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Financial reports and audited financial statements, and reports of the Board of Auditors

Financial reports and audited financial statements, and reports of the Board of Auditors for the period ended 31 December 2018

Report of the Advisory Committee on Administrative and Budgetary Questions

I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered 22 reports in connection with the financial reports and audited financial statements, and reports of the Board of Auditors for the period ended 31 December 2018, as follows:

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

(b) Sixteen financial reports and audited financial statements and reports of the Board of Auditors for the financial period ended 31 December 2018 pertaining to the audited entities;

(c) Financial report and audited financial statements and report of the Board of Auditors on the United Nations Joint Staff Pension Fund;

(d) Third annual progress report of the Board of Auditors on the implementation of the information and communications technology strategy;

(e) Eighth annual progress report of the Board of Auditors on the implementation of the United Nations enterprise resource planning system;

(f) Report of the Secretary-General on the implementation of the recommendations of the Board of Auditors contained in its reports for the year ended 31 December 2018 on the United Nations;

(g) Report of the Secretary-General on the implementation of the recommendations of the Board of Auditors contained in its reports for the year ended 31 December 2018 on the United Nations funds and programmes (advance version).



2. A detailed list of reports is set out in annex I to the present report. The Advisory Committee will reflect its comments and recommendations on certain topics in separate reports.

3. During its consideration of the reports, the Advisory Committee met with the members of the Audit Operations Committee of the Board of Auditors, who provided additional information and clarification, concluding with written responses received on 4 October 2019. The Advisory Committee also met with representatives of the Secretary-General to discuss the status of implementation of the Board's recommendations, who provided additional information and clarification, concluding with written responses received on 1 November.

4. **The Advisory Committee commends the Board of Auditors for the continued high quality of its reports and continues to find the reports of the Board valuable in the conduct of its own work. The Committee also appreciates the concise summary and would welcome the inclusion of further information of a cross-cutting nature in the Board's future concise summary reports.**

II. Audit opinions of the Board of Auditors

5. As in previous years, the Board issued unqualified audit opinions for all audited entities. The Advisory Committee notes that the United Nations peacekeeping operations received an unqualified opinion from the Board, but with an emphasis of matter (see [A/73/5 \(Vol. II\)](#), chap. I and chap. II, sect. B.3). The comments of the Committee thereon are reflected in its report on cross-cutting issues related to peacekeeping operations ([A/73/755](#), paras. 20–29). **The Committee welcomes the fact that all entities under review have again received unqualified audit opinions from the Board of Auditors.**

III. Major findings of the Board of Auditors

A. General observations

1. Financial situation of the audited entities

6. As indicated in the concise summary, the Board observed that of the 17 audited entities,¹ 13 had closed the financial year with a surplus, while 4 had recorded a deficit (see [A/74/202](#), paras. 6–8 and table 1). The Board also noted that nine entities² had showed a higher surplus or a reduced deficit, while the remaining eight had indicated a less favourable financial performance.

7. Details of the Board's analysis of the financial ratios and the management of cash and investments of the audited entities are presented in its reports and in the

¹ The United Nations, the United Nations peacekeeping operations, the International Trade Centre (ITC), the United Nations Capital Development Fund (UNCDF), the United Nations Development Programme (UNDP), the United Nations Environment Programme (UNEP), the United Nations Population Fund (UNFPA), the United Nations Human Settlements Programme (UN-Habitat), the United Nations Children's Fund (UNICEF), the United Nations Institute for Training and Research (UNITAR), the Office of the United Nations High Commissioner for Refugees (UNHCR), the United Nations Office on Drugs and Crime (UNODC), the United Nations Office for Project Services (UNOPS), the United Nations University (UNU), the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women), the International Residual Mechanism for Criminal Tribunals (IRMCT) and the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA).

² United Nations (Vol. I), UNCDF, UNDP, UNEP, UN-Habitat, UNFPA, UNOPS, UNRWA and IRMCT.

concise summary report (ibid., paras. 12–20) and in the relevant sections of the audit reports of the individual entities. The Board noted that all 17 entities had indicated more assets than liabilities as at 31 December 2018, thus showing sound financial positions. In its concise summary, the Board discussed four main ratios: 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). The Board also stated that a ratio above 1 indicates an entity's ability to meet its overall obligations.

8. The Board indicated that, in general, the financial position of all entities remained strong or at least sufficient. The solvency ratios³ and liquidity ratios⁴ were comfortably high for most of the entities and, in the case of entities for which those ratios were near 1:1 or less, there was no immediate threat to their solvency (ibid., para. 17 and table 2). With regard to the United Nations regular budget, the Board noted low liquidity during 2018 (ibid., para. 18). The ratios of the regular budget and related funds are contained in table II.3 of the report of the Board of Auditors (A/74/5 (Vol. I)). The Advisory Committee also recalls the observations and recommendations it made in response to the report of the Secretary-General on improving the financial situation of the United Nations (see A/73/809) and the subsequent related resolution of the General Assembly (resolution 73/307). Upon enquiry, the Committee was provided with monthly ratios for the regular budget, peacekeeping operations and residual mechanism for 2017–2019.

9. The Advisory Committee notes the conclusion of the Board that the overall financial positions of the audited entities remained sound as at 31 December 2018. However, the Board noted the low liquidity in the regular budget in 2018.

10. The Advisory Committee finds the Board's financial analysis of entities pertinent and very useful and encourages it to continue to include comparative data with analysis in future reports, including the trends in ratios over time and the correlation between ratios and the operational nature of an entity. In addition, the Committee recommends that the General Assembly request the Secretary-General to include information and analysis thereon relating to the four financial ratios referred to above in the financial reports submitted by the Secretary-General, as has been the case in previous financial reports.

2. Status of implementation of the recommendations of the Board

11. The Board noted that, for all audited entities, the overall rate of implementation of the recommendations from the previous period had decreased from 48 per cent in 2017 to 41 per cent in 2018 (see A/74/202, para. 189). The status of the implementation of recommendations across the audited entities is presented in the concise summary report (ibid., table 8), the audit reports of the individual entities and the dedicated reports of the Secretary-General (A/74/323 and A/74/323/Add.1). Upon enquiry, the Board provided the Advisory Committee with the following table providing the breakdown of the recommendations fully implemented by entity in 2017 and 2018.

³ The solvency ratio reflects the assets to liabilities ratio and the current ratio.

⁴ The liquidity ratio reflects the quick and cash ratios.

Recommendations implemented in 2017 and 2018

Entity	Number of previous audit recommendations as at end of financial period		Fully implemented during the period			
	2018	2017	2018	Percentage for 2018	2017	Percentage for 2017
United Nations Vol. I	167	129	13	7.78	31	24.03
United Nations peacekeeping operations	110	71	56	50.91	34	47.89
ITC	17	23	8	47.06	16	69.57
UNCDF	9	11	8	88.89	8	72.73
UNDP	49	42	17	34.69	25	59.52
UNEP	17	17	3	17.65	8	47.06
UNFPA	26	33	13	50.00	24	72.73
UN-Habitat	20	23	4	20.00	13	56.52
UNICEF	66	47	34	51.52	17	36.17
UNITAR	10	13	8	80.00	9	69.23
UNHCR	67	45	35	52.24	23	51.11
UNJSPF	38	41	13	34.21	20	48.78
UNODC	65	42	27	41.54	26	61.90
UNOPS	51	55	31	60.78	15	27.27
UNRWA	54	77	32	59.26	51	66.23
UNU	55	27	27	49.09	15	55.56
UN-Women	16	25	6	37.50	21	84.00
IRMCT	18	15	7	38.89	9	60.00

12. With regard to the United Nations (Vol. I), the implementation rate had decreased from 24 per cent in 2017 to 8 per cent in 2018. In certain entities, the implementation rates had generally declined significantly (UNDP, UNEP, UNFPA, UN-Habitat, UNODC, UNU, UN-Women and IRCMT), while in other entities (UNCDF, UNICEF, UNITAR and UNOPS), the rates had improved significantly.

13. **The Advisory Committee notes with concern the decline in the overall implementation rate of the audited entities and recalls that, in its resolution 73/268, the General Assembly reiterated its request to the Secretary-General and the executive heads of the funds and programmes of the United Nations to ensure full implementation of the recommendations of the Board of Auditors and the related recommendations of the Committee in a prompt and timely manner, to continue to hold programme managers accountable for the non-implementation of recommendations and to effectively address the root causes of the problems highlighted by the Board.**

B. Other cross-cutting matters

1. Cash and investment management

14. The Board indicates that, as at 31 December 2018, eight entities participated in the cash and investment pool maintained by the United Nations Treasury, amounting to \$7.38 billion. Upon enquiry, the Board indicated that five entities had participated in the pool maintained by UNDP, with a total balance of \$7.75 billion. The Board also

noted that a number of entities had not pooled their cash and investment resources, including UNICEF (\$5.1 billion), UNOPS (\$2.2 billion) and UNHCR (\$1.2 billion). The Board is of the view that cash and investment pooling is the most desirable model for ensuring effective cash and investment management, as it decreases the cost of transactions and provides expert investment management services to the participating entities (see [A/74/202](#), paras. 22–23 and table 3). **The Advisory Committee reiterates its prior recommendation, endorsed by the General Assembly in its resolution 73/268, that the Secretary-General, in his role as Chair of the Chief Executive Board, present viable options for a centralized Treasury investment management function of the United Nations system. Action thereon should be reported to the Assembly in the appropriate context during the main part of its seventy-fifth session (see also [A/73/430](#), para. 18).**

15. The report of the Board on the United Nations (Vol. 1) contains several findings and recommendations related to the management of the United Nations Treasury. The Board found, inter alia, that the processes and procedures for cash management and payment processing adopted after the introduction of Umoja and the related roles and duties of the responsible staff had not been formally approved and documented. It also noted that there was no mechanism to forecast cash outflows beyond the next two days. In addition, it found that the decision process leading to investment decisions had not been documented. Furthermore, the Board considered that the use of three banks for currency hedging was insufficient. Consequently, the Board recommended that the Administration: (a) formalize, document and approve the processes to be followed for the cash management function, as well as the structure, roles and duties of the Treasury staff; (b) improve the system for forecasting cash flows; (c) document the processes underlying investment decisions and lay down minimum criteria for selecting a bank; and (d) increase the number of counterparties having International Swaps and Derivatives Association agreements (see [A/74/5 \(Vol. I\)](#), paras. 153–224). The Administration did not accept the last two recommendations, indicating its view that the existing resources and mechanisms were sufficient to properly manage cash and investments (see [A/74/323](#), paras. 66, 76 and 78). **The Advisory Committee concurs with the recommendations of the Board of Auditors regarding treasury management and trusts that they will be implemented expeditiously.**

2. Management of reserves

16. The Board noted that, in its previous audit report, it had commented on the high level of operational reserves managed by UNOPS (see [A/73/5/Add.11](#), paras. 13–16). It observed that the growth of those reserves had continued, now amounting to \$192.92 million as at 31 December 2018, compared with the minimum level of \$21.7 million as prescribed by the UNOPS Executive Board. The Board assessed that, pursuant to UNOPS financial regulation 22.02 (a), the utilization of the operational reserve is restricted to compensation for shortfalls in revenue, uneven cash flow, fluctuations in project costs and other contingencies. However, the Board noted that UNOPS had in fact used \$8.8 million from the operational reserve to fund a wind power plant project in Mexico. The Board recommended that UNOPS establish a growth and innovations reserve for such purposes and develop detailed procedures for its use (see [A/74/5/Add.11](#), paras. 25–30). UNOPS concurred with the recommendation and indicated that the establishment of such reserve was in progress (see [A/74/323/Add.1](#), para. 1056). **The Advisory Committee concurs with the recommendations of the Board of Auditors and reiterates its recommendation, endorsed by the General Assembly in its resolution 73/268, that the Secretary-General, in his role as Chair of the United Nations System Chief Executives Board for Coordination (CEB) and in consultation with the other members of CEB, facilitate the development of reasonable benchmarks for minimum and**

maximum reserve levels for use by United Nations system organizations. The Committee looks forward to a status update thereon in the next financial statements (see also A/73/430, para. 16, and A/72/537, para. 11).

3. Fraud-related matters

17. In its report on the United Nations (Vol. I), the Board indicated that the Administration had reported 32 cases of fraud or presumptive fraud for an estimated amount of \$2.9 million, compared with 51 cases for an estimated amount of \$42.2 million in 2017 (see A/74/5 (Vol. I), para. 582 and table II.13). In terms of specific fraud risks, the Board noted the lack of adequate internal control mechanisms relating to expenditures for medical insurance, which amounted to \$544.7 million in 2018,⁵ noting gaps in data that affected recognition of insurance plan participants and a lack of assessment of medical expenditure and claims. The Board also noted that the contractual provisions for reporting fraud and presumptive fraud cases by third-party administrators were not uniform, with only one such agreement containing the requisite reporting provisions. Therefore, the Board could not gain assurance that all fraud and presumptive fraud cases had been reported to the Secretariat. The Board recommended in particular that the Administration: (a) take urgent measures to strengthen the internal controls over processing and payment of insurance claims; and (b) develop a suitable mechanism for better coordination to ensure complete and comprehensive reporting of cases of fraud and presumptive fraud (a recommendation it had already made in A/73/5 (Vol. I)). The Administration accepted the recommendations and stated that it was working with the third-party administrators to ensure that cases of fraud and suspected fraud are reported and to establish a formal mechanism for monitoring recovery of improper payments (see A/74/5 (Vol. I), paras. 126–152).

18. Among the alleged fraud cases identified in the United Nations funds and programmes, the Board, in its report on UNFPA, highlights five such cases totalling \$3.2 million (see A/74/5/Add.8, para. 96). Upon enquiry, the Advisory Committee was informed that those cases had occurred in a country office and had involved alleged wrongdoing by a staff member, an implementing partner and three vendors. The Board recommended improvements in related reporting mechanisms for UNFPA country offices (*ibid.*, paras. 67–76). **The Committee concurs with the recommendations of the Board on fraud-related matters, including the recommendations relating to the strengthening of internal controls pertaining to medical insurance, and stresses the importance of implementing these recommendations expeditiously and holding accountable individuals in instances where the allegations have been substantiated.**

4. Procurement

19. With regard to procurement management, the Board considered in its report on the United Nations (Vol. I) exceptions to the use of formal methods of solicitation. It reviewed 18 contracts and 8 purchase orders issued under financial rule 105.16 (a) (i)–(ix), which provides justifications for such exceptions. The Board found instances in which the reasons for invoking an exception had not been properly recorded. Moreover, with respect to the provision exempting the United Nations from using formal solicitation methods for items valued at less than \$40,000, the Board noted that 20 out of 168 (12 per cent) of purchase orders had actually exceeded the applicable threshold (see financial rule 105.16 (a) (x)). The Board recommended that the Procurement Division provide guidance to procurement officers to ensure

⁵ See A/74/5 (Vol. I), chap. V, statement II on financial performance for the year ended 31 December 2018.

consistent and proper interpretation of the subcategories of financial rule 105.16 (a) and that the procurement policy framework clarifies that procurement officers must substantiate their estimation of the target value and obtain at least three quotations (see [A/74/5 \(Vol. I\)](#), paras. 319–332).

20. In terms of procurement activities in other entities, the Board observed in its report on UN-Women that, as at 7 November 2018, 7 of the 60 offices under review had not submitted their procurement plan. Consequently, the Board recommended that UN-Women establish a system to ascertain the difficulties country offices faced in complying with the regulations on procurement plans (see [A/74/5/Add.12](#), paras. 13–21).

21. **The Advisory Committee concurs with the recommendations of the Board regarding procurement and stresses the importance of ensuring that the procurement function is carried out in full compliance with applicable financial rules.**

5. Management of implementing partners

22. The Board has raised concerns in its past reports over deficiencies in the management of implementing partners (see, for example, [A/73/209](#), paras. 54–66). For the period under review, the Board noted a significant backlog in the monitoring visits of OCHA in relation to projects funded from country-based pooled funds. Such visits enable an assessment of the qualitative aspects of the projects by ensuring that implementing partners are delivering against targeted outputs. Moreover, the Board observed delays in the submission of final financial statements, final project narratives and related performance audits and recommended, inter alia, that OCHA make sustained efforts to improve monitoring visits and financial spot checks and to clear the backlog of audits. In addition, the Board made recommendations on the management of cash transfers to implementing partners in its reports on UNICEF and UNDP (see [A/74/5/Add.3](#), paras. 72–119, and [A/74/5/Add.1](#), paras. 106–112), and on project monitoring and evaluation in its report on UNODC (see [A/74/5/Add.10](#), paras. 53–97). **The Advisory Committee continues to share the concern of the Board of Auditors with respect to the management of implementing partners and stresses again its view that more efforts are required with respect to adequate monitoring and oversight across different entities (see also [A/73/430](#), para. 25).**

6. Sustainable Development Goals

23. The Board reviewed the role of the Department of Economic and Social Affairs and the regional commissions as vital organs of the Secretariat in relation to the implementation of the 2030 Agenda for Sustainable Development by supporting the development process through the Agenda, facilitating the indicator framework and promoting the availability of means of implementation, capacity-building and follow-up and review at the global and regional levels ([A/74/5 \(Vol. I\)](#), para. 229). The Board recommended, inter alia, that the Administration intensify its efforts towards the development of indicators, ensuring the availability of data related to their progress and establishing protocols among different United Nations entities and Member States to obtain feedback on related financing policies (*ibid.*, paras. 225–304). **The Advisory Committee recalls the importance of the Sustainable Development Goals and stresses the need to devote sufficient capacities and cooperative mechanisms to developing consistent indicators for ensuring proper monitoring and oversight and gathering comprehensive statistical data relating to progress made in achieving the Goals.**

7. Use of P-6 and P-7 grades

24. In its report on UNDP ([A/74/5/Add.1](#)), the Board mentioned that the entity had established its own human policies and procedures to further guide implementation of the Staff Regulations and Rules. The Board observed that, in the context of a contractual reform that had come into effect on 1 July 2009, UNDP had introduced the P-6 and P-7 grades in the Professional category, with remuneration levels equivalent to the D-1 and D-2 grades, respectively. According to the Board, the intention behind the introduction of these levels had been to distinguish between posts that were purely technical in nature (P-6 and P-7) and those with managerial and representational responsibilities (D-1 and D-2). However, the Board found instances in which UNDP staff members working at the P-6 or P-7 grades did have directorial or representational responsibilities in performing their functions and, in some cases, held positions as Resident Coordinators/Resident Representatives. Upon enquiry, the Board informed the Advisory Committee that the P-6 and P-7 grades were not part of the job classification standards for the United Nations common system. The Board recommended that UNDP review its policies and guidelines with regard to the use of P-6 and P-7 grades in order to provide guidance on the circumstances in which they may be used.

25. Upon enquiry, the Board also informed the Advisory Committee that, following the contractual reform of July 2009, the issuance of appointments under the 200 series had been discontinued and staff members who held appointments at the L-6 and L-7 levels had been converted to P-6 and P-7 grades. The Committee was further informed that there were approximately 40 staff members at the P-6 or P-7 grades in UNDP during 2018.

26. The Advisory Committee concurs with the recommendations of the Board of Auditors. Moreover, in view of the job classification standards for the United Nations common system, the Committee is of the view that UNDP should consider phasing out the P-6 and P-7 grades.

8. Use of consultants

27. In past reports, the Board has highlighted issues concerning the use of consultants in the United Nations offices covered in volume I and in various other entities (see, for example, [A/73/209](#), paras. 73–83). Specifically, regarding consultants engaged by ITC, the Board recommended that ITC select consultants through a competitive process and avoid using consultants for the performance of generic tasks. In its report for 2018, the Board indicated further that, pursuant to applicable guidelines, the hiring manager should identify and evaluate at least three qualified applicants from the consultant roster. However, the Board observed that 28 per cent of the consultants engaged in 2018 had been selected on a single bid. The Board reiterated its recommendation that ITC select consultants through a competitive process and maintain proper documentation in the case of exceptions to the process (see [A/74/5 \(Vol. III\)](#), paras. 21–25).

28. The Board also noted that the ITC guidelines mandate that consultants and individual contractors should be paid “the minimum amount necessary to obtain the services required by ITC”, while an administrative instruction provides the fee ranges associated with assignment levels. The Board observed, however, that ITC had awarded 70 consultant contracts at fees higher than the maximum fee associated with the assigned level in 2018. The Board reiterated its previous recommendation that ITC ensure appropriate internal controls to avoid awarding contracts at fees higher than the maximum fee associated with the relevant level (*ibid.*, paras. 26–30).

29. **The Advisory Committee concurs with the recommendations of the Board of Auditors and reiterates the General Assembly’s request that United Nations entities exercise proper oversight in the application of relevant policies and guidelines, such as in the recruitment of and the overall management process relating to non-staff personnel, including consultants, and to ensure the ongoing transparency of information provided thereon (see [A/73/430](#), para. 27, and General Assembly resolution [73/268](#)).**

Annex**Financial reports, audited financial statements and reports of the Board of Auditors for the financial period ended 31 December 2018 and related reports considered by the Advisory Committee on Administrative and Budgetary Questions***Reports of the Board of Auditors*

1. Concise summary of the principal findings and conclusions contained in the reports of the Board of Auditors ([A/74/202](#))
2. United Nations ([A/74/5 \(Vol. I\)](#))
3. International Trade Centre ([A/74/5 \(Vol. III\)](#) and [Corr.1](#))
4. United Nations University ([A/74/5 \(Vol. IV\)](#))
5. United Nations Development Programme ([A/74/5/Add.1](#))
6. United Nations Capital Development Fund ([A/74/5/Add.2](#))
7. United Nations Children's Fund ([A/74/5/Add.3](#))
8. United Nations Relief and Works Agency for Palestine Refugees in the Near East ([A/74/5/Add.4](#))
9. United Nations Institute for Training and Research ([A/74/5/Add.5](#))
10. Voluntary funds administered by the United Nations High Commissioner for Refugees ([A/74/5/Add.6](#))^a
11. Fund of the United Nations Environment Programme ([A/74/5/Add.7](#))
12. United Nations Population Fund ([A/74/5/Add.8](#))
13. United Nations Human Settlements Programme ([A/74/5/Add.9](#))
14. United Nations Office on Drugs and Crime ([A/74/5/Add.10](#))
15. United Nations Office for Project Services ([A/74/5/Add.11](#))
16. United Nations Entity for Gender Equality and the Empowerment of Women ([A/74/5/Add.12](#))
17. International Residual Mechanism for Criminal Tribunals ([A/74/5/Add.15](#))
18. United Nations Joint Staff Pension Fund ([A/74/5/Add.16](#))^b
19. Third annual progress report of the Board of Auditors on the implementation of the information and communications technology strategy ([A/74/177](#))^b
20. Eighth annual progress report of the Board of Auditors on the implementation of the United Nations enterprise resource planning system ([A/74/153](#))^b

Related reports

21. Report of the Secretary-General on the implementation of the recommendations of the Board of Auditors contained in its report for the year ended 31 December 2018 on the United Nations ([A/74/323](#))

^a Discussed in a separate letter dated 4 October 2019 from the Advisory Committee addressed to the United Nations High Commissioner for Refugees.

^b To be discussed in forthcoming reports of the Advisory Committee.

22. Report of the Secretary-General on the implementation of the recommendations of the Board of Auditors contained in its reports for the year ended 31 December 2018 on the United Nations funds and programmes ([A/74/323/Add.1](#))
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