP ensure that country offices and units with identified cases of non-compliance provide on-the-job training so that personnel have the sustainable awareness required to properly procure and manage individual contracts in accordance with the policy on individual contracts.

United Nations Environment Programme

107. After the review of 10 cases of unidentified deposits, the Board noted that UNEP requested the Treasury of the United Nations Office at Nairobi to provide more detailed information on two cases 579 days after the funds were deposited. Moreover, in the remaining eight cases, UNEP did not prove that that it had consulted the Office in accordance with the policy and procedures on unidentified deposits.

108. The Board recommends that UNEP strengthen its controls to comply with the unidentified deposits identification process, in order to reduce amounts not allocated to programmes or projects, guaranteeing compliance with the policy and procedures on unidentified deposits and standard operating procedure 109 of the Budget and Financial Management Service of the United Nations Office at Nairobi.

109. In the light of the results-based management approach, with respect to verifying performance monitoring and reporting through the Programme Information and Management System, it was possible to determine that of a total of 648 projects registered in the System, 149 appear as ongoing projects and 53 as inactive. During the review it was possible to determine that 50 of the 149 ongoing projects have already reached their end date according to the information available in the System: 4 of them in 2015, 5 in 2016, 18 in 2017 and 23 in 2018.

110. The Board recommends that UNEP update the Programme Information Management System with complete project information about their actual situation, in order to assure an appropriate management as well as an integral future migration to Umoja, establishing control mechanisms that secure results-based management.

111. In the case of the UNEP Regional Office for Europe, as of November 2018, there was evidence neither that the framework had been implemented at that Office, nor of the preparation of a risk register. Concerning the secretariat of the Basel, Rotterdam and Stockholm Conventions, the Board was provided with a list of potential risks for this period. The response received does not however comply with the risk log matrix set out in the UNEP programme manual and its topics.

112. The Board recommends that the UNEP Regional Office for Europe and the secretariat of the Basel, Rotterdam and Stockholm Conventions, in coordination with Headquarters, systematically manage risks and facilitate effective implementation of their mandated activities under the United Nations enterprise risk management and internal control policy.

113. In addition, the Board recommends that the UNEP Regional Office for Europe and the secretariat of the Basel, Rotterdam and Stockholm Conventions maintain an updated risk log, in accordance with the UNEP programme manual.

United Nations Population Fund

114. With respect to the project "Preparedness for the roll-out of effective HIV prevention among key affected population in Brazil, Peru and Mexico" the project plan of the UNFPA country office in Mexico included the acquisition of 8,400 kits for the diagnosis of chlamydia and gonococcus over a three-year period. In 2018, UNFPA Mexico purchased the kits through the process called "request for quotation", which limits the purchase to between $5,000 and $49,999.

115. The Board noted that UNFPA Mexico had issued two purchase orders in this modality (in September and November 2018) for the acquisition of the same kits, totalling $51,280, which exceeds the amount allowed for this purchase acquisition method.

116. **The Board recommends that UNFPA strengthen its purchasing planning process with the purpose of considering defined needs when selecting the purchasing method for the project.**

117. **The Board also recommends that UNFPA comply with established thresholds in accordance with the policy on purchases made by the country offices, and conduct periodic monitoring of the purchasing process implemented.**

118. The UNFPA policy and procedures for the management of programme supplies establishes that inventory kept in warehouses managed by third parties, including those of other United Nations agencies or programme partners, must also be secured at all times. The logistics focal points should assess the suitability of existing insurance agreements and ensure that the storage agreement clearly describes the coverage provided for UNFPA products. From its review, the Board noted that the Regional Office for Latin America and the Caribbean had not provided sufficient evidence of the insurance policy for the goods stored in the warehouse. The Board also noted that the Regional Office was unaware of the existence, procedures and scope of the insurance.

119. **The Board recommends that UNFPA insure its commodities, by either establishing a written agreement with the United Nations Humanitarian Response Depot or signing an insurance agreement to comply with the supply policy, reducing the risk of loss or damage in case of a catastrophe.**

120. **The Board also recommends that UNFPA issue instructions to the heads of offices, in order to create awareness of the existing insurance policy uses and standard procedures, as described in the UNFPA procurement procedures.**

United Nations Human Settlements Programme (UN-Habitat)

121. In its resolution 67/226, the General Assembly requested the executive boards of the United Nations funds and programmes, and encouraged the governing bodies of specialized agencies, to adopt cost recovery frameworks, based on the guiding principle of full cost recovery, proportionally, from the core and non-core funding resources. During the audit process, the Board observed that expenses of the Regional Office for Latin America and the Caribbean defined as cost recovery had been charged to projects led by the Mexico City hub; however, management has not developed a framework that clearly explains how cost recovery should be handled in practice. The Board considers that this cost recovery practice is not harmonized with General Assembly resolution 67/226. **The Board recommends that UN-Habitat establish a framework and methodology for full cost recovery in accordance with resolution 67/226 applicable in all units of the entity and inform its hubs and offices of its application.**

122. The UN-Habitat project-based management policy defines the outcomes of a project as outputs, results and impacts. With regard to the projects managed by UN-Habitat that were reviewed by the Board, it was observed that no information had been entered into the project performance and accountability system to allow the accurate verification of the achievement of the outputs established for each project. The Board considers that having precise information is important as it allows the progress and results of projects to be assessed.

123. In the light of the emphasis on results-based management in General Assembly resolution 71/243, the Board recommends that UN-Habitat include detailed documentation of each project in the project performance and accountability system in order to support their execution and corresponding progress.

124. Furthermore, considering that UN-Habitat manages projects worldwide, the Board recommends that UN-Habitat improve the controls related to updated information, established in paragraph 36 of the project-based management policy.

United Nations Children's Fund

125. The country programme planning process was to be carried out under the twin umbrella of the United Nations Development Assistance Framework and UNICEF Strategic Plan priorities, at the global level, and the national plans and national priorities, at the country level, and needed a robust mechanism for the alignment of the national and global priorities at the planning and monitoring level. The individual country programme documents included a results and resources framework, which was to provide linkages between the programme components and outcome areas of the Strategic Plan. Deficiencies in the mapping of programme areas at the country level to the goal areas at the Strategic Plan level were noticed. Moreover, actual expenditure and its results were framed against Strategic Plan goal areas at year-end using this mapping, which resulted in the risk of errors in reporting expenditure against the specific goal areas of the Strategic Plan.

126. UNICEF globally met the harmonized approach to cash transfers policy objective of the completion of the minimum required level of assurance activities. However, there were shortfalls in terms of programmatic visits and spot checks in some individual country offices, as noticed by the Board in its audit in the Middle East and North African region and the Latin America and the Caribbean region.

127. Deficiencies were noticed in funding authorization and certificate of expenditure forms at the Lebanon country office, the Middle East and North Africa Regional Office, the State of Palestine country office and the Panama country office relating to, inter alia, important details on the approval of programmes and the related due diligence process not being captured, which reflected weaknesses in the internal controls over the cash transfer process.

128. The status of follow-up action taken by the Lebanon country office was not available for 207 recommendations pertaining to spot checks. The findings and recommendations had raised significant weaknesses and risks related to the assurance environment, internal controls, inventory and asset management, procurement and project management. Partnership review committees were to make informed, objective and transparent recommendations on whether proposed partnerships with civil society organizations were in the best interests of UNICEF and would achieve results for children. Weaknesses in the documentation of the process by which the partnership review committees approved the implementing partners were noticed in the Lebanon and the State of Palestine country offices.

129. The Board recommends that the UNICEF Lebanon country office take prompt action on the findings and recommendations resulting from spot checks and

appropriately document the details of remedial action taken, and that UNICEF review the status of pending recommendations in other country and regional offices and, if required, take measures necessary to fill the gaps.

130. Furthermore, the Board recommends that urgent action be taken by the Lebanon country office, the Middle East and North Africa Regional Office and the Panama country office to strengthen the controls over the funding authorization and certificate of expenditure form approval process and that the completeness of mandatory details in the funding authorization and certificate of expenditure forms, which should be ensured before cash transfers are approved.

131. The Board recommends that the UNICEF Lebanon and State of Palestine country offices ensure that the prescribed requirements for partnership review committee forms be followed and a complete trail of action taken on recommendations of the partnership review committee be documented and maintained.

132. Furthermore, the Board recommends that the UNICEF Panama and Ecuador country offices carry out a formal process for the open selection of civil society organizations as a priority and document the rationale for selection in all cases where the direct selection method is preferred, and that UNICEF review the status of the selection methodology adopted across country offices and take similar corrective action in cases where the open selection process is not followed.

133. The Board noticed major gaps in the achievement of revenue targets in the year 2018 across different channels of revenue, including pledges, corporate streams, legacies, major donors and foundations. There were specific issues faced in individual revenue streams that had an impact on the actual generation of revenue, and the performance among National Committees and country offices varied across channels. Similarly, there were gaps in generating regular resources vis-a-vis the target fixed.

134. National committees could not achieve the revenue targets set for the year 2018. The actual revenue generation was $1.45 billion against the target of $1.79 billion, resulting in a shortfall of $0.34 billion. The setting of targets for contribution rates of below 75 per cent for 20 National Committees during the period of the Joint Strategic Plan was not in line with provisions of the UNICEF financial regulations and rules.

135. The Board recommends that UNICEF take the steps necessary to identify the underperforming National Committees and country offices and identify measures to further strengthen strategies to address the issues having an impact on their performance to help to achieve the targets for the current strategic plan period.

136. It was estimated that the establishment of the Global Shared Services Centre would result in savings of $22.3 million annually to UNICEF globally. However, the savings were not calculated using actual numbers of transactions across all business processes being carried out by the Centre. Moreover, details of actual gains in the number of hours of work and details capturing changes towards mission-focused activities after the establishment of the Centre were not available, which made it difficult to provide a comprehensive analysis of the benefits resulting from the establishment of the Centre.

137. There was no comprehensive document that defined the roles, functions and responsibilities of the Centre and its relation to other UNICEF offices. The details were captured in an express and implied manner across a large number and variety of documents.

138. The achievement of service-level agreement targets was the key performance indicator of the Centre in the processing of transactions received from field offices. There were issues of the non-achievement of service-level agreement targets,

instances of deficient return and rejected cases. Moreover, the average processing time for several processes was significantly lower than the service-level agreement target.

139. The Centre was responsible for maintaining an up-to-date, accurate and complete database in respect of customers, banks and vendors, including staff. There were instances of missing, invalid and incomplete records in respect of important databases for vendors and banks.

140. **The Board recommends that UNICEF review and strengthen the methodology to calculate savings achieved to give a complete picture of all of the efficiencies achieved, including post reductions, across the organization as a result of the establishment of the Global Shared Services Centre.**

141. **The Board also recommends that UNICEF consider issuing comprehensive documents defining the roles and responsibilities of the Global Shared Services Centre and the relationship of the Centre with other UNICEF offices in all of its areas of functioning.**

142. **The Board further recommends that UNICEF review the service-level agreement targets for business processes and take into consideration the average time taken for processing as an important input in the exercise, and strive to fix a tolerance limit, beyond which individual reasons for not meeting the service-level agreement targets should be clearly documented.**

United Nations Institute for Training and Research

143. In some contracting processes for consultants and individual contractors, the Board noted that there were not sufficient project fund balances or, in the long term, the overall resources would not be sufficient to cover their payments; hence, the form "Request for outside expertise or professional services, Special Service Agreement" could not be processed.

144. **The Board recommends that UNITAR improve the managers' controls by checking the availability of funds before initiating a recruitment process for consultants and individual contractors, to ensure effective project management and transparency in the utilization of resources.**

145. During the visit, the Board observed that on some mission authorization forms there was no evidence of the date on which the document had been approved. In addition, it was noted that there was no procedure for establishing a designated approver for the official travel of the Executive Director.

146. **The Board recommends that UNITAR make the efforts necessary to comply with the established travel policy controls, ensuring the full compliance of the mission authorization form. In addition, the Board recommends that UNITAR take the necessary measures in order to include a designated approver for the official travel of the Executive Director.**

Office of the United Nations High Commissioner for Refugees

147. The Board noted cases in which the date used for the actuarial computation of the after-service health insurance did not reflect the actual years of service within the United Nations system but only the years of service at UNHCR. The Board is concerned that in some of these cases, the after-service health insurance liability may be understated.

148. **The Board recommends that UNHCR consult with other United Nations organizations and the actuaries as to whether the relevant administrative instruction**

needs to be amended to state the after-service health insurance liability more precisely for staff members with eligibility from prior engagements.

149. The Board analysed cases in which staff members were transferred between UNHCR and other United Nations organizations. The Board found that UNHCR does not conclude agreements with the receiving or releasing United Nations organizations for associated health insurance liabilities or receivables.

150. **The Board recommends that UNHCR assess whether it is beneficial to conclude agreements with United Nations organizations for incoming and outgoing staff to gain a clear distribution of accumulated health insurance liabilities between the entities concerned and account for the receivables or contributions, as the case may be, for those staff members.**

151. The Board noted cases in which UNHCR purchased brand new assets and transferred these directly to partners and governments. The Board holds that the current transfer procedures lack elements that are required by the financial rules and regulations. Items may only be handed over to external recipients if the handover provides maximum benefit to the operation and if agreements with the recipients contain appropriate provisions. In the cases noted by the Board, the agreements did not contain appropriate provisions or agreements did not even exist. The Board also holds that the transfer of assets needs to be recorded in a consistent manner.

152. **The Board recommends that UNHCR establish a consistent accounting process and guidance for items that are procured for direct transfer of ownership to other entities and disclose expenses resulting from such transfers separately in the notes to the financial statements. In case of transfers to implementing partners, UNHCR should transparently link the transfers to project partnership agreements and make the purpose of the transfer visible.**

153. UNHCR is currently undergoing a number of reform initiatives. The Board stressed the importance of a consistent organization-wide approach with regard to the transformation process. Well-designed and implemented reporting lines, accountabilities and authorities will be crucial for the success of the decentralization project. Part of the ongoing results-based management project is to include performance metrics. This is to facilitate the measuring of cost-effectiveness and to create visible links to the key Sustainable Development Goals, mainly at the levels of impact and outcome. The Board noted with concern that the revision of results-based management has already been ongoing for a long time. The Board noted ongoing efforts to strengthen the risk culture at UNHCR. In terms of the corporate risk registers, the Board noted several areas where the quality of these registers could be further improved.

154. **The Board recommends that UNHCR ensure well-coordinated accountabilities, authorities and reporting lines for managers in the newly created regional and headquarters structures; use the new results-based management tool to present the link between input, outcome and results; and facilitate alignment of country operation plans with inter-agency and multi-partner processes. The Board also recommends that UNHCR enhance the corporate risk registers and provide guidance to country operations on the required granularity of relevant risk descriptions.**

155. The Board found that UNHCR should further strengthen its internal control system. The Board sees possibilities for strengthened controls in the upcoming change process and decentralisation. The Board found that the addressed risk areas in the financial control matrix could be better scaled to reflect the UNHCR operational model.

156. **The Board recommends that UNHCR refine the financial internal control matrix, reflect imminent changes in the organizational structure and ensure the**

systematic update of the financial control matrix; continue with its current efforts to enhance the content and meaningfulness of country financial reports; enhance the variance analysis of salaries and employee benefits, ensure and document the constant run and review of required key human resources and payroll reports and increase the number of automated reports.

157. With regard to internal controls in the area of cash-based interventions, the Board recommends that UNHCR strengthen the monitoring of country operations' refund and reconciliation processes, implement timelines for the request of refunds and ensure that no cash distribution can be processed without approved distribution lists. The Board also recommends that UNHCR highlight the importance of a standard check for duplicates in cash assistance distribution lists before approval of the lists.

158. In order to facilitate strengthened internal controls in the area of implementing partners, the Board recommends that UNHCR implement further electronic processes and signatures to replace the current paper-based processes and offline verification signatures. The Board also recommends that UNHCR strengthen the link of performance review and resource requirements to additional instalment payments and document the review accordingly when initiating the payment of additional instalments.

159. The Board found no evidence that UNHCR had mechanisms in place to assess in-house competencies and expertise before engaging individual contractors. The Board noted that, in 2018, in 95 out of 287 cases, UNHCR did not comply with its policy on the duration of the work assignment. The Board found areas ripe for enhancing technical tools and workflow processes in accordance with the UNHCR enterprise resource planning system.

160. The Board recommends that UNHCR strengthen and amend the policies relating to individual contractors to enhance the documentation on the non-availability of in-house capacity; monitor the duration of individual contractors' contracts; and examine the technical options for implementing an approval workflow process to enhance the transparency and efficiency of the selection decision and the analysis of whether the assignment of contractors is the most cost-effective solution.

161. The Board noted that the risk register of the Division of Information Systems and Telecommunications itemized only one information and communications technology (ICT) security risk area, even though, in 2017, a consulting firm had identified numerous ICT security risks and mitigation measures. UNHCR did not keep a detailed security risk register apart from the corporate risk registers, where all security risks and their handling were described.

162. The Board recommends that UNHCR establish mandatory UNHCR-wide minimum information security standards in an ICT governance framework as soon as possible and make funds available to implement the standards in the field.

United Nations Joint Staff Pension Fund

163. In accordance with the Regulations of the Fund, all member organizations and employees contribute on the basis of pensionable remuneration, at a fixed rate of 7.9 per cent for participants and 15.8 per cent for employers. The information on contributions is kept in the Integrated Pension Administration System for each participant, and it is annually reconciled with the human resources and pensionable remuneration information provided by every member organization at the end of the year.

164. That reconciliation is carried out by the Fund during the first quarter of the following year, using the detailed schedules provided by the member organizations. Any differences between the reported contributions and the contributions actually

received are recorded as an account receivable from or payable to the member organization, depending on the difference. On the basis of the information provided by the member organizations, the Fund secretariat records the contributions to the participants' accounts. In addition, each member organization is notified of any discrepancies identified in the reconciliation process. The majority of the discrepancies are resolved by updating the human resources records or adjusting the contributions on the year-end schedules in the following year.

165. Through its online platform, the Fund allows participants and member organizations to consult their total contributions. However, the information available corresponds to the balance of the previous reconciliation process, namely, the total contributions as at 31 December of the previous year.

166. The Board considers that having a single annual reconciliation process means that the exceptions identified cannot be resolved during the conciliation period of the current year and that exceptions may delay the processing of benefits for separating members. Likewise, it does not allow participants to have updated information on their total contributions as at a specific date. Not all member organizations, however, are willing to commit to a more frequent (e.g., monthly) reconciliation process as that would require significant resources and responsiveness.

167. The Board recommends that the Fund create a project with committed member organizations to carry out the reconciliation process more than once per year, defining the different criteria, activities, deadlines, roles and responsibilities applicable to the Fund or the member organization and establishing percentages for the progress of its implementation, in order to obtain complete and accurate information regarding the contributions of each participant in a timely manner.

168. The Board also recommends that the Fund make efforts to establish a method of working with organizations that have not yet committed to carrying out the reconciliation process periodically, in order to ensure that the reconciliation process takes place more than once per year and that the Fund receives the necessary information on the same date. In the case of member organizations that cannot participate in the periodic reconciliation project more than once per year, the Fund secretariat should obtain technical documentation that supports the decisions made.

169. The Integrated Pension Administration System is the main tool used by the Fund to process retirement benefits. To start the separation process, three core documents are needed: a separation personnel action, a separation notification and a payment instruction. The personnel action and the notification are issued by the member organization, while the payment instruction is submitted by the participant. Each time the Fund receives one of the three documents, a workflow is opened in the Integrated Pension Administration System to start the separation process. Regardless of whether or not the action is a request for retirement, the System will open a workflow. According to the strategic framework of the Fund, the Fund is expected to carry out the effective processing of participants' benefit entitlements. In that respect, the Board observed a notable decrease (74 per cent) in the number of workflows still open owing to the non-receipt of core separation documents, from 16,427 as at December 2017 to 4,300 as at 21 May 2019 (the audit cut-off date).

170. The Board recommends that the Fund continue to reduce the number of open workflows, focusing on those where payment instructions have been received. To do so, the Fund could establish indicators that make it possible to measure progress in closing them.

171. For those open workflows with missing documentation, the Board recommends that the Fund consider carrying out the closing process according to the ageing

analysis, giving priority to cases with workflows that have been open for more than three years.

172. The Board recommends that the Fund regularize, in the Integrated Pension Administration System, the open workflows that have no date of separation, to obtain a better analysis of such cases.

173. The Fund acknowledges its responsibility to society as part of an international organization committed to social progress by being a founding signatory of the Principles for Responsible Investment and through its association with the United Nations Global Compact and the UNEP Finance Initiative. In addition, on 27 September 2018, at the climate week briefing held by Moody's in New York, the Director of the Office of Investment Management gave a presentation on sustainable investing for institutional investors, while, on the website of the Office, it is stated that the sustainable investment strategy of the Pension Fund is aligned with its duty and fiduciary responsibility, which includes environmental, social and governance metrics. Considerations of the sustainable investment strategy are integrated throughout the investment decision-making process, in order to provide portfolio managers with more tools to further enhance risk and return considerations regarding investment decisions.

174. The Board noted that the Office did not have complete information as to whether the assets in its portfolio fulfil the criteria to be considered sustainable investments. In addition, the Board noted that the Office also did not yet have evidence regarding the environmental, social and governance analysis considerations that help it to make investment decisions about the purchase of a sustainable portfolio. Although the Office indicates, through various reports, systems, prototypes, documents and presentations and through the implementation of customized equity benchmarks to reflect restrictions in tobacco and armament securities, that it is currently incorporating environmental, social and governance indicators into the investment decision-making process, the Board observed that, in practice, the Office did not have established criteria for sustainable investment decisions that support what was stated in the presentation on sustainable investing for institutional investors and on its website.

175. The Board recommends that the Office of Investment Management establish a workplan, with dates and responsibilities, in order to ensure the implementation of the analysis and evaluation of environmental, social and governance metrics in accordance with the Office's sustainable investment strategy and its incorporation into the investment decision-making process for all asset classes.

176. The Board also recommends that the Office design and implement instructions, training and procedures that explain the process to be performed by the investment officers regarding the analysis and evaluation of environmental, social and governance metrics for each asset class, including the metrics to be used during the investment decision-making process, as well as the record of and support for the decision made on the basis thereof.

177. In addition, the Board recommends that the Office support and implement, through computer systems, the analysis and evaluation of environmental, social and governance metrics.

United Nations Office on Drugs and Crime

178. In accordance with rule 401.3 of the Financial Rules of the Fund of the United Nations International Drug Control Programme and of the Fund of the United Nations Crime Prevention and Criminal Justice Programme, the Executive Director of UNODC has the authority and responsibility for the implementation of the financial

rules. The Executive Director may delegate such authority as appropriate to other officials, and such delegations of authority will state whether designated officials may further delegate this authority. It was noted that the Liaison and Partnership Office in Mexico did not have the necessary delegation of authority from headquarters that allowed the representative to sign procurement contracts. The Board recommends that UNODC operate in accordance with the delegation of authority for low-value acquisitions currently in force with regard to procurement agreements. Otherwise, UNODC headquarters should reassess the delegation of authority.

179. According to paragraph 2.4 of the UNODC Programme and Operations Manual, there are several established stages with which every programme and project needs to comply in order to be initiated, approved and implemented. One of the stages is related to the monitoring and reporting process, described in paragraph 8 of the Manual. The monitoring system comprises four components. One of the components is the obligation to prepare semi-annual and annual progress reports, and includes a workflow in that regard. The workflow defines the different steps that must be completed by the persons involved in the preparation of a progress report, which are: (a) to prepare the report; (b) to perform a quality assurance review; and (c) to review and approve the report. In the revision of compliance in the segregation of duties in 25 projects, it was noted that in five cases the projects did not comply with the segregation of duties, since the person who prepared the report also acted as the quality assurance reviewer for that report. In one case, the person who prepared the report also approved it.

180. The Board recommends that UNODC strengthen its internal controls in order to ensure the segregation of duties in every project or, at the very least, implement a compensating control.

United Nations Office for Project Services

181. UNOPS in 2018 made an investment of $8.8 million in a social impact investing initiative ("S3I") from the operational reserve without establishing a growth and innovation reserve as required by regulation 22.02 (b) of its financial regulations and rules. The direct investment from the operational reserve without creating a specific growth and innovation reserve and formulating a procedure for accounting and management for such reserve is not in line with the financial regulations.

182. OneUNOPS did not have sufficient data regarding crucial aspects of contract management which could enhance the efficiency of implementation. The system did not allow the recording of reasons for contract termination for specific purchase orders. Other important information, such as whether the purchase order was issued under emergency procurement procedures, was also not available within the system.

183. The Project Management Manual, which incorporates several salient aspects and elements of Prince2, took effect as from January 2019. In accordance with the Manual, the project management process was divided into various stages, but Prince2 processes, such as the creation of project initiation documents, amendments to the schedule, cost and scope of projects, tolerances for quantifiable values against those parameters, the capturing of stage-planning, lesson details and the like, were not fully incorporated in oneUNOPS. A number of manual adjustments were seen to have been made in the trial balance to arrive at the final value for each of the account codes in the financial statements. In any case, inventory valuation and management, fund/treasury management, age-wise analysis of accounts receivable and segment reporting were kept outside oneUNOPS.

184. The Board recommends that UNOPS establish a growth and innovation reserve and document a detailed procedure for the use of funds in such reserve, as well as their accounting and management. The Board also recommends that UNOPS take

steps to generate the financial statements from the oneUNOPS enterprise resource planning system so as to obviate the need for manual adjustments and interventions. The Board further recommends that UNOPS incorporate the requirements of Prince2 methodology in oneUNOPS to enable UNOPS to manage its projects in terms of the requirements of its Project Management Manual.

United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women)

185. The Board noted that 7 of the 60 offices reviewed had not submitted their procurement plan on SharePoint, the online platform used by UN-Women. This resulted in non-compliance with section 4.1 on procurement planning of the contract, procurement and management policy, which stipulates that country offices, multi-country offices, regional offices, which includes offices with a programme presence, and the headquarters business unit, shall create online procurement plans at the beginning of each year and/or as the need arises and shall maintain and update them throughout the year. The Board analysed the consolidated procurement plan information available on the online platform of UN-Women. The Americas and the Caribbean Regional Office had incorporated into its procurement plan only some purchasing lines referring to programmes and to the programme presence office in Uruguay. In addition, the Board observed that two programme presence offices and seven country offices that report to the Americas and the Caribbean Regional Office had not provided information on acquisitions related to their programmes and had failed to submit their procurement plans in a timely manner.

186. The Board is of the view that the above-mentioned seven offices should, in line with section 4.1 of the contract, procurement and management policy, include qualified procurement activities in the online planning tools to obtain better value for money for UN-Women.

187. UN-Women has implemented the Board's recommendation to establish a dashboard or system to ascertain the difficulties that country offices face in complying with the regulations on procurement plans, with a view to identifying improvements that could be made to this oversight mechanism, including with respect to communication and coordination, and evaluating its impact on the efficiency of the purchasing process.

188. Furthermore, the Board recommends that UN-Women consider establishing, at the programme formulation stage, obligatory reporting on the procurement plans of projects that are executed under programmes.

B. Implementation of outstanding recommendations

189. In every audit report, the Board analyses various issues during the audit and makes recommendations. The Advisory Committee on Administrative and Budgetary Questions and the Fifth Committee have expressed concern over the slow rate of implementation of the Board's recommendations and have requested the Secretary-General and the executive heads of the funds and programmes of the United Nations to ensure full implementation of the recommendations. The Board reviewed the status of old recommendations (see table 8) and noted that the overall rate of implementation of the recommendations of last year had decreased from 48 per cent in 2017 to 41 per cent in 2018.

Table 8
Status of previous audit recommendations as at 31 December 2018

	Number of previous audit recommendations as at end of financial period		*Fully implemented during the period*		*Under implementation during the period*		*Not implemented during the period*		*Overtaken by events during the period*	
Entity	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*
United Nations (Vol. I)	167	129	13	31	149	84	4	12	1	2
United Nations peacekeeping operations	110	71	56	34	49	33	2	2	3	2
ITC	17	23	8	16	9	7	0	0	0	0
UNCDF	9	11	8	8	1	2	0	0	0	1
UNDP	49	42	17	25	23	17	3	0	6	0
UNEP	17	17	3	8	13	8	0	1	1	0
UNFPA	26	33	24	12	8	0	0	0	1	1
UN-Habitat	20	23	4	13	14	8	2	0	0	2
UNICEF	66	47	34	17	32	29	0	1	0	1
UNITAR	10	13	8	9	2	3	0	0	0	1
UNHCR	67	45	35	23	32	18	0	0	0	4
UNJSPF	38	41	13	20	21	19	0	2	4	0
UNODC	65	42	27	26	38	16	0	0	0	0
UNOPS	51	55	31	15	19	36	0	3	1	1
UNRWA	54	77	32	51	20	18	2	1	0	7
UNU	55	27	22	15	29	12	0	0	4	0
UN-Women	16	25	6	21	10	4	0	0	0	0
IRMCT	18	15	7	9	9	5	1	0	1	1
Total	**855**	**736**	**353**	**353**	**480**	**319**	**14**	**22**	**22**	**23**
Percentage			**41**	**48**	**56**	**43**	**2**	**3**	**3**	**3**

Source: Audit reports of the Board.

IV. Status of the Secretary-General's reform agenda

190. The Secretary-General has made proposals to reform the United Nations since the beginning of his term in January 2017. The reform entails improvements in three reform pillars:

• *Development*. The 2030 Agenda for Sustainable Development will require bold changes to the United Nations development system for the emergence of a new generation of country teams, centred on a strategic United Nations Development Assistance Framework and led by an impartial, independent and empowered resident coordinator.

• *Management*. A new management paradigm for the Secretariat and a United Nations that empowers managers and staff, simplifies processes, increases transparency and improves on the delivery of mandates.

• *Peace and security*. The overarching goals of the reform are to prioritize prevention and sustaining peace; enhance the effectiveness and coherence of peacekeeping operations and special political missions and move towards a single, integrated peace and security pillar.

191. Recognizing the risks inherent in such an ambitious reform agenda, the Secretary-General established a reform coordination structure under the joint leadership of the Deputy Secretary-General and the Chef de Cabinet to ensure a unified and cohesive change management programme across all three pillars of the reform, with dedicated teams to service each individual stream. The Secretary-General also appointed a Special Adviser on Reform, tasked with ensuring the overall coordination of the three reform streams (sustainable development, peace and security and management). The Special Adviser oversees the change management processes within the three streams. The three streams have their own implementation workplans and provide regular updates to the Special Adviser. The reform has been designed in three stages:

- Organizational redesign, including the establishment of new entities in the Secretariat as noted below
- Process changes, notably increasing accountability and moving decision-making closer to the point of delivery by delegating decision-making authority to heads of entities
- Continuous improvement, ensuring that each United Nations entity has the capability to adopt the management paradigm

192. The development and peace and security streams and the Departments of Management and Field Support each set up transition teams to establish the new entities – the Development Coordination Office; the Department of Political and Peacebuilding Affairs; the Department of Peace Operations; the Department of Management Strategy, Policy and Compliance; and the Department of Operational Support – and deliver the main change management activities.

193. In addition to performing a coordination role, the Special Adviser is the project owner of the "United to reform" benefits management framework. The framework has been designed to track the benefits of the reform and inform any course corrections necessary during the reform process. A benefits tracking registry has been established and will be an important source of information for the report of the Secretary-General on progress in implementing the management paradigm, requested by the General Assembly in its resolution 72/266 B for consideration at the main part of its seventy-fifth session.

194. The Board wanted to present a snapshot of the reform and the preparedness of the United Nations entities that are affected to the greatest extent by the reform. Therefore, the Board has focused in the present report on the status of the reform of the Secretariat (United Nations, Vol. I), peacekeeping operations and UNDP. The Board has not performed any audit procedures regarding the information given; all financial and other data presented is unaudited. The Board has compiled the responses received from the United Nations entities in the present report. The Board will not express an audit opinion on the reform until the audit of 2019, which will be reported in 2020, to provide time for implementation of the reform.

195. The Board agreed on four key questions concerning the reform:

- What changes have been made to the organizational structure, processes and budgetary resources as a result of reform?
- Is the entity engaged in preparation activities concerning the reform? What kind of activities? What is the time frame involved?

- Is there a change management process? Who in the entity is in charge of it? Who is monitoring the process?
- Is there any expenditure at present on preparing for the implementation of the reform?

A. Shifting the management paradigm

196. The Secretary-General has proposed a new management paradigm for the Secretariat. To improve the effectiveness and accountability of the Organization's efforts to implement its mandates, he envisions a decentralized Secretariat where responsibility for mandates is aligned with authority for managing resources and in which decisions are taken closer to the point of delivery.

197. The General Assembly approved the creation of the new Department of Management Strategy, Policy and Compliance and the Department of Operational Support on 1 January 2019, with the adoption of resolution 72/266 B on 5 July 2018. Consequently, no changes to the organizational structure, processes and budgetary resources took place in 2018.

198. The two new departments, the Department of Management Strategy, Policy and Compliance and the Department of Operational Support, were established without increasing the overall level of post or non-post resources, through a reorganization of the former Department of Management and Department of Field Support. The Department of Operational Support serves as the operational arm of the Secretariat. It provides advisory and other operational support services directly to clients and, where needed, exercises delegated authority on behalf of clients. It has four key pillars: specialized support functions for operations, including human resources operations, capacity-building and health-care services; supply chain management services, including logistics and procurement, and coordination and services in providing operational support to uniformed capabilities in missions; consolidated support for administrative clients in the departments and offices based at Headquarters; and a dedicated capacity to provide planning and support for surge efforts to client entities in special situations and to build and enhance support partnerships. The reorganized Office of Information and Communications Technology has a global mandate, with dual reporting to the Department of Management Strategy, Policy and Compliance and the Department of Operational Support.

199. Upon endorsement by Member States of the Secretary-General's proposal, preparations for establishing the Department of Management Strategy, Policy and Compliance and the Department of Operational Support began. The former Department of Management led preparations for the Department of Management Strategy, Policy and Compliance, while the former Department of Field Support led preparations for the Department of Operational Support. Detailed implementation plans for the two Departments were submitted to the Executive Office of the Secretary-General in the third quarter of 2018. The priority lay on ensuring a smooth transition of staff to the new Departments and defining and setting up the new functions by 1 January 2019.

200. The management reform affects all entities in the Secretariat, not just the new departments created as part of the structural reorganization, owing largely to the fundamental shift in the relationship between support structures at Headquarters and other Secretariat entities as a result of the new delegation of authority framework that is central to the management reform. As requested by the General Assembly in its resolution 72/266 B, the Secretary-General will present a report on the implementation

of management reform to the Assembly for its consideration at the main part of its seventy-fifth session.

Department of Operational Support

What changes have been made to the organizational structure, processes and budgetary resources as a result of the reform?

201. The Department of Operational Support was newly established as a result of the management reform. Its resources are drawn from the former Department of Management and Department of Field Support, but the scope and nature of its functions are not analogous to either predecessor department because of both a change in the division of responsibilities from the type of entity supported (i.e. field and non-field) to the type of management support provided (i.e. policy, strategy and compliance in one department and operational support in the other), as well as the fundamental shift in the relationship between the support structures at Headquarters and other Secretariat entities as a result of the new delegation of authority framework.

Is the entity engaged in preparation activities concerning the reform? What kind of activities? What is the time frame involved?

202. In September 2018, a dedicated project team (the Department of Operational Support implementation team) was formed within existing resources to coordinate and oversee the reform. The team focused on five primary areas:

(a) Laying the strategic foundations for the new Department, including developing vision and mission statements, strategic objectives and its organizational values;

(b) Establishment of nine functional working groups to set up the functional areas of the Department. The functional working groups helped to delineate functional activities, prepare detailed organizational structures, including reporting lines, and define the roles and responsibilities of their teams;

(c) Transitioning and placement of staff: all staff were informed of their placement in the new structure in October 2018;

(d) Change management and organization development activities: in November 2018, a network of change agents was formed to establish a mechanism of two-way communication between staff and management on reform implementation;

(e) Coordination of and support for other reform-related issues, such as the new framework for the delegation of authority.

203. Weekly iSeek articles were published, monthly townhalls were held and several staff open door sessions were offered. Towards the end of 2018, a new iSeek page (intranet) for the Department of Operational Support as well as a website (Internet) were established, and the new contact points for different services were communicated to all Secretariat entities in the first week of January 2019.

204. In 2019, the development of the Department continues, with the definition of its roles in relation to the other entities of the Secretariat, at Headquarters and from a global perspective. The overarching objective is to recalibrate the project towards a sustainable and mainstreamed organizational development process and structural blueprint for the Department. In this regard, the architecture and direction of the project to establish the Department is to be further reviewed.

Is there a change management process? Who in the entity is in charge of it? Who is monitoring the process?

205. A change manager was appointed and supported by the Department of Operational Support implementation team. Specifically, for this purpose, a change management and organizational development expert was embedded in the implementation team. The project board and senior management monitor progress. Specific activities include:

(a) Establishment of a change agent network (November 2018) facilitating two-way communication between staff and management;

(b) Three senior management workshops were conducted to define the Department's strategic plan, including organizational values for the Department (second half of 2018);

(c) One senior management retreat to define priority areas for the Department (January 2019);

(d) Four workshops on leading effective change aimed at middle management to facilitate the reform transition to the new Department (January and February 2019);

(e) A broad range of dedicated workshops with different divisions and sections in the Department to integrate and build respective teams, as well as identify priorities in respective functional areas (starting in 2019);

(f) Regular meetings (every other week) between the change agent network and the senior management team commenced in February 2019.

206. The implementation team supports the development of a learning and capacity development plan for staff in respective functions in collaboration with colleagues in the Department of Management Strategy, Policy and Compliance.

Is there any expenditure at present on preparing for the implementation of the reform?

207. The management reform was implemented within existing resources, as outlined in the revised estimates section of the report of the Secretary-General (A/72/492/Add.2).

208. Over three years, from 2015/16 to 2017/18, $3,847,665 in consultancy funds was expended to support implementation of the many components of the initiative. Also, extrabudgetary funds (approximately $170,000) from one Member State were used to facilitate the change management process, including assistance with the establishment of the change agent network, training of middle managers on leading effective change and conducting a senior leadership retreat.

Department of Management Strategy, Policy and Compliance

What changes have been made to the organizational structure, processes and budgetary resources as a result of the reform?

209. As with the Department of Operational Support, the Department of Management Strategy, Policy and Compliance was newly established as a result of the management reform. Its resources are drawn from the former Department of Management and Department of Field Support, but the scope and nature of its functions are not analogous to either predecessor department.

Is the entity engaged in preparation activities concerning the reform? What kind of activities? What is the time frame involved?

210. The former Department of Management was involved in preparing for the implementation of the reform in 2018. As from 1 January 2019, the new Department of Management Strategy, Policy and Compliance was established. The implementation of some aspects of the management reform is ongoing. Preparation activities were completed by 31 December 2018.

211. The implementation of the management reform by the Department of Management in 2018 included:

(a) Establishment of a change management team and the roll-out of a communication strategy;

(b) Formulation of the departmental vision and strategy;

(c) Delegation of authority;

(d) Data changes in Umoja;

(e) New budget;

(f) Completion of the organizational design;

(g) Mapping of staff and functions;

(h) Staff development activities;

(i) Organization of culture change activities;

(j) Office space transformation;

(k) Transition to the new departments.

Is there a change management process? Who in the entity is in charge of it? Who is monitoring the process?

212. In 2018, the project was led by a change management team staffed with personnel from the Department of Management, under the direction of the Under-Secretary-General for Management. The team worked in collaboration with colleagues from the Department of Field Support and the Executive Office of the Secretary-General, in particular the Special Adviser on Reform, and with the teams from the two other reform pillars. The team leader provided strategic direction and guidance and links with the Department of Operational Support implementation team. The team leader, together with the rest of the Department of Management senior management team, formed the project board. The team also had two coordinators who provided day-to-day project management capacity. The team had assigned project management capacity to ensure that the work was adequately planned monitored and reported.

213. In 2019, a reform implementation project document was developed to guide the continued implementation and stabilization of the Secretary-General’s management reform by the newly established Department of Management Strategy, Policy and Compliance.

Is there any expenditure at present on preparing for the implementation of the reform?

214. The management reform was implemented at no additional cost to the Organization, as outlined in the revised estimates section of the Secretary-General´s report (A/72/492/Add.2). Limited extrabudgetary funding was used to support change management activities.

B. Restructuring of the peace and security pillar

Department of Political and Peacebuilding Affairs and the Department of Peace Operations

215. The overarching goals of the restructuring of the peace and security pillar are to prioritize prevention and sustaining peace; enhance the effectiveness and coherence of peacekeeping operations and special political missions; move towards a single, integrated peace and security pillar; and align it more closely with the development and human rights pillars to create greater coherence and cross-pillar coordination. One central element of the reform is establishing a Department of Political and Peacebuilding Affairs and a Department of Peace Operations.

What changes have been made to the organizational structure, processes and budgetary resources as a result of the reform?

216. With regard to organizational structure, the reorganization of the former Department of Political Affairs, the Department of Peacekeeping Operations and the Peacebuilding Support Office into the Department of Political and Peacebuilding Affairs and the Department of Peace Operations was proposed by the Secretary-General in his report on peace and security reform (see the proposed organization chart in annex I to A/72/772). The General Assembly approved the establishment of the new departments as from 1 January 2019 in section III of its resolution 72/262 C. The two new departments were established without increasing the overall level of approved post or non-post resources. However, with regard to processes, procedures related to budget and finance, human resources, procurement and property management have been affected owing to changes in delegation of authority. Furthermore, changes in support arrangements from offices affected by the management reform resulted in additional changes to processes.

Is the entity engaged in preparation activities concerning the reform? What kind of activities? What is the time frame involved?

217. For the peace and security reform, staff from the management of the Department of Political and Peacebuilding Affairs and the Department of Peace Operations took part in meetings on transition planning and implementation. The conversations were centred on work streams representing the affected thematic areas.

218. The six work streams are as follows:

(a) Work stream I: overall management and organizational culture change;

(b) Work stream II: management of the regional divisions;

(c) Work stream III: thematic capacities and services, policy and partnerships;

(d) Work stream IV: link to operational support and management departments;

(e) Work stream V: strategic communications;

(f) Work stream VI: shared Executive Office/office space/ICT resources.

Is there a change management process? Who in the entity is in charge of it? Who is monitoring the process?

219. Different actors are involved in the change management programme within the Department of Political and Peacebuilding Affairs and the Department of Peace Operations depending on the function and activity, for example:

(a) Work streams are coordination mechanisms led by both the Department of Political and Peacebuilding Affairs and the Department of Peace Operations for different elements involved in the peace and security reform. Each stream is led by key stakeholder(s) in the activity. For example, the Executive Office has taken the lead on delivering work stream VI, as it focuses on administrative and transactional processes;

(b) The coordination of the changes to the delegation of authority as it relates to the Department of Political and Peacebuilding Affairs and the Department of Peace Operations is led and monitored by the Executive Office. The Executive Office is taking the lead on delivering a coordinated approach in an effort to streamline processes in line with the reform and with the new delegation of authority.

Is there any expenditure at present on preparing for the implementation of the reform?

220. Implementation was carried out within existing resourcing to deliver the remaining parts of the programme.

C. United Nations Development Programme and the United Nations Secretariat

221. On 1 January 2019, the United Nations development system started a transformation, to respond to the heightened needs of the 2030 Agenda. At the centre of the reform is the emergence of a "new generation of United Nations country teams" and the provision of more cohesive, effective and accountable system-wide support to countries on their path towards the achievement of the Sustainable Development Goals.

222. Since January, this new generation of United Nations country teams has been led by an impartial, independent and empowered Resident Coordinator. In 2018, intensive operational work and close consultations were carried out with all entities of the United Nations Sustainable Development Group to prepare the ground for the transition on 1 January. The United Nations development system reform effort is on track and Member States welcomed the progress made in the recent resolution of the Economic and Social Council on operational activities for development (resolution 2019/15).

223. Given the activities concerning the delinking of the resident coordinator and the resident representative functions and the new role of UNDP as a service provider to the resident coordinator system, the Secretariat worked hand in hand with UNDP to ensure a smooth transition, without disruption to the work of Resident Coordinator Offices (and by extension the United Nations country teams) during the transition phase.

224. The information presented for UNDP was provided by UNDP only.

United Nations Development Programme

What changes have been made to the organizational structure, processes and budgetary resources as a result of the reform?

225. Structurally, the main change lies in delinking the corporate, legal and country office-based coordination functions of the United Nations from UNDP.

Is the entity engaged in preparation activities concerning the reform? What kind of activities? What is the time frame involved?

226. UNDP invested significant resources to allow for a robust staffing and support structure to be in place on 1 January 2019, including by: taking 4,000 legal, financial and security steps to delink the resident coordinator and resident representative functions across 131 countries; seconding 63 of the most senior staff to serve as Resident Coordinators and setting aside resources to cover their eventual return; and facilitating the transition of the staff of the former Development Operations Coordination Office to the Secretariat and covering their salaries until June 2019. Since 1 January 2019, UNDP has served as the principal operational service provider to the resident coordinator system. This includes the administration for 2019 of $204 million worth of services to 129 Resident Coordinator Offices covering 131 countries and three regional offices of the Development Coordination Office.

Is there a change management process? Who in the entity is in charge of it? Who is monitoring the process?

227. As at 1 January 2019, the preparations are largely concluded. UNDP has set up a team to manage and support the service agreement, in close coordination with the Development Coordination Office. As at 30 April 2019, a total of $24 million in funds from the special purpose trust fund have been expended on service provision, such as managing the payroll, benefits and entitlements of 269 United Nations staff at Resident Coordinator Offices, including 94 Resident Coordinators; providing office space to 129 Resident Coordinator Offices and three regional offices of the Development Coordination Office; and supporting office premise renovation at Resident Coordinator Offices in 56 countries.

Is there any expenditure at present on preparing for the implementation of the reform?

228. In addition to doubling its cost-sharing contribution from $5.14 million to $10.3 million for 2019, UNDP carried significant reform-related costs in 2018. The institutional budget of UNDP for 2018 included $3.07 million to cover mainly transition costs for the resident representative assessment process and surge staff to support transition management and treasury costs. UNDP expects to continue to incur transitional costs related to the delinking of the resident coordinator and the resident representative functions, at least over the next two years. UNDP may also conduct additional resident representative assessments later.

229. In 2018 UNDP met additional reform-related costs through efficiency gains, while maintaining a balanced budget. UNDP is planning to do the same in 2019.

Development Coordination Office (Secretariat)

What changes have been made to the organizational structure, processes and budgetary resources as a result of the reform?

230. In its resolution 72/279, the General Assembly decided to deeply transform the United Nations development coordination system to better respond to the 2030 Agenda for Sustainable Development with a reinvigorated, empowered and independent Resident Coordinator at its helm. Delinked from UNDP, the resident coordinator function is now fully dedicated to coordinating development activities on the ground.

231. As part of this transformation, the Development Operations Coordination Office, previously hosted by UNDP, became a stand-alone office within the Secretariat and was renamed the Development Coordination Office. Headed by an Assistant Secretary-General, the Office reports directly to the Deputy Secretary-

General (Chair of the United Nations Sustainable Development Group). The Office assumed managerial and oversight functions of the new resident coordinator system in January 2019, in addition to responsibility for responding to heightened needs and demands of United Nations country teams and the United Nations Sustainable Development Group, in particular in this period of transition.

232. All Resident Coordinators (and their offices) also transitioned from UNDP to the Secretariat. In a key area of intersection between the management reform and the United Nations development system repositioning process, by 15 March, all Resident Coordinators and Resident Coordinators a.i. had accepted their delegation of authority from the Secretary-General, as foreseen in the resident coordinator system implementation plan. The document covers their delegated authority as heads of entity for the respective Resident Coordinator Offices for: (a) human resources; (b) budget and finance; (c) procurement; and (d) property management. The delegation of authority is essential for an independent and strengthened resident coordinator system, and will be fully leveraged as Resident Coordinators assume their operational authority as part of the Secretariat.

233. The newly established Development Coordination Office, as a start-up created under the United Nations development system reform, reflects most of the organizational structure of that system. Funding and processes are still in the process of being established. With regard to resourcing, for instance, the General Assembly decided to fund the entire resident coordinator system, including the Development Coordination Office, through a hybrid model composed of three funding streams: voluntary contributions, a cost-sharing arrangement among the entities of the United Nations Sustainable Development Group and an innovative levy on tightly earmarked contributions to United Nations development activities.

Is the entity engaged in preparation activities concerning the reform? What kind of activities? What is the time frame involved?

234. The Development Coordination Office is a product and a key implementer of the United Nations development system reform that works closely with all parts of the United Nations system and the Member States.

235. The preparatory activities for the implementation of resolution 72/279 were led by the United Nations development system reform transition team established by the Secretary-General. This effort enabled the launch of the transition to a reinvigorated resident coordinator system, while the Development Coordination Office was being established. As it becomes fully staffed, the Office is assuming a greater implementation role in support of the United Nations Sustainable Development Group and the United Nations development system reform agenda. It is expected that the remaining system-wide strategic reform initiatives will have been agreed upon by relevant stakeholders by the end of 2019. Fully implementing the reform and driving it through all levels of the United Nations system will require a longer-term transition.

236. The Development Coordination Office is also striving to ensure a robust information flow and continued engagement with all entities of the United Nations Sustainable Development Group as the reform unfolds. In addition to meetings of United Nations Sustainable Development Group principals and other working groups, the Office is also organizing regular webinars and weekly calls with updates on all mandates and ongoing work streams of the United Nations development system reform.

Is there a change management process? Who in the entity is in charge of it? Who is monitoring the process?

237. The reform represents a significant system-wide change management initiative. Following the delinking of the resident coordinator system from UNDP, the structural aspects of the effort entailed establishing a new Development Coordination Office at Headquarters and five regional locations, and re-capacitating the Resident Coordinator Offices in 131 locations globally, within the remit of the Secretariat. The monitoring process is being ensured by the United Nations development system transition team, under the close oversight of the Executive Office of the Secretary-General. The Deputy Secretary-General, as Chair of the United Nations Sustainable Development Group has the overall lead on the United Nations development system reform, as delegated by the Secretary-General.

238. The process is anchored in the overall "benefits management" methodology being devised to be applied across all reform efforts, with clear deliverables and milestones consulted at the outset of the process with the United Nations Sustainable Development Group. The specific operational transition of the resident coordinator system follows the steps and timelines publicly communicated by the Secretary-General in the implementation plan for the inception of the new resident coordinator system of September 2018. A performance management scorecard for the resident coordinator system is currently under development.

Is there any expenditure at present on preparing for the implementation of the reform?

239. The resident coordinator system is currently operational and essential resourcing (human and financial) has been mobilized. More details are provided in the 2019 report of the Chair of the United Nations Sustainable Development Group on the Development Coordination Office, submitted to the Economic and Social Council (E/2019/62 and E/2019/62/Corr.1). The analytical work and overall monitoring of the implementation of the United Nations development system reform – undertaken by the transition team – was funded through extrabudgetary funding from the Executive Office of the Secretary-General.

V. Acknowledgement

240. The Board wishes to express its appreciation for the cooperation and assistance extended to it and its staff by the United Nations Secretariat and the funds and programmes.

(*Signed*) Kay **Scheller**
President of the German Federal Court of Auditors
Chair of the Board of Auditors

(*Signed*) Rajiv **Mehrishi**
Comptroller and Auditor General of India

(*Signed*) Jorge **Bermúdez**
Comptroller General of the Republic of Chile

24 July 2019

Annex I

Organizations covered by the report

Organization	*Lead auditor*
United Nations (Vol. I)	India
United Nations peacekeeping operations	Germany
International Trade Centre	India
United Nations Capital Development Fund	Germany
United Nations Development Programme	Germany
United Nations Environment Programme	Chile
United Nations Population Fund	Chile
United Nations Human Settlements Programme (UN-Habitat)	Chile
United Nations Children's Fund	India
United Nations Institute for Training and Research	Chile
Office of the United Nations High Commissioner for Refugees	Germany
United Nations Joint Staff Pension Fund	Chile
United Nations Office on Drugs and Crime	Chile
United Nations Office for Project Services	India
United Nations Relief and Works Agency for Palestine Refugees in the Near East	Chile
United Nations University	Chile
United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women)	Chile
International Residual Mechanism for Criminal Tribunals	Chile

Annex II

Definition of types of audit opinions

	Modified		
Unqualified	*Qualified*	*Adverse*	*Disclaimer*
An unqualified opinion implies that the financial statements of the auditee were prepared, in all material respects, in accordance with the applicable financial reporting framework, i.e., the International Public Sector Accounting Standards, which have been adopted by the United Nations and its funds and programmes.	A qualified opinion implies that the auditor, who, having obtained sufficient and appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements, or that the auditor is unable to obtain sufficient appropriate audit evidence on which to base an opinion on specific areas, but concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive. Therefore an auditor expresses an opinion on the fair presentation of financial statements, but with an exception only for the area for which he or she did not get sufficient audit evidence.	An adverse opinion implies that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements, based on sufficient appropriate audit evidence.	A disclaimer of opinion is issued when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, normally due to scope limitation, and concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive. A disclaimer of opinion shall also be issued when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding his or her having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements owing to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.

Note: "Emphasis of matter" is to draw users' attention to a matter presented or disclosed in the financial report that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial report.
"Other matters" is to draw attention to any other matter that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.