

Board of Trustees

Fifty-seventh Session

UNITAR/BT/FC/9/2

Finance Committee

Ninth Session

14 November 2016

Geneva, Switzerland

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

1. The Finance Committee convened on 14 November 2016.
2. The following members of the Committee and observers were present at the session:

Committee members:

Ms. Kathleen Cravero Kristofferson
Mr. Alexandre Fasel
Mr. Vijay Nambiar
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. Marina I. Dinca Vasilescu, Head, Operations Unit, UNITAR
Mr. Marco Fischer, Federal Department of Foreign Affairs, Switzerland
Ms. Emily Fraser, Special Assistant, Office of the Executive Director
Mr. Joel Thalla, Chief, Finance and Budget, UNITAR

3. The Chair called the meeting to order and introduced the provisional agenda as circulated by the secretariat covering the items under finance and budget (items 7 and 8) of the provisional agenda of the Fifty-seventh Session of the Board of Trustees. The Committee adopted the agenda as proposed and agreed to address some of the matters in tandem.

4. Under item 7a, “Financial statements for the year-ended 2015”, the Chair made reference to the item’s annotation and the Financial Report and Audited Financial Statements for the year ended 31 December 2015 under Annex 3 of the Board’s documents, and suggested that the item be discussed in tandem with item 7h, “Report of the 2015 External Audit”. He noted that the audited financial statements indicate a healthy financial situation with sufficient liquid assets to settle obligations, and that at 31 December 2015 expenses totalled \$23.5 million. The Chair highlighted the Controller’s overall conclusion that the financial statements are correct in all material respects. The Chair also reviewed the five main recommendations of the 2015 external audit, in addition to the several outstanding recommendations from previous audits which have not been fully implemented, including the recommendation on the funding of internal audit services.
5. The Executive Director reiterated the Chair’s observation on the healthy financial situation of the Institute and noted in particular the large cash assets of \$16.1 million and the need to discuss on how to better invest the assets. In reference to the external audit, the Executive Director observed the heaviness of the audit undertakings given the Institute’s size, although he recognized their importance. On the recommendations, the Executive Director noted that the consultations with the Office of Legal Affairs needed to be done by the UN Secretariat with regard to the whether the authority of the Controller to delegate financial responsibilities is in conformity with the UNITAR Statute. The Executive Director also reviewed the other main recommendations, noting that work was already underway on pursuing an investment strategy, implementing revised guidelines for the network of CIFAL centres, developing an entity risk registry and reviewing the Integrity and Ethics Oversight Policy to include fraud risk assessment. On audit costs, the Executive Director indicated that Management would prefer if the costs were capped at a reasonable amount (e.g. \$140,000 per biennium), noting that in addition to the financial costs of the audit team, the Institute incurred significant time-related costs of its human resources in connection with audit undertakings.
6. Committee members praised Management on the Institute’s favourable financial situation, including the increase in non-earmarked voluntary contributions, and supported the observations and recommendations of the Board of Auditors. In response to a question related to the need to do more to implement outstanding recommendations, the Executive Director noted that two of the outstanding recommendations related to the disclosure of information on programme support income were not accepted by the Department of Management, thereby making it difficult to implement. One member questioned whether capping resources to cover audit costs would be absolutely necessary. The Executive Director underscored that Management was not necessarily concerned with the number or frequency of audits as much as it was with the costs that the audit exercises represent given the size of the Institute. **The Committee took note of its discussions and recommended that the Board take note of the Audited Financial Statements for the Year-end 2015 and the Report of the Board of Auditors. The Committee also recommended that the Board cap audit fees (inclusive of external and internal audit fees) at \$140,000 per biennium.**
7. Under item 7b, “Report on the application of the cost recovery approach”, the Chair recalled that Management has been reporting to the Board on the implementation of the cost recovery approach, and that the approach continues to work well in terms of generating sufficient funds to cover the costs of the Institute’s leadership and support functions, with some \$3.3 million generated in 2015. The Chair also mentioned that Management had issued one exception to the DSC rate during 2016 in connection with a project financed through the Global Environment Facility (GEF). On this matter and in relation to item 7c, “Report on cost recovery for Global Environment Funded-projects” the Chair indicated that Management had proposed that the cost recovery approach be further amended so that GEF-funded projects budgeted at the \$500,000 threshold could also benefit from the reduced DSC rate.
8. Following a brief discussion and endorsement by member of the proposal, **the Committee recommended that the Board take note of the report on the application of the cost recovery approach and recommended that the Board further amend the cost recovery policy to extend the DSC rate of 2 per cent to GEF-funded projects budgeted at \$500,000 and above, and for Management to report to the Board at the Fifty-eighth Session.**

9. The Chair announced that item 7d “Independent functional analysis of UNITAR staffing and structure”, item 7e “Report of the Advisory Committee on Administrative and Budgetary Questions” and item 7f “Proposed revision of the Programme Budget for the Biennium 2016-2017” would be considered in tandem. He noted that Management had presented the Proposed Revision of the Programme Budget to the Advisory Committee on 4 October 2016 and that the report of the Advisory Committee was favorable. The Chair indicated that the proposed revision expense amounts to \$51.4 million, representing an increase of nine percent over the approved 2016-2017 Programme budget of \$46.8 million, and that this increase was due primarily to an expansion of planned programming in the areas of chemicals and waste management, peacekeeping and Agenda 2030-related initiatives. The Chair also indicated that in relation to item 7d, Management had proposed the abolishment of 16 of the previous 19 frozen posts following an internal review process.
10. The Executive Director summarized several highlights of the revised estimates and noted that this would be the first time in the Institute’s history that UNITAR would realize \$50 million plus in income. In relation to the review of staffing and structure, he reviewed the proposed new posts contained in the budget revision, noting that the posts are classified at the P2 to P4 levels, in addition to one post at the G5 level, as well as the proposed filling of eight existing, approved posts and the proposed upgrading from P4 to P5 of one post. The Executive Director also noted that the review concluded that 16 of 19 frozen posts could be abolished, but that Management wished to maintain three posts at the D1 level in abeyance, in so far as they are considered to be instrumental in the implementation of the future vision of UNITAR, scheduled to take effect in 2018 in connection with the new strategic framework.
11. In congratulating Management for the positive report of the Advisory Committee and agreeing with the proposed budget revision, one member asked if staff resource requirements were sufficient given the emphasis being placed on Agenda 2030 in programming. The Executive Director underscored that while UNITAR was building capacity to respond to the cross-sector aspects of the Agenda such as helping Member States integrate the Agenda in national planning and develop multi-stakeholder mechanisms, developing statistical capacities, etc., a large number of UNITAR programming areas also relate to the implementation of Agenda 2030. **The Committee took note of the observations and recommended that the Board take note of the report of the Advisory Committee on Administrative and Budgetary Questions and adopt the Proposed Revision of the Programme Budget for the Biennium 2016-2017, and note that 16 of the previously frozen posts have been abolished.**
12. Under item 7g, “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 2015 and has resulted in reduced processing delays and costs in comparison to the previous enterprise resource planning system, IMIS, and a general increase in efficiency in operations.
13. The Executive Director noted that as reported by the Advisory Committee, this migration has provided both financial and operational gains to the Institute, and that Management expected that the financial gains would increase over the next years. He acknowledged that while the transition takes time, Management could not have made a wiser decision from both operational and financial perspectives, and he acknowledged the guidance provided by the Board. One member questioned whether Management foresaw any potential problems or whether UNITAR would be disadvantaged in using Atlas once Umoja would become completely operational, in so far as UNITAR deals with other organizations using Umoja. Another member added that it was for these reasons that the Board decided that Management would report yearly on Atlas implementation. Management highlighted the fact that Umoja was designed for the UN Secretariat and that this was an underlying reason for UNITAR to migrate to Atlas. **The Committee took note of the observations made and recommended that the Board take note of Management’s report on the implementation of Atlas and that Management continue to keep the Board apprised.**
14. Under item 7i, “Internal audit”, the Chair indicated that the Office of Internal Oversight Services (OIOS) had undertaken an audit on project management during the fourth quarter of 2016 and the first quart of 2016, and that the audit concluded with a set of five recommendations, two of

which have already been fully implemented, and the other three have been acted upon, with full implementation expected by the end of 2016. The Chair also referred to the revised policy guidelines for the disbursement of funds to implementing partners (Annex 8 of the Board's documentation) which responds to a recommendation and requires competitive selection of IP arrangements with nongovernmental organizations, academic institutions, foundations, etc.

15. The Executive Director indicated that all action on the recommendations would be completed by the end of 2016 and that OIOS and the Finance Committee would be informed accordingly. **The Committee took note of the information received and recommended that the Board take note of the report on the audit on project management and management's follow-up and implementation of the recommendations.**
16. Under item 7j, "Proposed revolving fund from non-earmarked reserves", the Chair recalled the establishment of the revolving fund from non-earmarked reserves with a view to providing funds to earmarked projects on a loan basis when project funds are delayed. The Chair summarized the report from Management, indicating that the fund appears to be working well and serving its purpose.
17. The Executive Director noted that the current outstanding loans are approximately \$748,000, of which at least \$516,000 are expected to be repaid by 31 December 2016. He reported that he was pleased that the mechanism is working well, particularly as there are sometimes delays from donor commitments to UNITAR receiving the funds. While observing that the establishment of the fund was a good decision, one member indicated that Management should exercise caution so as to avoid possible occurrences of the fund ending up subsidizing projects if a donor would end up not paying. The Executive Director observed the challenge of experiencing delays between donor commitments and receivables, and solicited the Committee for advice to reduce this time. The Chair acknowledged that this was indeed a challenge, and one member recommended the importance of maintaining strong personal connections at the working level with donors. **The Committee took note of the information received and recommended that the Board take note of the update on the use of the revolving fund from non-earmarked reserves.**
18. Under item 7k, "UNITAR Investment Management and Review Strategy", the Chair recalled that under item 7h, "Report on the 2015 External Audit," the Board of Auditors recommended that UNITAR prepare either an investment strategy or consider the extent to which UNDP's investment strategies are in line with the Board of Trustees requirements. The Chair indicated that Management had accepted the recommendation and has been working with the UNDP Investment Management Team in order to maximize the return achieved on funds invested.
19. The Executive Director mentioned that the Institute is not independent in determining investment strategies, and that it is subject to the investment management team of UNDP which invests funds not only from UNITAR but several UN entities. He observed that the Institute was getting the lowest investment on funds, and that it would be important for UNITAR to shift from money market accounts to longer term investments. While agreeing with this strategy and the engagement of Management with the UNDP Investment team, one member underscored the importance that the investment strategy should be to maximize the return achieved on funds invested and at the same time safeguarding assets and the necessary liquidity at all times. Another member emphasized the need for Management to improve the recording of data on receivables, which would in turn help UNDP to analyse the amount that can be invested. **The Committee took note of the information received and recommended that the Board welcome the UNITAR Investment Management and Review Strategy, and that the strategy would seek to maximize the return achieved on funds invested while at the same time safeguarding assets and the necessary liquidity at all times.**
20. Under item 8, "Draft Resource Mobilization Strategy", the Chair made reference to the annexed document and indicated that the overall objective of the strategy was to increase the Institute's budget and revenue by an average of six per cent annually, over the course of 2017 to 2021, and that successful implementation would increase income to some \$64 million per biennium by 2021.

21. The Executive Director stated that the resource mobilization strategy is an important element, but not the only element, of the larger vision of the UNITAR We Want, and that all components, including growth, visibility, modernization, transparency, quality control, are interlinked. He made reference to the current projected growth of 9 per cent, and indicated that this growth would be an important foundation to the strategy. The Executive Director reviewed the various sub-components of the strategy and targets, including increasing the number of multi-year projects and the size of earmarked projects; increasing funds to support fee waivers and fee reductions for participants from countries in special situations to access fee-based training courses; maintaining the current proportion of non-earmarked voluntary contributions; strengthening the diversification of donors including from the private sector and engaging in new initiatives, including the possibility of creating an endowment fund.
22. The Chair thanked the Executive Director for taking the leadership on preparing the strategy. Members joined the Chair in recognizing this achievement, with one member noting that implementation of the strategy would be likely done on a trial and error basis, with some elements working better than others. He noted that the central challenges would be to increase non-earmarked funding and attract larger, multi-year scale projects. The member did not think that creating an endowment fund would be an immediate priority of donor countries and that it would be important to study different models to see to what extent other approaches could be adapted to UNITAR. Another member suggested that efforts should be made with the private sector in exploring possible thematic streams for an endowment fund. **The Committee took note of the presentation of the strategy, commended Management on the preparation of the strategy and recommended that the Board welcome the strategy and that Management report to the Board on the implementation of the strategy annually.**
23. Under “Any other business”, the Chair announced that his second consecutive term on the Board would be coming to an end this year and thanked members of the Committee for the support he has received. He also thanked the new members for having joined with committee and the Secretariat for its support. Members and the Executive Director acknowledged the leadership of the out-going Chair and thanked him for the time and diligence invested in this important function.
24. The Committee adjourned.