1. The Finance Committee convened on 16 November 2015.

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

   Committee members:
   
   Mr. Alexandre Fasel
   Mr. Alfonso Quiñonez (Chair)

   Ex Officio:
   
   Mr. Nikhil Seth, Executive Director, UNITAR

   Secretary of the Committee:
   
   Mr. Brook Boyer, Secretary of the Board

   Observers:
   
   Ms. Andrea Aeby, Permanent Mission, Switzerland
   Mr. Armands Cakss, Finance and Budget Officer, UNITAR
   Ms. Marina I. Dinca Vasilescu, Head, Operations Unit, UNITAR

3. The Chairman called the meeting to order and introduced the provisional agenda as circulated by the secretariat covering the finance and budget items (items 7a through 7i) of the provisional agenda of the Fifty-sixth Session of the Board of Trustees. The Committee adopted the agenda as proposed.

ended 31 December 2014 under Annex 3 of the Board’s documents, and suggested that the item be discussed in tandem with item 7i, “Update on the 2014 external audit”. He highlighted several of the report’s findings and the Board of Auditors’ (BOA) unqualified opinion on the financial statements. The Chair also summarized the favourable conclusion of the audit exercise and the soundness of the overall financial position of the Institute, with assets exceeding total liabilities. He noted the BOA’s conclusion that the audit did not find any material deficiencies in the financial statements or in its major operational activities, although the report indicated that there was a need to strengthen vigilance in the preparation of financial statements to enhance their accuracy and that there was scope for improvement in areas of programme management, monitoring and reporting.

5. The Executive Director noted that the Institute was undergoing a process of both internal and external audit, indicated that a fuller picture would be available by mid-2016 and recognized the importance of such exercises to enable the Institute to further improve its operations and programming. The Committee took note of the audited financial statements and the report of the external audit, and highlighted the unqualified opinion.

6. Under item 7b, “Report on the application of the cost recovery approach”, the Chair recalled the Board’s discussions at its Fifty-fifth Session in November 2014 and the need to recover the direct and indirect costs when implementing projects and activities. The Chair noted that the implementation of the approach has not had any visible implications with regard to resource mobilization, and noted the three exceptions to the rule which were communicated by management. While understanding that some exceptions are expected, one member asked if specific criteria should be defined to guide management in taking decisions on possible exceptions, and that management should report to the Board when exceptions are made in accordance with the criteria. In response to a question on resources mobilized for 2015, the Executive Director indicated that management would provide the Committee with updated figures for the period of June to November 2015 so as to provide a better understanding on the trends of the contributions. The Executive Director also noted that some of the criteria for exceptions are related to the request for an exception for projects funded through the Global Environment Facility (GEF). He felt that since the cost recovery approach is working well, exceptions should be limited and well justified, and subsequently communicated to the Board. The Committee concluded that the cost recovery approach is working well and took note of its observations and its request to have updated figures on resources mobilized for 2015.

7. Under item 7c, “Report on consultations with the Global Environment Facility executing agencies on cost recovery”, the Chair recalled discussions by the Committee on the matter in the past and the importance of the GEF as a donor as well as the mechanics of recovering costs incurred by the implementing and executing agencies. The Chair emphasized the importance of undertaking a good analysis of projects to be executed to determine if the project is worthwhile of pursuing both in terms of the project’s overall financial resources and the costs for implementation given the level of support services that may be required. The Chair summarized the request made by management to amend the approach with an exception for GEF-funded projects (i.e. PSC at 7 per cent and DSC at 2 per cent) and whether the Committee should recommend establishing a minimum project budget threshold for such exceptions. One member supported the request and proposed that management determine whether it would be cost effective to execute the project under the GEF exception and report to the Committee and Board regularly. The Executive Director stressed the importance of UNITAR’s engagement with the GEF and indicated that management’s preliminary assessment is that projects of $1 million and above could be acceptable. He suggested that management experiment at the $1 million threshold and then determine if this is an acceptable
threshold. The Committee took note of the observations, recommended that the Board agree to amend the cost recovery policy to account for a reduced direct service cost rate at 2 per cent (in addition to the 7 per cent indirect support rate) for GEF-funded projects under consideration and moving forward, and noted that the recommendation would be initially for projects budgeted at $1 million and above, and that management would report to the Board at the Fifty-seventh Session on the implementation of the revised policy.

8. Under item 7d, “Funding for independent evaluation”, the Chair noted the Board’s recommendation at its Fifty-fifth Session that management prioritize identifying funding for independent evaluation in 2015. The Chair noted that management has increased the activity budget of the Planning, Performance and Results Section from $100,000 in the present biennium to 150,000 for 2016-2017, and that this would enable two independent evaluation exercises per annum. The Executive Director noted that Germany agreed to fund a junior professional officer who would be joining UNITAR in early 2016. The Executive Director underlined the importance of evaluation in the review of progress of the 2030 Agenda in terms of not only taking account of the measures of change, but also responding to questions of what works and how and why results were attained. Management also noted that UNITAR has become an observer member of the United Nations Evaluation Group (UNEG) and that this networking engagement will be of much use to further strengthen UNITAR practices and eventually, also reach out to strengthen the evaluation capacities in countries in need.

9. Management mentioned that the Institute’s Monitoring and Evaluation Policy Framework which was issued in 2012 is under review, and that one of the aspects that management is examining is how well UNITAR can utilize evaluation not only for accountability purposes but also for organizational learning and quality improvement. Management expressed its agreement with the Board that more independent evaluation is needed. One member suggested that the Board may wish to discuss whether the framework should require mandated independent evaluations at a certain budgetary threshold and perhaps even consider this on an experimental basis and then review the approach. The Chair underscored the importance of independent evaluation particularly given the nature of UNITAR’s financing, since independent exercises are able to showcase results as independently as possible, and that this should be part of the direct costs of the project. The Executive Director indicated that management would propose a reasonable threshold for the Board to consider. The Committee took note of the observations made, recommended that the Board take note of management’s follow-up on the Board’s recommendation to prioritize the identification of funding for independent evaluation, welcomed the contribution from Germany to fund a junior professional officer and took note that the Institute’s evaluation policy is undergoing review and will be submitted to the Board at the Fifty-seventh Session.

10. Under item 7e “Independent functional analysis of UNITAR staffing and structure”, the Chair recalled the Board’s decision at its Fifty-fifth Session for management to commission an independent functional analysis prior to submitting the proposed Programme Budget for the Biennium 2016-2017. The Chair indicated that management proposed that the functional analysis be postponed given the change in leadership. The Committee recommended that the Board consider postponing the independent functional analysis of UNITAR staffing and structure pending the submission of a proposed revision to the Programme Budget for the Biennium 2016-2017 by the Executive Director at the Fifty-seventh Session in November 2016.
11. Under item 7f, “Report of the Advisory Committee on Administrative and Budgetary Questions”, the Chair noted that the report which was circulated appeared to be very positive. One member supported the Advisory Committee’s observation of the Board of Auditors’ recommendation concerning the timely closure of projects and settlement of refunds to donors and that UNITAR put into place a system to ensure the timely financial closure of projects and institute a mechanism to monitor and settle the refunds due to donors. He also supported the Advisory Committee’s recommendation for the proposed changes in the post requirements and the need to clarify the need for the posts which have been frozen for several years. With respect to the Atlas enterprise resource planning (ERP) system, the member also supported the observation by the Advisory Committee.

12. The Chair made reference to the frozen posts, the Board’s previous recommendation that the post not be abolished and for management to undertake the functional analysis. The Executive Director emphasized the voluntary funded nature of the Institute and that management’s ability to budget an encumbered post is directly related to successful fundraising, and that the vacancy of the posts has no direct effect on the staffing structure or reflects administrative requirements. The Executive Director expressed his hope that the Institute would be able to grow with the 2030 Agenda and that this growth would open the door to encumbering the posts. He also mentioned the need for management to explore possibilities of rotation to meet the requirements of projects as opposed to placing emphasis solely on seeking growth through the encumbrance of posts. Management briefly commented on the transition to an online solution that is underdevelopment to facilitate the monitoring of project agreements and reporting obligations. The Committee recommended that the Board take note of its observations and Report of the Advisory Committee on Administrative and Budgetary Questions.

13. Under item 7g, “Proposed Revision to the Programme Budget for the Biennium 2016-2017”, the Chair welcomed the addition of the sixth high level programme area on supporting the implementation of the 2030 Agenda and the initial work done during the present biennium. On the financial components of the budget, the Chair requested clarification on the one-time non-recurring charges for After Service Health Insurance, IPSAS related liabilities and one half of the down payment for the Atlas migration, as presented in the item’s annotation. One member, in proposing that the Committee recommend that the Board adopt the proposed Programme Budget for 2016-2017, requested management to update the Committee on income expectations for the current biennium and if it expected pledges for funded programming to materialize. The Chair recognized that shifting priorities by donors represent particular challenges for UNITAR in terms of meeting income targets and delivering on planned results.

14. The Executive Director briefed the Committee on his recent mission to Algeria and expressed realistic optimism that expected programmes would continue with funding in accordance with projections. The Executive Director also expressed optimism that existing funding levels would be maintained following discussions with the representatives of other Member States, but noted the challenges and repercussions that contemporary international developments are having for development assistance. The Executive Director stressed that while he was optimistic with planned programming, it was important for the Institute to be nimble and responsive to the evolving and changing priorities of Member States. The Budget and Finance Officer confirmed that income for the current biennium is expected to be $46.5 million, as reflected in Table 2 of the proposed 2016-2017 Programme Budget. He also noted that the IPSAS-related revaluation of ASHI liabilities and the migration to Atlas were recorded as non-recurring charges (i.e. would not be repeated), which accounted for increase in expenditures over income for the current biennium. The Committee took note of the observations and
recommended that the Board adopt the proposed Programme Budget for the Biennium 2016-2017.

15. Under item 7h, “Migration to Atlas”, the Chair recalled its decision at the Fifty-fifth Session to migrate to Atlas as opposed to Umoja and that the migration was successfully implemented in July and is running smoothly. The Chair noted management’s status report in the annotation, and that the system is reliable, provides better reporting and is user-friendly. The Chair asked whether the migration would require additional human resources, and to be informed on the arrears for service cost payments to the United Nations Office at Geneva (UNOG). One member also asked if there were any unexpected challenges with the migration to Atlas and requested that the item remain. The Executive Director confirmed that the payment of arrears with UNOG has been incorporated into the present proposed programme budget. On Atlas, the he stated that migrating was without doubt a sound financial decision, taking into consideration the expected cost savings of some $150,000. The Executive Director noted that management had a blackout period of two weeks, and that in general there was much satisfaction among managers. He also noted that the implementation of Umoja has had some impact on UNITAR in so far as some projects have been delayed due to the lengthy blackout periods of partners using Umoja. The Committee took note of the observations made, welcomed the reduction in costs and recommended that the Board continue monitoring the implementation of Atlas.

16. Under item 7j, “Internal audit”, the Chair recalled the Board’s decision at its Fifty-fifth Session that an internal audit exercise shall be undertaken in 2015. The Chair indicated that he was approached by OIOS through management and that the Finance Committee communicated to OIOS the imperative that the internal audit exercise avoid duplication with external audit, that the Committee be consulted on the final terms of reference prior to the formal commencing of the exercise and that the audit be at zero cost and that if any costs should arise that they be communicated to management prior to OIOS incurring such costs. One member suggested that it would be good practice to have an audit committee that could review the scope of the audit. The Executive Director supported the idea, while mentioning that audit was included under the existing terms of the Finance Committee. The Chair proposed that a sub-committee be established under the Finance Committee, and underscored the need for additional trustees to become involved in the work of the Finance Committee. The Committee took note of its observations.

17. Under item 7k, “Proposed revolving fund from non-earmarked reserves”, the Chair noted the increase of non-earmarked reserves over the past several years and management’s request to create a revolving fund from non earmarked reserves to enable the Executive Director to lend funds in exceptional circumstances to a special purpose grant projects with certain conditions. The Chair reacted positively to the proposal and recognized the challenges for organization funded entirely on voluntary contributions. On member suggested that strict limits and criteria should be applied, and that it may be good to limit the amount to be lent per project to ensure that the revolving fund is not depleted. The Committee took note of its observations and recommended that the Board establish a revolving fund of $1 million that would be ring-fenced from non-earmarked reserves in the General Fund and used by the Executive Director to lend funds to projects under the following conditions:

a. an agreement has been signed with a donor, a formal pledge letter has been received from a donor, or there is a very strong, established track record of funding the project/activity in question by the donor and that a verbal commitment by the donor has been made;
b. circumstances preclude the rescheduling of the activity/activities to a later date pending the arrival of funds;

c. the funds to be used temporarily from the ring-fenced fund been budgeted/included in a project cost plan and will be reimbursed to the revolving fund;

d. no single project would receive more than $250,000; and

e. the temporary use of funds from the revolving fund would not endanger the financial sustainability of the operations of the Institute.

18. Under item 7l, “Policy Guidelines for Agreements with Financial Implications”, the Chair noted the proposed guidelines under Annex 8 of the Board’s documentation and the purpose of the guidelines to ensure more consistency and clarity with agreements having financial implications, both for funds-in from donors and for grants-out to implementing partners. In agreeing on the importance of having such guidelines, one member made reference to the proposed maximum level of 10 per cent in which actual costs could deviate from budgeted costs without management formally agreeing on a budget/cost plan revision with the donor through an amendment or an exchange of letters, and found this threshold to be generally in line with the practice of many donors. The Chair thought that it was important to ensure that the guidelines and in particular this threshold would not impair management from delivering on projects, noting that there is often the need to make adjustments to budgets during project implementation. The Executive Director expressed the desire to have maximum flexibility since priorities and other modalities often change between project conception and implementation phases. While he felt there was a need for flexibility, he stressed that management needed to ensure that there was clarity with the donor at the time of project formulation on the level of flexibility that would be permitted. The Committee took note of the observations, recommended that management agree with the donors on a case by case basis on the maximum level of deviation permitted between actual and budgeted costs without a formal amendment or an exchange of letters, recommended that the permitted of deviation be agreed with the donor at the time of signing an agreement or receiving a pledge, and recommended that the Board approve the proposed policy guidelines for agreements with financial implications as revised herein.

19. Under “Any other business”, management noted that in light of the Finance Committee’s view that it should be “consulted” on the final terms of reference of an internal audit undertaking, as conveyed by the Committee to OIOS, the Committee may wish to propose that the Board consider amending Rule 28bis of its rules of procedure which, at present, require the Finance Committee to approve the terms of reference for services provided by the OIOS. Rule 28bis reads “The Board delegates to the Committee on Finance the approval of the terms of reference for services provided by the United Nations Offices of Internal Oversight Services.” The Committee took note of the observations and recommended that the Board consider amending Rule 28bis to read as follows: “The Committee on Finance shall be informed of the terms of reference for the internal audit services provided by the United Nations Office of Internal Oversight Services.”

20. The Committee noted that in so far as the recommended amendment to Rule 28bis is related to item 7j, “Internal audit”, the Board may wish to take up the matter under that item as a recommendation.

21. The Committee adjourned.