

Board of Trustees

Sixty-First Session
Finance Committee
Thirteenth Session
2 November 2020

UNITAR/BT/61/FC/13/3

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

1. The Finance Committee convened on 30 October 2020 via Zoom.
2. The following members of the Committee and observers were present at the session:

Committee members:

Ms. Diana Chavez
Mr. Vijay Nambiar (Chair)
Dr. Patti Phillips

Ex Officio:

Mr. Nikhil Seth, Executive Director, UNITAR

Secretary of the Committee:

Mr. Brook Boyer, Secretary of the Board (also in the capacity of Director, Division for Strategic Planning and Performance)

Observers:

Ms. Marina I. Dinca Vasilescu, Director, Division for Operations, UNITAR
Mr. Joel Thalla, Chief, Finance and Budget Unit, UNITAR
Mr. Jonas Haertle, Special Assistant, Office of the Executive Director, UNITAR

3. The Chair called the meeting to order and introduced the provisional agenda as circulated by the secretariat covering the items under partnerships (item 9) and finance and budget (item 10) of the provisional agenda of the Sixty-First Session of the Board of Trustees, as well as elections for additional members of the Committee. The Committee adopted the agenda as proposed.

4. The Executive Director welcomed members and recalled that the Committee's purpose was to review the work and reports from the independent auditors, including the financial statements, in addition to the budget review by Advisory Committee on Administrative and Budgetary Questions; policies having finance and budgetary implications, such as cost recovery; and the programme budget.
5. Under item 9, "Partnerships and Resource Mobilization", the Chair recalled that Management had updated the Board on the Resource Mobilization Strategy in 2019 and that following discussions on whether the Board should set up an advisory group, the Board requested Management establish informal arrangements with expertise within and outside the UNITAR on strategic partnership engagement with the outcome to presented at the present session. The Executive Director reviewed progress against the resource mobilization strategy, noting that the overall growth target would very likely be met with the revised programme budget and that progress against other targets such as the increase in average size of earmarked projects and the increase in funding from the private sector. He indicated that UNITAR had not made progress against other targets, such as the mobilization of \$500,000 annually to support waivers for fee-based courses and maintaining the current proportion of non-earmarked contributions to overall income. He also noted that the softly-earmarked contributions to the Strategic Framework Fund (SFF), which was not part of the strategy, to some extent met the shortfall in the non-earmarked funds. He referenced the COVID-19 pandemic and the implications that it is having on revenue and expenditure projections, and that 2021 would likely prove to be a difficult year, but that if UNITAR would realize the present proposed revision to the programme budget, growth will still have increased by 23 percent over the 2018-2019 budget. The Executive Director made reference to partnerships, including the International Training Centres for Authorities and Leaders (CIFAL) and the One United Nations Climate Change Partnership (UN CC:Learn) and the SDG:Learn platforms. He also noted the importance of due diligence and risk assessment in partnership development.
6. The Chair sought clarification on the prospective of meeting the proposed projections, the softly earmarked SFF and if a new resource and partnerships strategy would take into account COVID-19 like events in the future. The Executive Director indicated that projections are based on discussions with programme managers on dialogues with and commitments from donors. While expressing optimism on meeting revenue projections, he was less optimistic on expenditures since project implementation will necessarily change, with more activities delivered online in the COVID-19 context and that this change in delivery modality would be difficult to realize in some cases such as troop battalions in Africa. On the SFF, the Executive Director noted its softly-earmarked nature, as opposed to the strict conditionality with earmarked funds of special purpose groups and the non-earmarked funds to the General Fund, and welcomed the flexibility and demand responsiveness of the SFF in terms of defining who are the beneficiaries and how the activities are to be implemented, for example. On the new strategy to be developed, the Executive Director, he emphasized the importance of being nimble and ready to address needs as they arise and deliver online. In response to a question from the Committee as why progress was not being made against the other indicators of the strategy, the Executive Director said that donors did not like contributing to the core through non-earmarked contributions and that this was reflective of a much larger trend of donors not contributing to core budgets. The Director from the Division for Strategic Planning and Performance added that UNITAR's initial progress mobilizing funds to support fee waivers was due to a portion of non-earmarked contributions to the General Fund set aside to support fee-waivers for beneficiaries of countries from the G-77 and China for multilateral diplomacy training. In response to a question on the financial impact of the IT platform upgrade, the Executive Director noted the cooperation with an Australian company providing mobile learning and micro apps, and that UNITAR saw much potential for using smart phone in learning and that UNITAR needed to learn more from the private sector on using social media in learning. **The Committee recommended that the Board request Management to submit a Partnerships and Resource Mobilization Strategy covering the period from 2022 to 2025 for the Board's consideration at its Sixty-Second Session.**
7. Under item 10a, "Audited financial statements for the year-ended 2019 and Report of the Board of Auditors", the Chair referred to the item's annotation, the Financial Report and Audited Financial Statements for the year ended 31 December 2019 under Annex 4 of the Board's documents.

8. The Executive Director drew the Committee's attention to the unqualified opinion for the financial statements. He noted that the operating results yielded an increase in net assets of \$8.489 million from the net assets balance of \$23.498 million at 31 December 2019, and that the net surplus in revenue over expense in 2019 was \$16,004 million and noted that this change was the result of reporting under the International Public Sector Accounting Standards (IPSAS) in which revenue from non-exchange transactions can be recognized in one financial year and the related expenses recorded in another. The Executive Director reported that the liquidity position of UNITAR remained stable and that there were enough assets to settle obligations. The key liquid funds showed an increase of \$11.504 million from the level of \$26.725 million at 31 December 2018 to \$38.229 million as at 31 December 2019.
9. On the report of the Board of Auditors (BOA), the Executive Director indicated that the BOA had issued 15 recommendations and that Management had accepted all and had already implemented five. The Chief of Finance and Budget highlighted that the recommendations resulted from the management audit and covered various areas. He then reviewed each of the recommendations as contained in the item's annotation and the BOA report and the actions that Management had or was undertaking. He also updated the Committee on the two prior year recommendations that were outstanding, with the recommendation on keeping the Policy Guidelines for Agreements with Financial Implementation for the Acceptance of Voluntary Contributions under review implemented recently, and the second recommendation on establishing a roster of consultants that links performance to the consultants' respective fields of expertise expected to be implemented by December 2020. The Chief of Finance and Budget concluded by indicating that Management expected most recommendations to be implemented before the next external audit exercise. The Chair summarized the overall finding that the financial statements were presented fairly and that there was no significant error, omission or misstatement. In response to a question on cost implications for implementing the various recommendations, the Chief indicated that most of recommendation did not have any implementation costs except the cost of developing e-recruitment, for example. He also noted that some recommendations may be over taken by events next year with the Oracle Cloud ERP platform scheduled to be implemented in 2022. **The Committee took note and recommended that the Board take note of the audited financial statements for the year-ended 2019 and the Report of the Board of Auditors.**
10. Under item 10b, "Report on the application of the cost recovery approach and update on the General Fund", the Chair recalled regular discussions since the formula was devised in 2013 on programme support costs (PSC) and direct service costs (DSC), and that at the last session of the Board, Management indicated that the recovery approach needed to be re-evaluated to address (i) issues related to the perception on competitiveness of the rates and (ii) transparency and traceability as required by some donors, such as the European Union. The Executive Director underscored the two reasons requiring a reconsideration of the approach. He noted, however, that UNITAR had improved its cost recovery rate in 2018-2019 to 16.23 per cent from 14.53 per cent in the previous 2016-2017 biennium, and that this resulted in a marginal surplus of \$19,000 which closed the cost recovery gap for the first time. He announced that for the biennium 2020-2021, with the revised forecasted growth in the programme budget, the recovery rate is expected to further improve to 17.81 per cent yielding a surplus of \$1.344 million. The Executive Director reminded the Committee that the General Fund is comprised largely of the PSC and DSC cost recovery income, non-earmarked contributions (which are dwindling) and interest revenue from investments made on UNITAR's behalf by UNDP. He noted that the General Fund supports the costs of executive direction and leadership and the other functional enablers, and that the operational reserve, which is what is left after General Fund commitments, increased to \$2.267 million (as compared to \$1.617 million in the previous biennium), which is equivalent to 6.19 months of operational reserve against the norm of 12 months (and that at the end of 2021 it is projected to be almost 9 months). He noted, however, that there is discussion in the UN at the moment on what should be the minimum and maximum of operational reserve.
11. The Executive Director said that moving into a new cost recovery model is linked to the new ERP and the aims to respond to transparency and traceability needs. He noted that a prototype tool had been developed by the Finance and Budget Unit that would identify unit costs, cost pools (i.e. service lines), cost drivers (i.e. types of services used) and the amount of time consumed for better implementation support. The Executive Director noted the uncertainties

with the development of the new ERP and other ongoing developments, such as the timeline for undertaking the European Union (EU) pillar assessment which would make UNITAR eligible for indirect EU funding opportunities given ongoing dynamics between the EU and the UN on data protection and who should pay for such assessments. The Executive Director concluded that the timing is not right to modify a cost recovery model that is presently working and that 2022 would be a more appropriate moment. In response to a question from the Chair as to whether there are any EU projects that would require urgent funding and if there is any interim methodology to meet traceability concerns, the Executive Director referred to the EU pledged funds to The Defeat NCD Partnership in the range of \$3 million and \$7 million and that Management would work with the EU separately to try to seek a solution. **The Committee took note and recommended that the Board take note of Management's report on the application of the cost recovery approach and update on the General Fund. The Committee requested Management to propose a possible new formula at the Sixty-Third Session of the Board and to look to obtain a waiver from EU and other major donors as may be required and for the specific projects to work directly on obtaining exceptional treatment from the EU.**

12. Under item 10c, "Report of the Advisory Committee on Administrative and Budgetary Questions", the Chair noted the anodyne nature of the report and the Advisory Committee's observations that Management's forecast of expenditure for the remainder of 2020 may be overly optimistic. The Executive Director reviewed the recommendations and his concern that programme expenditures would be down for 2020, as reflected in the report's finding. He indicated that the Advisory Committee appeared to be interested in gathering lessons to be learned on the spending side. The Executive Director also made reference to the need for a prudent approach taking into consideration the need for the United Nations to establish a common minimum and maximum levels of operational reserve. He also noted the other recommendations of the Advisory Committee, including providing full details on losses and gains on currency exchange, continuing to support the Secretary-General's strategy on gender parity and improving geographic representation of staff. **The Committee recommended that the Board take note of the Report of the Advisory Committee on Administrative and Budgetary Questions and the observations made, and that the Executive Director would be reporting on these recommendations in the coming year.**
13. Under item 10d, "Proposed Revision to the Programme Budget for the Biennium 2020-2021", the Chair noted that the proposed budget, attached as Annex 7 of the Board's documents) amounts to \$68.10 million, which represents a reduction of \$20.18 million. Despite this revision, the Chair noted that the projected budget is well over the realized budget for the last biennium (2018-2019). The Executive Director noted that the revised estimate is 23 per cent greater than the past biennium programme budget. Noting the budget is a projection, he said that the major reduction was due to a downward budget revision of The Defeat-NCD Partnership, initially projected at \$31 million and revised down to \$5.97 million. He noted that budget increases for the Peace division and UNOSAT have to some extent offset the dramatic fall of the Defeat-NCD Partnership budget. The budget of the operational costs (i.e. functional enablers supported by the General Fund) decreased by \$1.89 million and that Management has abolished 19 posts of the 18 posts contained in the original biennium budget. The Executive Director expected that UNITAR's outreach to over 125,258 individuals would continue and that the CC:Learn platform would add significantly to beneficiary outputs. The Chair expressed his belief that there was much interest behind The Defeat-NCD Partnership and that this scaling down was largely temporary. The Executive Director agreed, noting that the delay in receiving the EU pledge due to the issues surrounding the ongoing pillar assessment was partly a factor for the decrease, in addition to the need for the Partnership to review its business model and rely on local consultants and support staff at the country level as opposed to experts traveling to the field. In response to a question on UNOSAT, the Executive Director explained that the donor of a major project required UNITAR to deliver results prior to receiving payment. He noted that the project is scheduled to come to a completion soon and that the challenges confronted in the past would subside. **The Committee recommended that the Board adopt the revision to the programme budget for the biennium 2020-2021 as proposed.**
14. Under item 10e, "Update on the use of the revolving fund from the General Fund", the Executive Director informed the Committee that since 2015 until 30 September 2020, a total of 113 loans valued at \$8.406 million have been issued of which 99 loans amounting to \$7.622

have been refunded. As of 30 September 2020, the balance of the fund was \$0.784 million. During 2019 a sum of \$235,575.20 was written off. In its report of the 2019 external audit, the Board of Auditors issued a recommendation to reinforce compliance with the criteria for using the revolving fund. He noted that the Board of Trustees established the criteria which were subsequently tightened by Management. It has been working well apart from minor aberrations. On the loan that was written-off, the Chief of Finance and Budget referred to the report of the Board of Auditors and confirmed that the write-off is permanent from the ring-fenced revolving loan fund and that the fund is now short of that amount. The Chair noted that a lesson was learned and that it is assumed that when a written agreement is signed, it will be implemented. The Chair stated that it was important to carefully calibrate the use of the fund and to use the fund in cases where there are technicality when advanced access to funding is required. The Chair did not find that additional criteria were needed and that there were not issues with the rules but rather their application. **The Committee took note of the observations and Management's commitment to strictly adhering to the established conditions, criteria and procedures of the revolving loan fund. The Committee took note that this was a permanent write-off and drew lessons from this case.**

15. Under item 10f, "Update on the Strategic Framework Fund", the Chair recalled that the Board established the Fund as a pooled funding instrument to support the implementation of the strategic framework, and that the fund enjoys support from five donors with the Swedish International Development Agency (Sida) and the Government of the State of Qatar being the most important. The Executive Director noted that the fund works well but that the challenge is mobilizing additional donations. He expressed appreciation for the commitment of Sida, and that he has been in touch with the Permanent Representative from Qatar and that he had hoped that the government would renew their contribution for another year. He reported that he had also met the Permanent Representatives from China, Finland, Germany and Switzerland and that it was challenging mobilizing support in the COVID-19 context. He noted the flexibility and synergies that the Fund provides and solicited recommendations from the Finance Committee. In response to a question on providing a general call for support and also targeting philanthropic organizations, the Executive Director noted that UNITAR reaches out the diplomatic community in Geneva through the Friends of UNITAR. On reaching out to foundations, he expressed doubt that UNITAR would have much traction particularly with larger organizations seeking funding for competing purposes. The Chair suggested approaching smaller and newer groups that may be interested in developing cooperation with the UN. **The Committee recommended that the Board take note of Management's observations and its thinking on bringing greater visibility and contributions from established donors and how to promote the instrument within its networks to make the fund a reliable base to support UNITAR programming.**
16. The Chair proposed that the Committee discuss item 10g, "Update on the implementation of the UNITAR Investment Management and Returns Strategy" and item 10h, "Supplementary funding plan for the unfunded UNITAR ASHI liabilities" in tandem. The Executive Director reported that investments are managed by UNDP and that returns had improved when compared to previous years, with returns amounting to \$605,000 in 2019 as against \$405,000 in 2018. He reported that in line with other UN Agencies and agreeing to the recommendation of the UN Controller to further supplement the ASHI liabilities, UNITAR has proposed to set aside all its annual investment returns to fund its long-term unfunded ASHI liabilities. He noted that ASHI liabilities had been re-valuated and as a result the liabilities have increased sharply by some \$8 million. The Chief of Finance and Budget added that the value of ASHI liabilities is calculated by parties external to the UN, but the calculation is based on assumptions and data (e.g. census data, age, etc.) given by the UN. He noted that the discount rates are variable, however. In the increase of \$8 million, \$2.6 million are due to the discount rates. With the valuation, Management now expects to fully fund the ASHI liability in about 16 to 20 years. **The Committee recommended that the Board take note of the update of the UNITAR Investment Management and Returns Strategy and the supplementary funding plan for the unfunded UNITAR ASHI liabilities.**
17. Under item 10i, "Creation of programme-level salary pool for meeting knowledge content development costs to cover pre- and post-project implementation/validity periods", the Chief of Finance and Budget recalled the presentation he made at the Sixtieth Session and the attention he drew to costs that are incurred before and after project implementation that cannot be booked against the project. Consequently, the Board agreed for Management to create a salary

pool as a pilot project in one programme unit in which the salary budgets would be placed into the pool, subject to acceptance by the donor. As salary would be reported as having been spent, he cautioned the Committee that auditors may have observations. Noting delays due to COVID-19 in revenue mobilization and expenditures, the Chief for Finance and Budget noted that there were only four agreements in which such clauses were accepted by the donors (UNDP and Germany). He referred to the table in the item's annotation and indicated that large amounts of salaries which remained unspent. While UNITAR informed donors that up to 20 per cent would be placed in the salary pool, he reported that this should be reduced to 10 per cent to be retained in the salary pool by the end of the project life cycle, and return to the Committee next year to report further experience. The Chair noted the more cautious approach and that the perspective of auditors also be taken into consideration with the view to avoiding a qualified audit statement. **The Committee took note and recommended that the Board request Management to continue the experimental proposal for one full budget and audit cycle, involve all stakeholders such as donors and the UN Board of Auditors, and present a full-scale update and recommendation to the Board at its Sixty-Second Session.**

18. Under "Elections", the Chair announced that his second consecutive term on the Board would be expiring at the end of 2020 and that an additional member or members would need to be elected to the Committee. The Executive Director announced that one Board member had expressed interest. The Executive Director, joined by Committee members, thanked the Chair for his diligence over his tenure as Chair. The Chair expressed his gratitude to the Executive Director for his confidence and for the opportunity to serve on the Board and Finance Committee.
19. Under "Any other business", the Chair noted that the Office of Internal Oversight Services had consulted Management on risk areas that may be subject to an internal audit in 2021 and that in accordance with the Board's rules of procedure, the Board shall be consulted on the terms of reference of internal audits through the Finance Committee. The Director of Operations reported that the audit may be on mainstreaming Sustainable Development Goals and that the exercise may not take place until 2022.
20. The Committee adjourned.