

Board of Trustees

Fifty-eighth Session

UNITAR/BT/58/FC/10/2

Finance Committee

Tenth Session

14 November 2016

Geneva, Switzerland

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

1. The Finance Committee convened on 13 November 2017 in Geneva.
2. The following members of the Committee and observers were present at the session:

Committee members:

Ms. Diana Chavez
Ms. Kathleen Cravero Kristofferson
Mr. Vijay Nambiar (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. Joel Thalla, Chief, Finance and Budget Section, 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 (item 7) of the provisional agenda of the Fifty-eighth Session of the Board of Trustees. The Committee adopted the agenda as proposed.
4. Under item 7a, "Audited financial statements for the year-ended 2016", the Chair referred to the item's annotation, the Financial Report and Audited Financial Statements for the year ended 31 December 2016 under Annex 7 of the Board's documents and the list of contribution agreements signed by UNITAR during 2016 under Annex 8 of the documents.

5. The Executive Director drew the Committee's attention to the overall positive conclusion of the Board of Auditors and to the sound financial basis of the Institute. The Chief of Finance and Budget reiterated the sound state of financial affairs of UNITAR and highlighted the increase in net assets from the previous financial year, from \$21.097 million to \$21.316 million. He mentioned that in addition to the increase in assets, liabilities have also increased, which were largely due to employee benefits. On revenue and expenditures, he reported a deficit of \$0.172 million, although he noted that this deficit is explained by three reasons, including some projects having been completed a lower than agreed contribution amounts, amendments made by donors to the original agreements and the waiving of affiliation fees in prior years from the Global Network of Local Training Centres for Leaders and Authorities (CIFAL). The Executive Director added that the differences are largely attributed to the technical IPSAS accounting method in which income is to be recognized upfront, and that the differences were marginal.
6. The Chair summarized the discussions, noting that the financial statements were prepared in accordance with IPSAS, that the increase in net assets and liabilities is a combined result of operating deficit plus actuarial gain, that liquidity is stable, and that the net deficit can be explained by the decrease in contributions of \$1.829 million which includes \$0.087 million in accounting adjustments. **The Committee took note of the information of its discussions and recommended that the Board take note of the Audited Financial Statements for the year-ended 2016.**
7. Under item 7b, "Report on the application of the cost recovery approach", the Chair recalled that Management approved the cost recovery formula which distinguishes between programme support costs (PSC) and direct service costs (which vary between 6 per cent for pass through funds and 11 per cent for projects managed by UNITAR). The Executive Director noted that the cost recovery approach originated from a recommendation from the Board of Auditors which was subsequently welcomed by the Advisory Committee for Administrative and Budgetary Questions and then approved by the Board of Trustees. The Executive Director drew the Committee's attention to the table in the annotation and the degree of transparency that the Institute now exercises with respect to direct and indirect overhead costs. He mentioned that to support critical functional services, bringing down the support costs would require an increase in non-earmarked contributions. In observing the market conditions to which the Institute is exposed, with a number of other organizations providing similar types of services, the Executive Director emphasized the need for flexibility, and recognized the flexibility that the Board had already provided in approving a reduced DSC rate for Global Environment Facility financed projects costing above \$500,000. He also observed that if the Institute would be able to continue its growth path and maintain the current costs for operations; leadership and oversight; and planning, performance monitoring and evaluation, the percentage applied to functional services could possibly come down. If this growth would materialize, the Executive Director expressed the desire to seek increased flexibility on the PSC rate applied. **The Committee took note of its discussions and recommended that the Board take note of the report on the application of the cost recovery approach.**
8. Under item 7c, "Report of the Advisory Committee on Administrative and Budgetary Questions", the Chair noted that Management had presented the proposed Programme Budget for the Biennium 2018-2019 to the Advisory Committee on 13 October 2017. The Executive Director mentioned that the hearing with the Advisory Committee was very useful, with the Advisory Committee expressing satisfaction with income and expenditures being in line over the past several biennia, and the surplus projected for the 2018-2019 cycle. On the decline in non-earmarked contributions, the Executive Director referred to the Advisory Committee's observation and noted that the idea of establishing a Group of Friends of UNITAR originated in a discussion with the Advisory Committee and that despite several successful meetings of the group, there has not been any increase in non-earmarked contributions. The Executive Director indicated that Management would benefit very much from a discussion in the Board, including ideas on ways in which the Institute can secure commitments for the non-earmarked. He also mentioned the positive view of the Advisory Committee on the sound financial position of UNITAR and the request for Management to provide further detailed justification on the nature of the reserve in future budget submissions. On staffing, the Executive Director recognized that Management could not fill all the posts in the staffing table approved by the

Board, and that currently, while the number of Board approved staff was presently at 64, there were only 41 that are filled. He referred to the innovative recruitment of personnel and noted that contractors, consultants and fellows are often employed due to the need for expertise and the inability of Management to fund UN salaried posts. Finally, he noted the Advisory Committee's observation on foreign exchange exposure.

9. On the Group of Friends of UNITAR, the Chair noted that while experience to date has not affected the level of non-earmarked contributions, he noted expressed the benefit of exposure to donors and clients, and that continuing the interaction would be good. He expressed hope that by the time the Board convenes, there would be a more optimistic outlook on the non-earmarked funding situation. Regarding staff, the Chair observed that the large number of individual contractors and consultants as listed in the report of the Advisory Committee was understandable and justifiable given the project-based nature of the Institute's programming and the competitive market in which UNITAR operates. **The Committee took note of its discussions and recommended that the Board take note of the report of the Advisory Committee on Administrative and Budgetary Questions.**
10. Under item 7d, "Proposed Programme Budget for the Biennium 2018-2019", the Chair noted that the proposed budget, attached as Annex 9 of the Board's documents) amounts to \$57.34 million and represents an overall growth of 11.65 per cent over the costs in the 2016-2017 programme budget of \$51.35 million. He further noted that the budget is divided into four areas: (i) Programming, organized under the four strategic pillars (people, prosperity, planet and peace), in addition to the fifth area (cross fertilization of knowledge and support for the implementation of the 2030 Agenda); (ii) the Office of the Executive Director; (iii) Strategic Planning and Performance Unit; and (iv) Operations.
11. The Executive Director summarized the main features of the proposed Programme Budget, comprising the financial element, the staffing table and the reorganization of the programmatic orientation. He likened the proposed budget to a root and branch reform of the way UNITAR works and noted the guidance of the 2030 Agenda for Sustainable Development, including climate change, disaster risk reduction and the Addis Ababa financing for development conferences, and the work on the United Nations development system reform. He stressed that the presentation of the budget reflects the principles the seminal outcomes of 2015 and the need to pursue integrated approaches and break down the siloed approach of having too many distinct programmes which often have the same donors. He concluded in saying that the whole budget preparation exercise was to bring UNITAR programmes around the people, prosperity, plan and peace pillars of the 2030 Agenda, and to ensure that the budget reflects the proposed strategic framework covering the next four years. He expressed hope that UNITAR would realize the \$57 million budget target but that this reflected an aspiration and that the reality over the past budget cycles was a realization of close to 94 per cent of the budget target.
12. In recognizing the reconfigured nature of the proposed budget, the Chair observed the intended integrated approach and that a large proportion of programming areas are aligned with SDGs 12 (sustainable production and consumption patterns), 15 (climate change) and 16 (peaceful, inclusive and just societies). The Executive Director emphasized that UNITAR would be looking toward realizing programmatic synergies both within and across pillars. With respect to a question on leveraging the work of UN entities and other partners (including the academia and the private sector) in its work, the Executive Director emphasized that within its niche of training and learning methodologies, UNITAR relies heavily on the subject matter content of its partners and then contributes its training and learning expertise to meet the needs of beneficiaries. On working to reach the furthest behind first, the Executive Director noted that in 2016, some three-quarters of UNITAR learning-related beneficiaries came from developing countries and of this segment, some 50 per cent represented countries in special situations, including the least developed countries, the landlocked developing countries and the small island developing States. **The Committee took note of its observations and recommended that the Board adopt the Programme Budget for the Biennium 2018-2019 as proposed.**
13. Under item 7e, "Report on the 2016 External Audit", the Chair recalled that the Board of Auditors audited the financial statements of UNITAR for the year-ended 31 December 2016

and that the Report of the Board of Auditors was attached as Annex 7 of the Board's documentation. The Executive Director summarized the audit observations and recommendations, including the need for the Secretary-General to amend Article VIII, paragraph 11 of the UNITAR Statute to recognize the certification of annual accounts, as opposed to the current biennial account requirement; professionalizing the Finance and Budget Section, which is in progress; raising awareness of donors that recruitment be done in line with the United Nations policies on the elimination of discrimination; and examining measures that are suitable to create a non-discriminatory and inclusive work environment. The Chief of the Finance and Budget Section highlighted the non-qualified nature of the audit and briefed the Board on the status on the implementation of recommendations from the previous financial periods which were not yet fully implemented, including (i) the timely finalization of financial reports to donors, (ii) consulting the Office of Legal Affairs to confirm that the delegations made to UNDP by the Controller are in conformity of the UNITAR Statute and the United Nations Financial Regulations and Rules, and (iii) establishing an entity wide risk register. The Chair highlighted that there were hardly any finance-related observations that were identified by the Board of Auditors. He also informed the Committee that he would be meeting with a representative from the Board of Auditors. **The Committee took note of the observations and recommended that the Board take note of the report of the Board of Auditors, and that as provided under Article XI of the Statute, recommend to the Secretary-General to amend paragraph 11 of Article VIII of the Statute to read as follows:**

“The funds of the Institute shall be held and administered solely for the purpose of the Institute. The Controller of the United Nations shall perform all necessary financial and accounting for the Institute, including the custody of its funds, and shall prepare and certify the annual accounts showing the status of the Institute’s special account.”

14. Under item 7f, “Migration to ATLAS”, the Chair recalled the decision for Management to keep the Board apprised on the migration to the ATLAS enterprise resource planning system. The Chief of the Finance and Budget Section briefed the Committee on the status of implementation and indicated the migration has been completed and that over the past year, a number of enhancements have been implemented, including the creation of financial dashboards allowing Managers to review financial information on real time basis. He further indicated that in terms of savings, ATLAS has economized \$214,0000 in charges in 2017 that UNITAR would have normally paid to the United Nations Office at Geneva (UNOG) for the performance of financial services that are now done by UNITAR. The Chair observed that the migration to ATLAS is complete and offers visible up-to-date financial information, that there is space for customization, and that the migration has realized cost savings. **The Committee took note of the information provided and recommended that the Board take note of the update on the migration on ATLAS and request Management to brief the Board on ATLAS in the future should any matter emerge requiring the Board to be informed or take decisions.**
15. Under item 7g, “Update on the use of the revolving fund from non-earmarked reserves”, the Chair recalled that at its Fifty-sixth Session (2015) the Board approved the establishment of a revolving fund ring-fenced within the General Fund to provide loans to programmes for cash flow support purposes to ensure that programmatic activities are not interrupted by delays in donor fund transfers. The Executive Director informed the Committee that the mechanism was functioning well and serving its intended purpose, and that Management has limited the amount to \$250,000 that any one programme could borrow from the fund until reimbursement. The innovative character of the fund was noted, given the project and mostly earmarked nature of UNITAR financing. **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.**
16. Under item 7h, “Resource Mobilization Strategy”, the Chair recalled that the Board welcomed the new Resource Mobilization Strategy at its Fifty-seventh Session (2016) and requested Management to provide annual updates on the strategy’s implementation. The Executive Director noted that two of the strategy’s six components were on track (increase in budget and revenue by an average of 6 per cent annually, and increase in funding from the private sector),

but that the performance against the targets of the strategy's other four indicators (*viz*, increase in proportion of multi-year projects, increase in size of ear-marked projects, mobilization of \$500,000 annually to support fee waivers/reductions for fee based courses and maintaining current proportion of non-earmarked contribution to overall income) needed to be addressed. He referred to the observations of the Advisory Committee with regard to the decrease in non-earmarked contributions to the General Fund, and indicated that this decrease also had repercussions on support to enable the Institute to waive course fees. The Executive Director also briefed the Committee on the work of the UNITAR Resource Mobilization Committee, which he chairs, and indicated that over the past year the Committee has convened approximately monthly and has focused its work on strengthening cooperation with the business sector (e.g. what strategies for engagement work, which companies or apex bodies need to be reached) and with the European Union, as well as analysing the fee structure of UNITAR online courses. On strengthening cooperation with the business sector, the Executive Director reported that Management had identified six companies in which UNITAR would make a concerted effort based on their foundations and partnerships with the United Nations. He emphasized the difficulty in mobilizing the private sector in financial partnerships. On the fee structure for the UNITAR online, fee-based courses, the Executive Director noted that the conclusion drawn was to continue to exercise flexibility on a programme-by-programme basis based on the respective market conditions. The Executive Director noted that UNITAR cannot afford full-fledged fundraising units, and that the Management's approach is to use existing resources through the Resource Mobilization Committee.

17. On the poor performance in several areas of the strategy, it was observed that some of the targets may be too ambitious and that it may be useful to rethink them. The Chair noted that it would be useful to engage the other Board members on the need to rethink some of the strategy's targets and that this could be discussed when the Board convenes. **The Committee took note of the information provided and its observations, and recommended that the Board take note of the update on the implementation of the strategy, and make suggestions on whether the targets or other components of the strategy requires revision.**
18. Under item 7j, "UNITAR Investment Management and Review Strategy", the Chair recalled that the Board welcomed the strategy at its Fifty-seventh Session (2016) and requested Management to report on its implementation in 2017. The Executive Director referred the item's annotation and the table summarizing the current rate of return of 1.28 per cent. In observing that the rate appeared to be rather low, he indicated that UNITAR had very little manoeuvrability in so far as the UNDP Investment Management Team managed the funds. The Chief of Finance and Budget indicated that the UNITAR proportion of the total cash pool was only 1 or 2 per cent, and that most of the UNDP investments are short term (e.g. 3-4 months). The Executive Director observed that it would be useful and important for UNITAR to have a clearer idea of the optimum cash reserve that UNITAR would need to maintain in order to have seed funds, promote growth and the expansion of the Institute to the regional level, and that it would be important to discuss this at the Board at a later date. **The Committee took note of the information received and recommended that the Board take note of the update of the UNITAR Investment Management and Review Strategy.**
19. Under "Any other business", the Chair observed that the Finance Committee was presently comprised of three trustees and that with the periodic rotation of Board members it would be important for the Board to consider electing at least one new member on the Committee for a term beginning in January 2018. **The Committee recommended that the Board elect at least one new member to the Committee.**
20. The Committee adjourned.