Board of Trustees

Fifty-fifth Session

UNITAR/BT/FC/2

Finance Committee
Seventh Session

14 November 2014

Geneva, Switzerland

REPORT OF THE SEVENTH SESSION OF THE FINANCE COMMITTEE OF THE BOARD OF TRUSTEES

1. The Finance Committee convened by audio conference on 14 November 2014.

2. The following members of the Committee and observers were present at the session:

   Committee members:

   Ms. Geraldine Fraser-Moleketi
   Mr. Alfonso Quiñonez (Chairman)

   Ex Officio:

   Ms. Sally Fegan-Wyles, Acting Head, Executive Director, UNITAR

   Secretary of the Committee:

   Mr. Brook Boyer, Secretary of the Board

   Observers:

   Ms. Marina I. Dinca Vasilescu, Chief, Operations Unit, UNITAR
   Mr. Armands Cakss, Finance and Budget Officer, UNITAR

3. The Chairman called the session to order and introduced the proposed provisional agenda as circulated by the secretariat. The Committee adopted the agenda as proposed.

4. Under item 3a, "Financial statements for the twelve-month period of the biennium 2012-2013 ended 31 December 2013", the Executive Director briefed the Committee on the financial statements and mentioned that income had increased by $1.2 million during the period, with expenditures decreasing by a small amount to $42.2 million, liquidity slightly improving and

cash on hand increasing by 11.9 per cent. The Executive Director emphasized that the risk of not having a non-earmarked reserve has been addressed, at least partially, with the generous contribution from the Algerian government. The Finance and Budget Officer mentioned that the contribution was not reflected as 2013 income but would rather be recorded as fresh income for 2014. The Institute ended the 2012-2013 budget cycle with some $480,000 in non-earmarked income.

5. The Committee commended the Executive Director and Management for the prudent administration of resources and the efforts to increase income and reduce expenditures, particularly in the current environment. The Committee also commended the Executive Director for working to address the lack of non-earmarked reserves. **The Committee recommended that the Board take note of the positive report and expresses its gratitude to the Algerian government for its non-earmarked voluntary contribution**.

6. Under item 3b, "Report on the application of the new cost recovery approach," the Chairman recalled that the approach has been under implementation by Management since July 2013 following the Board's approval of the new cost recovery formula at its Fifty-third Session. The Chairman also made reference to the Policy Guidelines for Agreements with Financial Implications (Annex 4 of the Board's documentation) and the cost recovery language that Management now includes in donor agreements. The Executive Director mentioned that while the approach has been under implementation since July 2013, Management is still in a transitional period since a number of previously negotiated projects are under implementation with the former cost recovery mechanism, and that this transition would likely continue through the end of 2015 (with some 40 per cent of current projects under the former approach). The Executive Director recalled that the cost recovery formula for direct services ranges between 6 per cent (e.g. applied to costs when UNITAR disburses funds to governments in the form of country grants for activity delivery) to 11 per cent (which is applied to costs for UNITAR to deliver activities).The Executive Director emphasized that Management aims to keep the direct service rate at 11 per cent, since the basis for the calculation of the DSC rates is what support services cost. The Executive Director indicated that since the application of the new formula, the Institute has collected $2.4 million, and from January to September 2014, Management has recovered $1.2 million in DSC and $0.9 in indirect programme support costs, in addition to some $0.4 million recovered from projects being implemented under the old formula. The Executive Director indicated that for the first nine months of 2014, the Institute was able to recover all corporate costs through the cost recovery mechanism and some $0.3 million in non-earmarked contributions.

7. In terms of the challenges, the Executive Director mentioned that while clear criteria exist for determining DSC rates at 6 per cent or 11 per cent, there are cases where a DSC rate could be applied between the two levels and that it would be important to have clear criteria for determining such a rate. She cited a recent agreement concluded with the Norwegian government in which she agreed to apply a DSC rate of 8 per cent because the project consisted of a single procurement action. The Executive Director emphasized that Management needed to have clear criteria for applying intermediate rates, and that it would be important to record the logic of such instances so that a set of clear criteria would be built up over time.

8. The Executive Director mentioned a specific challenge related to agreements with the Global Environment Facility (GEF), where the implementing agencies disbursing funds (e.g. World Bank, UNDP, UNEP and UNIDO) take a 7 per cent management fee from the project funds, which in turn reduces the amount of support costs that the executing agencies (e.g. UNITAR) can take to 10 per cent (i.e. with indirect programme support at 7 percent and direct support service costs at 3 per cent). She indicated that Management has been addressing this challenge thus far by building into the project budgets the service costs that can be budgeted. While this has worked in the short-term, the Executive Director thought that a longer-term solution was required and suggested that it may be useful to discuss a way forward with other executing agencies how such costs could be recovered.

9. The Chairman observed that the overall methodology for cost recovery is set by the United Nations (referring to indirect programme support), but that the cost recovery rate for direct

services is set by the individual organizations. The Chairman agreed that it would be positive to have some flexibility in applying the DSC rate, but that it would be important to have sound criteria in order to avoid applying the direct service rates in an arbitrary manner. On the specific challenge related to GEF funded projects, the Chairman thought that it would be worthwhile to undertake a cost benefit analysis, noting that some organizations have found the cost of executing GEF-funded projects to be too high. Another Committee member added that it would be useful for UNITAR to join other executing organizations to develop a common position on the matter. The Executive Director recognized that this would be challenging, and that it may be useful to approach the Chief Executives Board (CEB) through one or several executing agency/agencies participating in the CEB who find themselves in a similar position to that of UNITAR.

10. On item 3b, **the Committee:**
    a. **took note of Management's report on the application of the cost recovery approach and commended Management on the implementation of the policy;**
    b. **recommended that the Board take note of the report and the need to recognize flexible application of DSC between the minimum of 6 per cent and the maximum of 11 per cent with clear criteria on applying the rates; and**
    c. **recommended that the Board request Management to consult with other executing agencies on how to find a more sustainable solution to recover costs for GEF-funded projects and to report to the Board at its Fifty-sixth session.**

11. Under item 3c, "Report of the Advisory Committee on Administrative and Budgetary Questions," the Executive Director reported that the Advisory Committee had noted the principal changes in the proposed revision to the Programme Budget for the Biennium 2014-2015, with the income target increasing by 4.2 per cent over the initial biennium budget, expenditures increasing but by a smaller margin and staff expenditures overall decreasing. The Executive Director also reported that the Advisory Committee expressed satisfaction with the cost recovery policy, the increase in non-earmarked reserves and with the adjustments to the programme results. With respect to audit, the Executive Director reviewed the external (undertaken by the United Nations Board of Auditors) and internal (undertaken by the Office of Internal Oversight Services) audit requirements to which the Institute adheres and mentioned that while external audits are performed yearly, the Institute has not had an internal audit in a number of years. The Executive Director underscored the importance of both audits provided that that there is no overlap or duplication in the coverage, particularly given the Institute's financial and staff resource constraints. The Executive Director concluded by indicating that it would be important for the BOA and OIOS to come to an agreement on their respective audit coverage or division or labour.

12. The Committee commended Management for the positive report. On the question of audit, the Chairman recalled discussions from past Board sessions and emphasized that effort needs to be made to solve the situation particularly since not having the full external and internal audit coverage would disadvantage the Institute. In response to a query from one member on what the Committee or the Board can do to support whether the need to ensure that the internal and external audits cover different matters of UNITAR.

13. **The Committee commended Management for the favourable report of the Advisory Committee, observed that the internal and external audit matter raised in paragraph 11 of the Advisory Report needs to be resolved and recommended that the Board take note of the Advisory Committee report.**

14. On item 3d, "Proposed Revision to the Programme Budget for the Biennium 2014-2015", the Chairman recalled the Board's decision in adopting the original biennium budget to suspend the abolishment of a number of vacant posts pending the outcome of the proposed consolidation. The Chairman recognized the proposed programme adjustments and resulting projected increase in income, from $46.2 million to $48.5 million, or some 4.2 per cent over the original 2014-2015 Programme Budget. The Executive Director noted that the proposed revision was based on the assumption that there would not be any structural consolidation of the United Nations research and training institutes, and that if current income projections are met, the Institute will have increased its income in 2014-2015 by 25 per cent as compared to

the 2012-2013 biennium. She noted that while the expenditure is also increasing, it is increasing by a smaller margin, at 14.9 per cent. The Executive Director observed that the corporate leadership and support overhead continued to be low at some 16 per cent, the costs of which should easily be met through the recovery mechanism. The Executive Director also reported that staffing adjustments in the proposed revision were minor and include, in addition to the recruitment of several posts (previously unfunded or recruitment delayed), a correction to the costing of national and international staff was included since sufficient funds were not previously set aside for separation entitlements. Finally, the Executive Direction reviewed the programmatic changes, noting the reasons for the minor adjustments as reflected in the item's annotation.

15. The Chairman asked the Executive Director if it would be wise to undertake an independent functional review on the Institute's structure. Recognizing that there would likely be a new Executive Director in place in the early part of 2015, the Executive Director agreed that it would be important to commission an independent, functional analysis based on a review of the programmes and staffing structure and comparing it to organizations of a similar size, function and nature. In response to one member's question on the marginal increase in the executive direction and the slight decrease in costs for support services, the Executive Director recalled the discussions on the need to include a provision for separation entitlements and noted that the proportion for international staff in the executive leadership is greater than in the support services sections which have a higher number of general staff members.

16. On item 3d, **the Committee:**
    a. **took note of the Executive Directors' presentation on the proposed revision to the Programme Budget for the Biennium 2014-2015;**
    b. **Recommended that the Board adopt the proposed revision to the Programme Budget for the Biennium 20214-2015; and**
    c. **Recommended that the Board request Management to commission an independent functional review of the structure and the senior posts for submission to the Board at its Fifty-sixth Session prior to the consideration of the proposed Programme Budget for the Biennium 2016-2017.**

17. Under item 3e, "Report on the 2014 external audit", the Chairman drew the Committee's attention to the report as found in Annex 6 of the Board's documentation. The Executive Director reported to the Committee that the Board of Auditors issued three main recommendations, including a) to clarify the scope and definition of programme support costs and direct service costs, and to provide adequate information to donors with regard to the retention from project funds; b) to conduct prompt verification of those items in the inventory; and c) consult with donors before disposing of surplus funds. On the first recommendation, the Executive Director noted that the matter is actually broader than it appears as it represents a disagreement between the Controllers' Office and the United Nations Board of Auditors as concerns the level of detail that the external auditors feel is necessary on indirect and direct service costs. The Executive Director indicated to the Committee that Management informs donors on the items covered by indirect and direct recovery costs as reflected in the language in the Policy Guidelines and that this language is satisfactory for donors. As regards the second recommendation, the Executive Director informed the Committee that the inventory is up-to-date and that the transition to International Public Service Accounting Standards (IPSAS) will further facilitate inventories since only items valued over $5,000 will need to be inventoried, as well high risk items such as notebook computers and mobile phones. Finally, with regard to the third main recommendation, Management agrees and now systematically includes in donor agreements a clause on the disposal of project balances and/or requests donors to sign off on a project closure report bringing special purpose grant projects to a formal closure. **The Committee took note and recommended that the Board take note of the Report of the Board of Auditors and Management's response as recorded in the Report of the Secretary-General (A/69/353/Add1).**

18. Under item 3f, "Internal audit", the Chairman recalled that the matter was discussed under item 3c, Report of the Advisory Committee. The Executive Director noted that given the size of the Institute's budget, Management did not feel that it would be necessarily efficient to fund

a full service internal and external audit, and that it was important for the Board of Auditors and OIOS to coordinate so that the budget provision of $113,000 would be respected. **The Committee took note and recommended that the Board confirm that OIOS and the BOA should consult and agree on a complimentary approach on UNITAR internal audit that would not exceed the approved budget, and that terms of reference should be drafted and shared with the Board prior to an audit undertaking.**

19. Under item 3g, "Umoja", the Executive Director briefed the Committee on the changes that will be taking place in the United Nations Secretariat with the phase-out of the Integrated Management Information System (IMIS) and the transition to Umoja as the new enterprise resource planning (ERP) tool. The Executive Director indicated that migrating to Umoja would present a number of challenges given the unique characteristics of the Institute, its funding base, staffing composition and need for flexibility. Given these and other challenges, Management has reviewed the UNDP Atlas system as an alternative ERP tool, very much the same as other organizations have done or are considering on doing given the complexities of Umoja. **The Committee took note and recommended that the Board approve Management's use of Atlas in the short term and that Management review the use of Umoja by other organizations and report to the Board at the Fifty-eighth Session.**

20. Under item 4, "Any other business", the Chairman noted that there was none and expressed his appreciation to the secretariat and to the Executive Director and her team for the positive reports. The Executive Director also expressed appreciation to her team.

21. The Committee adjourned.