



unitar

United Nations Institute for Training and Research

Board of Trustees
Fifty-third session

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16 April 2013

Finance Committee
Fifth session

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

1. The Committee on Finance of the Board of Trustees of the United Nations Institute for Training and Research (UNITAR) convened by video and audio conference on 12 April 2013.
2. The following members of the Committee and observers were present at the session:

Committee members:

Ms. Geraldine Fraser-Moleketi..... (UN)

Mr. Nicolas Michel..... (Academia)

Mr. Alfonso Quiñonez (Chairman)..... (Guatemala)

Ex Officio:

Ms. Sally Fegan-Wyles, Executive Director, UNITAR

Secretary:

Mr. Brook Boyer, UNITAR

Observers:

Mr. Pierre Hagmann

Mr. Oftei Dei, Chief, Administration and Finance Section, UNITAR

3. The Executive Director called the session to order and welcomed the in-coming members. Mr. Michel acknowledged the presence of Mr. Hagmann as an observer, in accordance with the Board of Trustees' consent at its fifty-second session that Finance Committee members could request observers to assist in their review of financial documents and attend sessions.
4. The Committee adopted its provisional agenda and elected, under **item 3**, Mr. Alfonso Quiñonez as Chairman.
5. The Chairman introduced the six sub-items under item 4. Under **sub-item 4a**, "Update on delegation of authority for limited financial functions", the Chairman recalled that the matter was discussed at subsequent sessions of the Board in connection with the service level agreement with the United Nations Office at Geneva (UNOG) and requested the Executive Director to brief the Committee. The Executive Director mentioned that the Controller had agreed to delegate financial authority to issue allotments. The Institute was now prepared to take on the allotment function as a follow-up to the agreement with the Controller, and that following a review by an international consultant, Management had put in place the necessary mechanisms and trained staff. The Executive Director confirmed that the in-house allotment function was scheduled to be effective as of 1 June 2013.
6. In response to a question on costs to perform this function, the Executive Director replied that management had been reducing support costs and working to rationalize the provision of support services. One vacant post in the Administration and Finance Section would be filled to provide capacity to issue allotments. Filling this post would still be more resource efficient than continuing to pay for allotment services to UNOG. The Chairman remarked that taking on this function would certainly justify charging direct service costs to donors. In response to another request for information on the selection of the consultant who was retained, the Executive Director replied that the consultant was recommended by UNOG as it was important for Management to secure agreement from the Controller and UNOG. In her response to another question, the Executive Director confirmed that there would be little restructuring of staff prior to knowing more about the consolidation, but that an interim arrangement might include reassigning work to optimize support services and work flows to the Institute's various divisions and programmes.
7. The Committee welcomed the plan to take on the allotment function, congratulated Management for addressing the matter in the most cost-effective way and **recommended that the Board takes note of its observations and those of Management.**
8. Under **sub-item 4b**, the Chairman recalled the Board's discussion at its fifty-second session that the current cost recovery formula was insufficient to meet costs for the Institute's core services, and noted the proposed alternative cost recovery approached as further detailed in annex 6 of the Board's documentation. The Executive Director reviewed the approach in detail and confirmed that 7 per cent for indirect support costs would be maintained for all projects in accordance with current policy and practice (with few exceptions), and a second project-specific charge to recover direct service costs would be applied to each budget line. The Executive Director specified that the amount of the direct service charge would be variable between 6 and 11 per cent. However, depending on the level of direct management support required for most projects and given their small to medium sized nature, Management would apply 11 per cent in order to cover the Institute's core service requirements.

9. The Chairman remarked that the alternative formula proposed was a proper way to approach costs, adding that any reduction from the current formula (7 per cent across the board, plus 25 per cent on certain budget lines including staff costs) would increase the attractiveness to donors and other partners. In responding to the queries of two members on how Management will inform donors and introduce the proposed formula, the Executive Director stated that this would be introduced transparently in new project proposals and agreements, and that any variability in the percent applied for recovering direct services would be “locked” into all new donor agreements. In mentioning that the Institute had to generate about 18 per cent of its budget to cover core requirements and that Management was working to deliver highest quality at lowest costs, the Executive Director expressed confidence that the overall rate for cost recovery, as compared to the present methods applied, would be reduced with the application of the new formula. **The Committee recommended that the Board approves the proposed alternative formula for recovering costs.**
10. Under **item 4c**, Report of the Advisory Committee on Administrative and Budgetary Questions, the Executive Director updated the Committee on the Advisory Committee’s report and emphasized that the hearing and report were both very positive. She indicated that the Advisory Committee agreed with Management’s efforts to align income with expenditure, reduce support costs and reformulate the approach to costs recovery which would enable the Institute to present its support costs more transparently. Members congratulated Management for a positive hearing and report. Following several observations and questions by members, including the proposed downgrading of the D-1 post of the Head of the Hiroshima Office and the Advisory Committee’s recommendation to the Institute to explore possibilities for strengthening its coordinating role in building capacity of national civil servants. In relation to the observations on staffing, the Executive Director explained that the D-1 post for the Hiroshima Office has been filled at the P-5 level for several years and that it was necessary to exchange the D-1 post for a P-5 post in order to get approved from the Controller Office to upgrade the P-5 Director of Research to D-1. However, any other change to posts should be put on hold under further information is known on the proposed consolidation. She also emphasized that the consolidated entity would play a role for promoting coherence across the United Nations in research, knowledge sharing and training and capacity building for national civil servants. **The Committee welcomed the Report of the Advisory Committee and recommended that the Board takes into account the report’s recommendations and observations.**
11. Under **item 4d**, “Proposed revision to the Programme Budget for the Biennium 2012-2013”, the Executive Director reviewed the proposed revision with a reduction in 4.9 per cent to not only bring the budget in line with income, but more importantly to reduce the programme support costs which Management would continue to address. The Executive Director also highlighted a second important element of the proposed revision, which includes a ‘hidden’ variation in significant increases and decreases within sets of programmes.
12. In response to a question from one member on operating costs and staff training, the Executive Director mentioned that the increase in the operating costs budget line was due to the addition of UNOG services charges which had not been paid before. In regard to staff training, the Executive Director recognized that the amount was too little, but that income did not allow more resources to be budgeted. In commending the Executive Director and Management for aligning expenditure and income, another member recognized those programmes doing well, including UNOSAT and those in the Peace, Security and Diplomacy Unit. The member also questioned about the

costs for holding Board sessions outside of Geneva and, in relation to the presentation of the budget, suggested that it might be preferable to include fewer items under the administrative component of the programme budget. In her response, the Executive Director agreed that Management would work on a new presentation of the administrative costs in the programme budget in order to differentiate between programme salary costs, for example, and those of an administrative nature. In relation to the query on the cost of Board sessions, the Executive Director confirmed that costs were generally more, unless of course if the sessions were covered with important contributions from the hosts. **The Committee recommended that the Board approves the proposed revision to the Programme Budget for the Biennium 2012-2013.**

13. Under **item 4e**, "Update on the 2012 external audit", the Executive Director updated the Committee on the implementation status of the recommendations and mentioned that the first two recommendations were related to cost recovery. With the new formula and the establishment of a sub account to which deductions for direct service costs will be deposited, Management will be much more transparent on accounting for direct and indirect support costs. The Executive Director mentioned that the audit observation on the introduction of the International Public Accounting Standards (IPSAS) was ongoing and stressed once IPSAS is introduced, Management would have to have in the bank the full value of staff contracts unlike recent practice and that this would have significant implications for the future operations in the absence of non-earmarked funds or a reserve. **The Committee took note and recommended that the Board takes note of the status on implementation of the audit recommendations.**
14. Before addressing item 4f, the Chairman enquired if Management wished to review the interim financial statements for the biennium 2012-2013 ended 31 December 2012. The Executive Director presented the financial statements and reported that for 2012 total income was \$21.3 million compared to total expenditure of \$20.0 million, and that expenditures remained within the levels of income available.
15. The Executive Director proceeded to explain the level of the fund balances, indicating that the fund balance for 2012 was \$7.5 million compared to \$10.2 million in 2010. She informed the Committee that the significant decrease was attributable to the value of the organization's obligations to its staff for the After Service Health Insurance (ASHI) in the event the Institute would cease to exist today. In practical terms, ASHI is an accounting entry shown on the face of the financial statements. In 2012, the actual cost of ASHI for the organization was \$26,000. **The Committee recognized the importance of the interim financial statements and recommended that the statements be discussed by the Board at the forthcoming session after the sub-item on the update of the external audit.**
16. Under **item 4f**, "Support for strengthening non-earmarked voluntary contributions", the Chairman recalled the Board's recommendation at its fifty-first session in relation to the alarming decrease in non-earmarked contributions which now amount to just over \$300,000 annually. In recalling the Board's two primary functions, one related to oversight and guidance and the second related to championing UNITAR both politically and economically, the Executive Director mentioned that the item was intended to challenge the Board on the eve of the Institute's fiftieth anniversary by proposing a discussion on what Board members could do more to support fund mobilization. She noted that the proposed consolidation presented many opportunities, including financial, and that 'UN knowledge' could be a very attractive item for Member States. The Chairman agreed on the importance of having Board members discuss this topic, mentioned that the proposed consolidation provided

opportunities, and emphasized that mobilizing earmarked funds for specific projects is easier than non-earmarked funds. In concluding its discussion, **the Committee requested Management to circulate a list of donors with respective contributions for 2012 at the fifty-third session and recommended that the Board requests Management to develop a fundraising communication strategy.**

17. The committee adjourned.