

Board of Trustees

Sixtieth Session
Finance Committee
Twelfth Session
26 November 2019

UNITAR/BT/60/FC/12/3

Geneva, Switzerland

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

1. The Finance Committee convened on 25 November 2019 in Geneva.
2. The following members of the Committee and observers were present at the session:

Committee members:

Ms. Diana Chavez
Mr. Vijay Nambiar (Chair)
Mr. Valentin Zellweger

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 of the 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
Mr. Samir Yeddes, Permanent Mission of Switzerland, Geneva

3. The Chair called the meeting to order and introduced the provisional agenda as circulated by the secretariat covering the items under partnerships (item 10b) and finance and budget (item 11) of the provisional agenda of the Sixtieth Session of the Board of Trustees. 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 10b, "Grants-in and Grants-out policy guidelines (revisions), the Chair indicated that the Board had approved the policy guidelines at earlier sessions, with the most recent changes approved by the Board at its Fifty-Ninth Session in 2018, and that Management has further reviewed the guidelines during the past year to address bottlenecks and tighten controls where needed. The Executive Director noted that the proposed changes were also intended to provide some additional flexibility, while still ensuring harmony with financial rules and regulations. The Director for Strategic Planning and Performance summarized the principal changes under both sets of guidelines as presented in the item's annotation, with the changes to the grants-in guidelines including the introduction of project implementation and agreement validity periods, a pre-financing modality from non-financial reporting projects and new modalities for project closure and the use of unspent balances. In response to a question for clarity on the use of unspent balances, Management confirmed that consultation (e.g. through an exchange of letters or electronic mail) with a donor would be required if a donor agreement would be silent on the matter or if an agreement would require donor consultation. It was suggested that Management exercise discretion on the form of consultation used depending on the level of unspent balances. On the modality of project closure, the Chair suggested that it would be advisable for the Executive Director to send a letter to the donor to formalize the act of project closure, with reference to prior consultations on the use of unspent balances if relevant. The Chief of Finance and Budget suggested that given the number of projects, it may be advisable that this task is delegated to the divisional directors on behalf of the Executive Director.
6. Turning to the proposed revisions to the grants-out guidelines, the Director summarized the principal changes, including clarity introduced to the terms of partnership, implementing partner and grant; eligibility and exclusion criteria; procedures for the award of grants; modalities for the administration and management of grants, including distinguishing between grant implementation and validity agreement periods; payment schedules; due diligence and evaluation; and grant suspension and termination. On the grant award procedure, the Director noted that most grants are awarded to implementing partners having domain rights or monopoly of competence, such as government ministries. For implementing partners not falling under the exception criteria, he questioned whether the \$100,000 threshold was set too high for the direct award procedure (i.e. without competitive selection). The Executive Director suggested that the matter could be deferred to a later time or addressed through consultation with the Finance Committee through circulation, similar to exceptions granted to the cost recovery rate. It was suggested that Management review the approaches to criteria or thresholds that other organizations of a comparable size have in place and report to the Board of Trustees. In response to questions on the possible implications related to cost recovery and pre-financing activities through the revolving fund, Management indicated that there has not yet been a request for such pre-financing but that it could arise. **The Committee recommended that the Board approve the revised Guidelines for Agreements with Financial Implications (acceptance of voluntary contributions for specific purposes), with the requirement that a letter be sent to the donor to formalize the act of project closure. The Committee also recommended that the Board approve the Revised Policy Guidelines for the Disbursement of Funds to Implementing Partners, with the understanding that Management would report on thresholds or criteria for the competitive selection procedure of implementing partners as practiced by organizations of a comparable size.**
7. Under item 11a, "Audited financial statements for the year-ended 2018 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 2018 under Annex 9 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 a decrease in net assets of \$2.125 million from the net assets balance of \$25.623 million at 31 December 2017, and that the net deficit in revenue over expense in 2019 was \$2.591 million (in contrast to a surplus of \$4.676 million in 2017) 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 where agreements are signed late in the financial year and span over a multi-year period. The Executive Director reported that the liquidity position of UNITAR remained stable and that there were enough assets to settle obligations. The key liquidity indicators showed a decrease of \$1.796 million from the level of \$28.521 million at 31 December 2017. The Chief of Finance and Budget elaborated on IPSAS, noting that revenue and expenditure are seen in conjunction with the balance sheet. He explained that revenue from multi-year agreements are recorded in the year that they are signed but that expenditures are recorded in the year they are made. The deficit of \$2.591 million reflect accounting adjustments resulted largely from two projects that terminated prematurely in 2018.
9. The Executive Director reviewed the main recommendations from the external audit as contained under the item's annotation in the Board documents and made reference to the need for UNITAR to update its administrative circular regarding the use of consultants and individual contractors, improve management controls by checking the availability of funds before initiating the recruitment process for consultants and individual contractors, and make efforts to comply with established travel policy controls. The Executive Director noted that Management had acted on all three recommendations and that with regards to past recommendations, eight of the ten recommendations had been implemented and with the other two under implementation. In referring to the Chair's observation on the overall positive findings from the Board of Auditors, the Executive Director underscored the importance of ensuring credibility to donors and that financial and audit compliance in addition to functions like evaluation were important for success of the UNITAR model, with more than 95 per cent of contributions earmarked for projects. **The Committee recommended that the Board take note of the audited financial statements for the year-ended 2018 and the Report of the Board of Auditors.**
10. Under item 11b, "Internal audit", the Executive Director noted that the Office for Internal Oversight Services (OIOS) completed the audit of human resources management. The Director for Operations noted that the exercise was lengthy and time consuming, as the auditors needed time to understand the particularities of UNITAR and its business model which is different from the UN Secretariat. She indicated that of the nine recommendations issued by OIOS, Management has implemented seven, and that the recommendation on the selection of United Nations circulars to be applied to UNTAR was implemented but not yet closed. She referred to the fact that Secretary-General administrative instructions did not apply to UNITAR unless decided so by Management. She noted that UN Staff Rules and Regulations apply to UNITAR staff and that they are implemented through internal circulars promulgated by the Executive Director and communicated to the Board of Trustees for endorsement. She referred to another recommendation on the selection of appropriate information technology solutions for processing and managing human resources functions, and that while action has been taken (e.g. contacting UNDP and the Inspira team in New York) an IT solution to fit UNITAR needs has not yet been identified. She informed the Committee that UNITAR is presently working with a company to design a system to accommodate the specific needs of UNITAR and taking into account the UN Staff Rules and Regulations, with an expectation that the system will be implemented by March 2020. In response to a question on any deviation between the UN Staff Rules and Regulations and internal circulars, the Director confirmed that any deviation would be communicated to the Board of Trustees. In response to another question on the difference between consultants and individual contractors, the Director confirmed that while both are contracted through special service agreements, consultants are specialists hired in cases where UNITAR does not have the required in-house expertise, whereas individual contractors are individuals who may perform functions normally assigned to UNITAR staff but normally for limited periods. The Director underscored the project-based nature of UNITAR funding and the resulting need to work with individual contractors and consultants since the short duration of projects precluded the possibility from hiring regular staff. The Executive Director requested that the responses that Management provided to the Advisory Committee on Administrative and Budgetary Committee (ACABQ) be shared with the Committee. The Executive Director

requested Management to prepare an analysis of the two categories in terms of where they are performing their work, what functions they are performing and what economies are realized by working through this modality. In response to another question, the Director confirmed that two of the 53 UNITAR regular staff are posted outside of Geneva. **The Committee recommended that the Board take note of the report on the audit of human resources management.**

11. Under item 11c, “Report on the application of the cost recovery approach and update on the General Fund”, the Executive Director recalled that the current formula for cost recovery was approved by the Board in 2013 and was determined on the need to meet the requirements for the Institute’s operational, financial, evaluation, communication, and executive management and leadership functions. He noted that costs to support the functions worked out to about 18 per cent of the budget, funded through indirect programme support costs (PSC, or 7 per cent) and direct service costs (DSC), which vary between 6 per cent for pass through funds and 11 per cent for projects managed by UNITAR). He noted exceptions to the full cost recovery formula, such as projects financed through the Global Environment Facility which the Board had approved, as well as exceptions approved by the Executive Director and put before the Board regularly. He noted that while the approved cost recovery rate is 18 per cent, the average rate applied ranged between 14 and 16 per cent, and that there is always a gap. Turning to the future and the projected growth, the Executive Director stated that the formula would not work very well, with new donors such as the European Commission requiring transparency on the apportionment of costs for support to project implementation. He referred to drawbacks of the present approach, where some degree of cross subsidization was inevitable. As such, a new approach to cost recovery would be required, one in which UNITAR would increase its transparency and cost competitiveness. It was mentioned that the push for ‘real time’ budgeting or accountability comes from donors and new streams of projected funding and partners, but that it would be important for UNITAR to undertake a risk-related analysis to determine what would happen to existing projects which may not necessarily fit a new cost recovery model. The Executive Director noted that with growth, it would be important to look towards a more flexible formula which would meet the needs of both small and large projects, and that does not deviate from the principle of full cost recovery. The Chief for Finance and Budget added that it would be important to also consider the administrative requirements of the cost recovery model, noting that the present model was simple and required little in terms of administration. Moving into a new model with traceability and apportioned costs would require UNITAR to carefully consider relevant administrative costs of implementing the model and cautioned that it would be important to strike a balance that would be acceptable to donors and protect the principle of full cost recovery without adding increased administrative burdens for implementing the approach. In developing the model, he emphasized that it would be important to carefully review the structure and categories for both direct and indirect costs, and that this would require time to do the needed analysis. The rather tight timeframe for developing a new model was noted and the Committee questioned if existing templates were available from the experiences of other organizations or donors or if a common approach could be devised. Management confirmed that templates are available (e.g. UNOPS), but UNITAR’s relatively small size is a challenge. The Chair underscored the importance of having assurance that a thorough and credible process is followed. Acknowledging the importance of this diligence, the Executive Director raised the possibility of having two models for a transitional period based on the size of funding until a new model would be fully implemented. It was noted that the simultaneous application of two models would be problematic. The Chief of Finance and Budget emphasized that the administration of the new approach should be simple, that growth is based on the principle and practice of full cost recovery, and that the model considers an acceptable level of risk. Acknowledging the timeline and expected commitments, the Chair stated that some approach needed to be considered by the middle of 2020, with consideration by the Finance Committee and the Board of Trustees through circulation. **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 and request Management to develop a new cost recovery approach for consideration and approval by the Board through circulation by the middle part of 2020.**
12. Under item 11d, “Report of the Advisory Committee on Administrative and Budgetary Questions”, the Chair noted that Management had presented the proposed programme budget for the biennium 2020-2021 to the Advisory Committee on 18 October 2019. The Executive

Director mentioned that the report of the Advisory Committee is positive and reviewed the report's principal findings, including noting the growth in the projected budget, related largely to the integration of the Defeat-NCD Partnership; the general alignment of income and expenditure over the past several biennia; the sound financial position of UNITAR; the need to provide a status update on the minimum and maximum levels (e.g. number of months) of financial reserve in the next financial statements of UNITAR; the need to include information on the Institute's total workforce in future budget submissions and further justification to the Board concerning its proposal to establish new posts when considering the proposed programme budget for 2020-2021; the need to redouble efforts in support of the Secretary-General's system-wide strategy for gender parity; and the need for further information concerning the engagement of consultants and individual contractors in the next budget submission. The Advisory Committee also welcomed the approach taken to fund ASHI liabilities and requests further updates in subsequent budget submissions. On the matter of minimal and maximum levels of operational reserve, the Executive Director noted the UNITAR Statute and its provision for funding training for international cooperation and multilateral diplomacy from the General Fund, and that this would need to be considered, along with the need to fund liabilities, in relation to the maximum levels of operational reserves. On gender, he noted the difficulty in reversing the present ratio of senior level staff in the short term, but that this priority would be addressed over the longer term with vacancies as they materialize. In response to one question, the Director for Operations reviewed the news posts established in connection with the budget proposal. The Executive Director reported that growth would likely to be secular over the near future, with positive prospects for integrating additional programmes and initiatives beyond the Defeat-NCD Partnership. **The Committee recommended that the Board take note of the Report of the Advisory Committee on Administrative and Budgetary Questions.**

13. Under item 11e, "Proposed Programme Budget for the Biennium 2020-2021", the Chair noted that the proposed budget, attached as Annex 13 of the Board's documents) amounts to \$88.283 million, which represents a 59 per cent increase over the 2018-2019 programme budget. Of the \$88.283 million, the Executive Director stated that \$31 million would come from the Defeat-NCD Partnership which was part of UNITAR previously and has decided to return to UNITAR following a period at UN Office for Project Services. He noted that UNITAR was a more suitable organization for the Defeat-NCD Partnership given its substantial capacity development component, with initial work focusing on diabetes and hypertension, and targeting 49 of the most distressed countries, largely in Africa. The Executive Director also noted projected growth in the Peace Division, as well as in the Planet Division with the incorporation of the Sustainable Cycles Programme and UNOSAT. In short, while the growth was multi-pronged, the bulk would be coming from the Defeat-NCD Partnership. Finally, the Executive Director noted that UNITAR planned to reach out to 115,700 beneficiaries in 2020-2021, with some 84 per cent of beneficiaries associated with programming with specific learning outcomes. In response to a question on the possible risks associated with the Defeat-NCD Partnership, given the size of the initiative, the Executive Director replied that in aggregate and at present there were no liabilities and that if the Partnership would leave, the risk would be limited to a decrease in the UNITAR budget. While there was no risk assessment performed per se, Management conducted a review of the donor and partnership agreements. The Executive Director stated that the Defeat-NCD Partnership is only at the outset of the recruitment process, and while fundraising has been progressing well, with contributions from Novo Nordisk and Boehringer, activities have for the most part not yet been delivered. The Chief of Finance and Budget indicated that the real liabilities would materialize once UNITAR increases its capacities to provide the required services and support to the Partnership. On liabilities, the Executive Director noted the financial escape clause in UNITAR contracts with one month notice periods should adequate financial resources not be available to cover liabilities. However, the Director for Operations and the Chief of Finance and Budget cautioned that there could be other liabilities such as termination indemnity, repatriation and end of service costs that may not necessarily have been sufficiently accrued by such time. The Chair requested Management to conduct a "back of envelop" risk assessment on the Defeat-NCD Partnership. The Director for Strategic Planning and Performance indicated that the Defeat-NCD Partnership is different from many UNITAR programmes in that donor contributions fund the Partnership as opposed to specific projects under the Partnership which would normally be subject to a project-specific risk assessment in accordance with policy. The Director for Operations listed the 17 new posts to be established through the proposed programme budget.

The Committee recommended that the Board take note of its observations and adopt the Programme Budget for the Biennium 2020-2021 as proposed, with a risk assessment on the Defeat-NCD Partnership to be presented to the Board at its Sixtieth Session.

14. Under item 11f, “Update on the use of the revolving fund from the General Fund”, the Chair brought the Committee’s attention to the agenda item’s corrigendum recalled that at its Fifty-Sixth Session (2015) the Board approved the establishment of a revolving fund of \$1 million to provide loans to programmes for cashflow support purposes to ensure programmatic activities are not interrupted by delays in donor fund transfers. The Executive Director indicated the fund has about \$0.875 million in outstanding loans at present, and that one loan in the amount of \$275,575 which was issued to the Public Finance and Trade Programme will need to be written off as the programme has not been able to refund the money. He also drew the Committee’s attention to the aging of the loans, with loans used to pre-finance activities implemented through the CommonSensing project funded by the UK Space Agency. In response to exceptions granted to the criteria for the use of the revolving fund, the Executive Director confirmed that he makes exceptions based on the criteria and the reputation of the partner. A concern was raised on the pre-financing modality for the CommonSensing project. The Chief for Finance and Budget provided further explanation on the need to write off this loan, indicating that it should have been written off in 2017 but that Management had expectations that project funding would have materialized to reimburse the loan. He recalled that under IPSAS, any asset in the hands of third parties for more than six months must be tested for its recoverability and in the event the test is negative, Management would need to either set up a “provision for write off” or actually “write off” during the fiscal year. **The Committee took note and recommended that the Board take note of the update on the use of the revolving fund from the General Fund.**
15. Under item 11g, “Update on the Strategic Framework Fund”, the Chair recalled that the Board established the Fund at its Fifty-Ninth Session and the Fund’s Governing Principles. The Executive Director announced that the Fund is working well and at present has two major donors: Qatar (with \$500,000 annually) and the Swedish International Development Agency, with its first contribution in the order of \$1.6 million (and a total of \$5 million over five years). He announced that Management was working to increase the pool of donors to the Fund and appealed to Switzerland, in addition to announcing that he had also approached other Nordic countries, Germany and, most recently, China. The Executive Director indicated that the contributions received from many donors are of such small amounts that it become cumbersome for donors to manage earmarked projects from their end, and that the soft-earmarking is in line with the development cooperation policies and priorities of an increasing number of donors. **The Committee took note and recommended that the Board take note of the update on the Strategic Framework Fund.**
16. Under item 11h, “Update on the implementation of the UNITAR Investment Management and Returns Strategy”, the Chair recalled Management’s update on the strategy at the Fifty-Ninth Session and asked the Executive Director to update the Committee. The Executive Director reported that investment revenues had improved when compare to previous years, and that the investments amounted to \$405,000 at present as against the \$118,000 in 2017 with an average return of 2.66 per cent as compared to 1.34 per cent the previous year. The Chair noted that UNITAR does not have a choice and works with UNDP. **The Committee recommended that the Board take note of the update of the UNITAR Investment Management and Returns Strategy.**
17. Under item 11i, “Supplementary funding plan for the unfunded UNITAR ASHI liabilities”, the Chair recalled Management has discussed the matter regularly, noting that ACABQ has reflected positively on this. The Executive Director stated that ASHI long-term liabilities have increased over the years and that as of 2018, these liabilities stood at \$10,208 million. This only represented 1 per cent of ASHI liabilities, however, and that UNITAR expects to fully fund the ASHI liability in 13 to 15 years by increasing ASHI contributions to 6 per cent as recommended by the Board of Auditors and setting aside all investment revenues as agreed by the UN Controller. **The Committee recommended that the Board take note of the Supplementary funding plan for the unfunded UNITAR ASHI liabilities.**

18. Under item 11j, “Creation of programme-level salary pool for meeting knowledge content development costs to cover pre- and post-project implementation/validity periods”, the Executive Director described the timeline in the development of projects and indicated the pre-project activities begin before the funds are received and that project-related work may continue after the formal closure of projects. He noted that salaries need to be paid in anticipation of projects to cover pre-project costs. The Chief for Finance and Budget underlined that pre and post project activities are not recoverable at present which results in funds being returned to donors. Further, considering the small size of the staff that support large number of projects with varying start and end dates, it has become impractical and inefficient to track staff time and apportion the costs to various projects before the project ends or within the project validity period. This is resulting into problems such as (i) not being able to recover full and actual programme staff costs (ii) charging costs to other projects that offer flexible clauses and implementation periods and (iii) refunding contribution balances without covering the costs. The Executive Director explained that Management wishes to propose the establishment of a pooled programme salary fund where knowledge content development costs (i.e. salaries) are deposited to this pool account in accordance with the related budgets agreed in the contribution agreements, as against the current practice of charging projects on a month-to-month basis. He underscored that this programme-level salary pool account would be limited to staff salary, as opposed to project funds on other budget lines. It was also clarified that while the pooled nature of the account would provide a lack of traceability of expenditures to a particular project for knowledge content development, (with the possibility that salary funds from specific projects are either over or underspent in the pooled account) The pooled salary account would provide for increased flexibility to recover pre- and post-project expenses. Management wishes to formalize this through a policy for increased transparency of accounting and reporting salary costs. In response to a question on donor acceptance of this policy, Management confirmed that specific language would need to be developed and incorporated into each donor contribution agreement and that if a donor did not agree to this modality, the salary component of projects would be managed in the specific project account. **The Committee took note and recommended that the Board request Management to develop and implement a salary pool policy for meeting knowledge content development costs to cover pre and post project implementation / validity periods.**
19. Under “Any other business”, the Executive Director observed that the Committee had three members at present and that with the normal rotation in Board membership it would be useful to recommend that the Board increase the number of members to the Committee for 2020, with attention paid to gender. **The Committee agreed and recommended that the Board elect two new members to the Finance Committee.**
20. The Committee adjourned.