



Economic and Social Council

Distr.: Limited
6 August 2009

Original: English

For information

United Nations Children's Fund

Executive Board

Second regular session 2009

14-16 September 2009*

Progress report on specific steps taken to implement the recommendations of the Board of Auditors on the UNICEF accounts for the biennium 2006-2007**

Summary

As requested by the Executive Board in its decision 2009/4, this report describes the further progress achieved by UNICEF towards implementing the recommendations of the Board of Auditors on the UNICEF accounts for the biennium 2006-2007. The report provides (a) an update on the implementation of the main recommendations, including an overview of the strategic implications of the recommendations for the management and strategy of UNICEF; and (b) information about the total year-end unexpended funds for programme activities, including recommendations and efforts undertaken to address the issue.

* E/ICEF/2009/16.

** Submission of this document was delayed because of the need for internal consultations.

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Progress report on specific steps taken to implement the recommendations of the Board of Auditors on the UNICEF accounts for the biennium 2006-2007

I. Introduction

1. At its first regular session of 2009, the Executive Board considered the Report of the Board of Auditors on the UNICEF financial report and financial statements for the biennium ended 31 December 2007 (A/63/5/Add.2), together with the report of the Secretary-General on the implementation of recommendations of the Board of Auditors (A/63/327/Add.1) and the report of the Advisory Committee on Administrative and Budgetary Questions (A/63/474).

2. In its decision 2009/4, on the UNICEF financial report and the audited financial statements for the biennium ended 31 December 2007 and the report of the Board of Auditors, the Executive Board requested the Executive Director to build on progress achieved and to continue to implement the recommendations of the Board of Auditors in a timely way. The Executive Board also requested UNICEF to provide the Executive Board with a report at its second regular session of 2009, including an overview of the strategic implications of the recommendations for the management and strategy of UNICEF, as well as an update on the implementation of the main recommendations.

3. In decision 2009/4, the Executive Board expressed concern about the increase in total year-end unexpended funds for programme activities, partially with regard to regular resources, and requested UNICEF to provide the Executive Board with a report, including recommendations, at the second regular session of 2009 on efforts undertaken to address the issue, including those regarding (a) the barriers at headquarters and country level to expending funds; and ways to expedite expenditures, taking into account good practices by other funds and programmes; and (b) information on the profile of receipt of resources during the biennium 2006-2007.

4. This report describes further progress achieved by UNICEF towards implementing the recommendations of the Board of Auditors, including the main recommendations and their strategic implications for UNICEF. This report also provides information on efforts undertaken to reduce year-end unexpended funds for programme activities and the profile of receipt of resources during the biennium 2006-2007.

II. Update on the implementation of the main recommendations

5. UNICEF rigorously pursues the implementation of audit recommendations made by both the Office of Internal Audit and the Board of Auditors. In this respect, UNICEF appreciates that the Board of Auditors classifies its recommendations into 'main' and 'other' recommendations, as this classification helps to identify how to prioritize activities and resources. Nevertheless, once they are discussed and accepted by senior management, UNICEF is committed to implementing to completion all recommendations made by the Board of Auditors.

6. Reporting on the implementation of the audit recommendations made in the Report of the Board of Auditors is submitted to the General Assembly by the Secretary-General in even years, as was done in the 2008 Report of the Secretary-General on the implementation of recommendations of the Board of Auditors (A/63/327/Add.1). Reporting is submitted to the General Assembly by the Board of Auditors in odd years. UNICEF provided its most recent update on the status of implementation of recommendations to the Board of Auditors as of 31 August 2008.

7. Responsibility for the implementation of the audit recommendations made by the Board of Auditors in Management Letters addressed to the UNICEF Executive Director (and on which the recommendations in the Report of the Board of Auditors are based) rests with the Representative or Head of Office. Implementation is routinely and closely monitored by the UNICEF Office of the Comptroller, using a web-based system, which forms the basis for reporting to the Board of Auditors.

8. The Report of the Board of Auditors (A/63/5/Add.2) contained 42 recommendations, of which 13 were classified as 'main'. Information about the status of implementation of these main recommendations as of 30 April 2009 is provided in table 1.

Table 1
Status of implementation of main recommendations

<i>As of 30 April 2009</i>	<i>Recommendations</i>			
	<i>Total</i>	<i>Fully implemented</i>	<i>Under implementation</i>	
			<i>Ongoing</i>	<i>Target date set</i>
Division of Financial and Administrative Management	9	5		4
Private Fundraising and Partnerships	1	1		
Country and regional offices	3	3		
Total UNICEF	13	9		4

9. As of 30 April 2009, nine of the thirteen main recommendations were fully implemented, and the remaining four were under implementation. Three of the four recommendations under implementation relate to activities under way as part of UNICEF adoption of International Public Sector Accounting Standards (IPSAS), now scheduled for January 2012. The remaining one main recommendation is expected to be fully implemented by the end of the third quarter of 2009.

10. As of 30 April 2009, 34 of the 42 total recommendations were fully implemented, and the remaining 8 were under implementation. UNICEF expects to achieve, by their target dates, full implementation of all 8 recommendations under implementation.

11. All reporting by UNICEF on the status of audit recommendations is subject to verification by the Board of Auditors at a subsequent audit. In this regard, in

May 2009, the Board of Auditors validated the implementation status of the above-mentioned recommendations as of 30 April 2009.

12. Details of the 13 main recommendations and the actions taken to achieve implementation are provided in the annex.

13. There are nine recommendations from the 2004-2005 biennium still under implementation, many of which will be implemented with the roll-out of the single Enterprise Resource Planning (ERP) system during 2011 and the adoption of IPSAS by January 2012.

III. Strategic implications of the recommendations for the management and strategy of UNICEF

14. Several of the main recommendations issued by the Board of Auditors in the Report of the Board of Auditors on the UNICEF financial report and financial statements for the biennium ended 31 December 2007 (A/63/5/Add.2) involve improving management practices and information reporting with respect to non-expendable property, land and buildings, end-of-service liabilities, and unliquidated obligations. Many of these recommendations will be implemented with the UNICEF adoption of IPSAS by January 2012.

15. The adoption of IPSAS will improve the quality of the financial reporting of UNICEF by requiring new or increased information across a range of areas, thereby increasing the transparency of programmatic and operational management practices. This additional information will enable improved governance and accountability and will assist in ensuring that UNICEF employs current best-management practices and achieves more efficient and effective use of financial and human resources. Key areas of change for UNICEF resulting from IPSAS adoption relate to management of inventory, premises, equipment and revenue; recording of expenses on delivery of goods and services; and reporting information related to employee benefits.

IV. Unexpended year-end funds

16. In its decision 2009/4, the Executive Board expressed concern about the increase in total year-end unexpended funds for programme activities, partially with regard to regular resources, and requested UNICEF to provide a report, including recommendations, at the second regular session of 2009 on efforts undertaken to address the issue, including those regarding (a) the barriers at headquarters and country level to expending funds; and ways to expedite expenditures, taking into account good practices by other funds and programmes; and (b) information on the profile of receipt of resources during the biennium 2006-2007.

17. In the 2006-2007 biennium, UNICEF recorded total income of \$5,765 million and total expenditure of \$5,104 million, producing a biennium surplus of \$640 million. This amount, when added to surpluses brought forward from prior bienniums, resulted in a fund balance of \$2,443 million as of 31 December 2007. Approximately \$1,766 million, or 72 per cent, of this \$2,443 million fund balance has been generated in the past three bienniums, as shown in table 2 below.

Table 2
Fund balances for the period 2002-2007 (excluding reserves)

(In thousands of United States dollars)

	2006-2007	2004-2005	2002-2003	Total
Opening fund balance	1 903 349	1 021 141	676 907	676 907
Biennial surplus	639 473	912 208	374 235	1 925 916
Transfers to reserves (after-service health insurance and separation fund)	(100 000)	(30 000)	(30 000)	(160 000)
Net increase in fund balance	539 473	882 208	344 235	1 765 916
Closing fund balance	2 442 882	1 903 349	1 021 141	2 442 823

18. The fund balance as of 31 December 2007, of \$2,443 million comprises \$833 million in regular resources funds and \$1,610 million in other resources funds, representing 34 per cent and 66 per cent of the total fund balance, respectively.

Table 3
Composition of fund balances for the period 2002-2007 (excluding reserves)

(In thousands of United States dollars)

	% 2006-2007	2006-2007	2004-2005	2002-2003
Regular resources	34	833 332	547 284	368 036
Other resources — regular	47	1 149 079	652 190	439 540
Other resources — emergency	19	460 411	703 875	213 565
Total other resources	66	1 609 490	1 356 065	653 105
Closing fund balance	100	2 442 822	1 903 349	1 021 141

19. The significant growth in year-end fund balances over the past three bienniums is due to several factors, as explained below.

Unplanned income resulting from unforeseen events

20. UNICEF conducts formal financial planning annually and prepares an updated medium-term financial plan, which contains income and expenditure projections for the current and following three years. The medium-term financial plan is reviewed and approved by the Executive Board each year at the second regular session. In accordance with the financial requirements of UNICEF, the financial plan is a framework of projections, based on the most current information, which are used to (a) estimate future regular and other resources income; (b) plan affordable levels of regular resources programme expenditures; (c) determine the budgetary estimates necessary to support programme expenditures; and (d) maintain the liquidity requirement. In this regard, UNICEF has always adopted a conservative approach with respect to financial planning.

21. While UNICEF has steadily enhanced the accuracy of its overall financial projections, unforeseen events will continue to have an impact, particularly on other resources income levels. UNICEF has improved its accuracy in forecasting regular

resources income in the past three bienniums. However, other resources income has been consistently underestimated, especially income contributed as other resources for emergencies, and this is a major factor in the higher-than-planned other resources year-end fund balances.

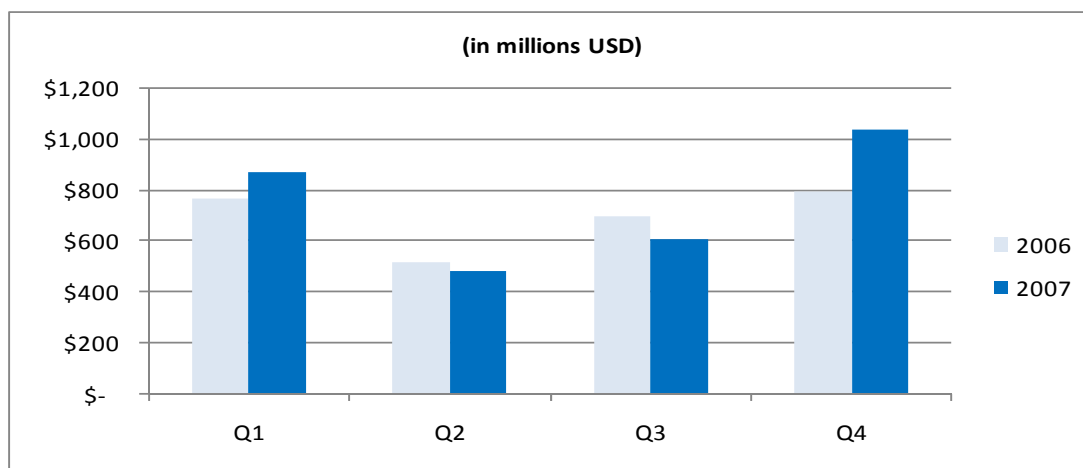
22. Over the period 2002-2007, UNICEF recorded \$1,567 million in excess of planned total income. Of this amount, \$1,220 million related to other resources income, representing 78 per cent of the total income received in excess of the planned total income. The majority (60 per cent) of this \$1,220 million in other resources income in excess of plan was received in the 2004-2005 biennium for the response to the Indian Ocean earthquake and associated tsunami of December 2004. Specifically, in the 2004-2005 biennium, other resources income for emergencies increased by 123 per cent, from \$683 million to \$1,520 million.

Changing composition of UNICEF income

23. In conjunction with this excess of actual income over planned income, the composition of UNICEF income also changed dramatically between 2002 and 2007. In 2002, total income was relatively balanced between regular resources (49 per cent) and other resources (51 per cent). By 2007, total income showed a relative imbalance of regular resources (37 per cent) to other resources (63 per cent). This downward trend in the proportion of regular resources income is of increasing concern, as was emphasized most recently by the Executive Director and by several delegations at the 2009 annual session of the Executive Board. The global presence of UNICEF and its capacity to provide continued leadership on child-related priorities and issues depends upon a strong and reliable core income base.

24. In decision 2009/4, the Executive Board requested information on the profile of the receipt of resources during the 2006-2007 biennium. Figure I below shows the profile of income recognition during 2006-2007. As can be seen, approximately \$800 million in income was recorded in the fourth quarter of 2006, and approximately \$1,000 million in income was recorded in the fourth quarter of 2007. Of the \$800 million in income recorded in the fourth quarter of 2006, 58 per cent was regular resources income and 42 per cent was other resources income. Of the \$1,000 million in income recorded in the fourth quarter of 2007, 42 per cent was regular resources income and 58 per cent was other resources income.

Figure I
Profile of income recognition during 2006-2007



25. Other resources income is mostly provided under multi-year contribution agreements. The increasing proportion of other resources income and its receipt during the latter part of each year necessarily impact the level of year-end unexpended funds, as well as the cash balance, since other resources income is received in advance of implementation.

Impact of cost recoveries

26. This change in the income mix resulting from the significant and unexpected increase in other resources income over the past three bienniums has resulted in a substantial increase in cost recoveries. Specifically, cost recoveries from other resources programme assistance activities have increased: from \$72 million in the 2002-2003 biennium, to \$162 million in the 2004-2005 biennium, and to \$225 million in the 2006-2007 biennium. This represents an overall increase of 213 per cent between the 2002-2003 biennium and the 2006-2007 biennium. In total, for 2002-2007, cost recoveries from other resources programme assistance amounted to \$459 million.

27. Since cost recoveries serve to offset regular resources expenditures, this significant and unexpected increase in cost recoveries has impacted the level of regular resources actual expenditure compared to plan. Specifically, over the course of the past three bienniums, total regular resources actual expenditures (\$4,396 million for 2002-2007) have been \$276 million below the planned total regular resources expenditure level (\$4,672 million for 2002-2007). The significant increase in cost recoveries has, therefore, contributed to the increasing level of year-end unexpended regular resources fund balances.

Expenditure levels

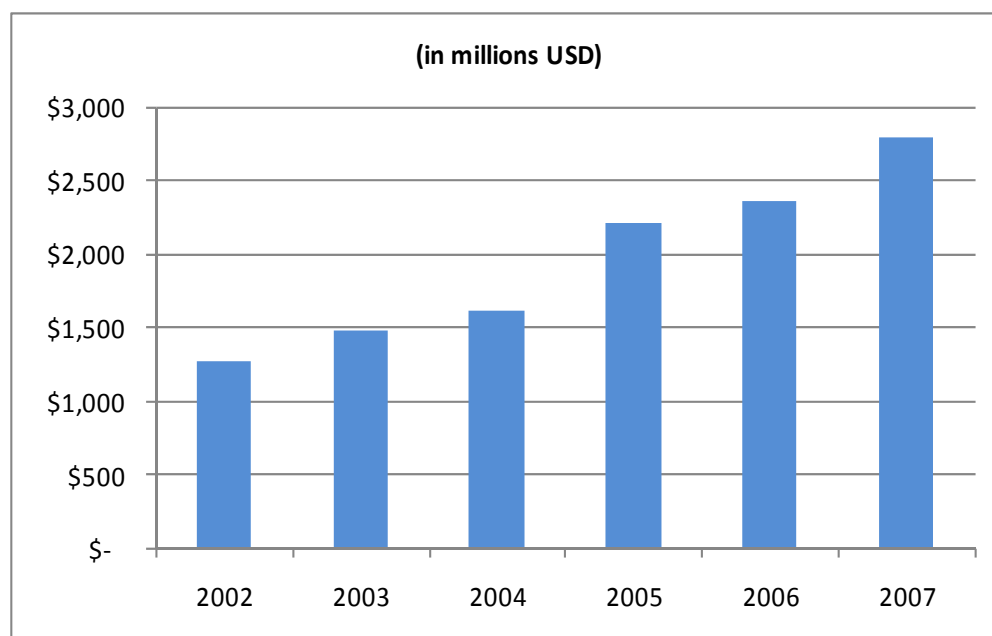
28. In completing the annual medium-term financial plan, UNICEF determines the level of affordable expenditures based upon fund balances and projected income levels. Adopting a prudent financial management approach, particularly since

UNICEF is not permitted to borrow funds, UNICEF has historically planned expenditure levels lower than projected income levels. However, since planned expenditures between 2002 and 2005 did not keep pace with the growth in actual income, UNICEF increased its planned expenditure levels so that they were closer to 100 per cent of projected income.

29. With this increase in planned expenditure levels, and with improvements in expenditure-monitoring practices, UNICEF has substantially met or exceeded planned levels of expenditure over the past three bienniums, with total actual expenditure as a percentage of total planned expenditure ranging from 99 per cent to 104 per cent. During the past three bienniums, actual other resources expenditure as a percentage of planned other resources expenditure has ranged from 103 per cent to 109 per cent, while actual regular resources expenditure as a percentage of planned regular resources expenditure has ranged from 92 per cent to 99 per cent.

30. Given the build-up of unexpended funds over the past three bienniums, UNICEF has made a concerted effort to increase expenditure levels in a responsible and managed way. In this regard, it is important to note that between 2002 and 2007, a period of only five years, UNICEF more than doubled the size of its total expenditures, from \$1,280 million in 2002 to \$2,797 million in 2007. Within these total expenditure amounts, regular resources actual expenditures increased from \$580 million in 2002 to \$1,010 million in 2007, an increase of 74 per cent; other resources actual expenditures increased from \$700 million in 2002 to \$1,787 million in 2007, an increase of 155 per cent.

Figure II
Total actual expenditure for the period 2002-2007



31. Doubling the capacity of a global organization like UNICEF in a relatively short window of time while still maintaining high-quality service standards requires significant and concentrated management action and attention. In this regard, it is critical to ensure that sufficient absorption capacity exists and increased programme activity levels can be sustained.

Challenges to expending programme funds and ways to expedite expenditures

32. The percentage of allocated regular resources for programmes expended at year-end has increased over the past two bienniums, from 92 per cent in 2004-2005 to 95 per cent in 2006-2007, against a target of 95 per cent established in the medium-term strategic plan 2006-2013. This increase has been facilitated by the implementation of a more formalized process for monitoring programme expenditures at both regional and headquarters levels. Country offices report to their regional offices on a quarterly basis on programme utilization rates and the reasons for any low utilization results. Monitoring will be furthered strengthened with the implementation of 'VISION-OneERP'.

33. While these stronger monitoring practices have improved programme utilization rates to meet the targeted level of 95 per cent, further progress can be achieved by enhancing internal management practices, including the following:

- (a) Simplifying overly complex business processes;
- (b) Improving the timeliness and efficiency of recruitment processes;
- (c) Improving the use of technology as an information and management tool;
- (d) Refining and communicating information about well-targeted and easily accessible policies and procedures for staff;
- (e) Enhancing training and orientation for staff.

34. Many of these enhancements will be made through the organizational improvement initiatives. Specifically, the VISION-OneERP project includes business process simplification and enhanced use of technology to support UNICEF work, including the implementation of dynamic programming and e-recruitment processes. Additionally, several divisions, including Policy and Practice, Human Resources, Supply, and Financial and Administrative Management, have been working diligently to enhance policy and guidance materials and will continue to do so as the business of UNICEF evolves, particularly as it relates to harmonization with other United Nations agencies, the adoption of IPSAS and the roll-out of the VISION-OneERP. It is anticipated that both the IPSAS and VISION-OneERP initiatives will significantly enhance management practices, and will be supported by relevant training for staff.

35. There are also some challenges beyond the control of UNICEF that impact the level of programme expenditures, including the following:

- (a) the capacity of government and non-government counterparts at national and subnational levels;
- (b) the security situations in some countries;
- (c) natural disasters and other humanitarian emergencies.

36. Nonetheless, UNICEF has been taking steps to try and mitigate the impact of these factors outside of its control. With respect to capacity development for government and non-government counterparts, UNICEF has been participating, through the United Nations Development Group, in the creation of a collection of tools for conducting capacity assessments, including steps to close capacity gaps identified. With respect to national policies, priorities and plans, and participation in new aid modalities, UNICEF has been working to develop guidance for staff on improving advocacy management and facilitating stronger engagement in the national development environment.

37. For those countries in high-security situations or humanitarian emergencies, UNICEF has been very focused on developing and providing guidance to country office staff to facilitate rapid assistance and deployment of funds. For example, in 2008, DFAM developed and disseminated a handbook and pocket guide, and conducted associated training, on financial risk management in emergency operations. These user-friendly guidance materials and training are designed to assist in accelerating the financial-management response in emergency situations while facilitating sound financial-management practices.

38. While UNICEF continues to monitor and actively address barriers to expending programme funds, it is important to acknowledge that maintaining some reserve of available programme funds facilitates the ability of UNICEF to provide a consistent level of programme assistance regardless of the prevailing economic environment. The balance of accumulated funds as of 31 December 2008 will in effect enable UNICEF to maintain its current level of programmatic support through 2009 and 2010, despite a significant decline in projected income over the same period.

**Implementation of the main recommendations of the Board of Auditors
on the financial statements of UNICEF for the financial period ended
31 December 2007**

Recommendations fully implemented

<i>Recommendation (see A/63/5/Add.2)</i>	<i>Division/office responsible</i>	<i>Status of implementation</i>
24	Division of Financial and Administrative Management (DFAM)	Beginning in 2008, outstanding budgetary obligations related to the prior period are cancelled against the fund balance. This change is reflected in the 2008 interim financial statements.
24	DFAM	UNICEF has clarified its policy on the cancellation of obligations in the notes to the 2008 interim financial statements.
61	Country and regional offices	Through various follow-up and monitoring actions, and in many cases through the implementation of the Harmonized Approach to Cash Transfers (HACT), the relevant country and regional offices have implemented this recommendation.
61	Country and regional offices	Through various follow-up and monitoring actions, the relevant country offices have implemented this recommendation. In most cases, the relevant offices have reduced their Cash Assistance to Government/direct cash transfers outstanding for more than nine months to below 1 per cent.
61	Country and regional offices	Through various follow-up and monitoring actions, and in many cases, the implementation of HACT, the relevant country and regional offices have implemented this recommendation.

	<i>Recommendation (see A/63/5/Add.2)</i>	<i>Division/office responsible</i>	<i>Status of implementation</i>
76	The Board of Auditors recommends that UNICEF review all reconciling items appearing on the monthly bank reconciliation statements of field offices, and make the appropriate adjustments to the accounting records immediately after each monthly review.	DFAM	UNICEF has communicated the importance of reviewing the reconciling items appearing in the bank reconciliations and, where required, has made timely and appropriate adjustments to the accounting records. Additionally, detailed instructions and progress monitoring tools are available for country and regional offices on the DFAM website on the intranet.
121	The Board of Auditors recommends that UNICEF develop a plan detailing the various steps to be taken leading to the full implementation of the International Public Sector Accounting Standards (IPSAS) by 2010.	DFAM	<p>UNICEF notes that IPSAS project governance documents, including the project implementation plan and timeline, were approved by the Project Board in September 2008.</p> <p>In June 2009, UNICEF reported to the Executive Board on the decision to postpone the full adoption of IPSAS until January 2012. The project governance documents, including the project implementation plan and timeline, have been revised and approved by the Project Board in July 2009.</p>
150	UNICEF agreed with the Board of Auditors recommendation that UNICEF review the management processes for non-expendable property and control of property records.	DFAM	Non-expendable property procedures for New York headquarters were reviewed and documented.
189	The Board of Auditors recommends that UNICEF ensure that the Private Sector Division enforce Financial Rule 9.04 relating to income retention by National Committees for UNICEF.	PFP	Rule 9.04 is being enforced by the sales officers of National Committees relations teams, in conjunction with colleagues in finance and sales from Private Fundraising and Partnerships (the UNICEF division encompassing the former Private Sector Division). In cases where the retention exceeds 25 per cent, National Committees are being challenged to develop margin improvement initiatives so as to meet agreed targets.

Implementation of the main recommendations of the Board of Auditors on the financial statements of UNICEF for the financial period ended 31 December 2007

Recommendations under implementation — target date set

<i>Recommendation (see A/61/5/Add.2)</i>	<i>Division/office responsible</i>	<i>Time frame for implementation</i>	<i>Status of implementation</i>
31	DFAM	Q3, 2009	DFAM is conducting a detailed review of the 2005-2008 empirical data, including a review of all write-offs executed between 2005 and 2008, to determine whether the provision is adequate. Recommendations for a revised provision are expected to be completed by the end of Q3, 2009.
96	DFAM	Q1, 2012	UNICEF is continuing its comprehensive review of documentation related to landholdings to which UNICEF has title to ensure that the land is identified, valued and correctly recorded in the financial accounts.
114	DFAM	Q1, 2012	UNICEF is continuing to review its disclosure of end-of-service liabilities on the face of the financial statements in conjunction with the adoption of IPSAS.
146	DFAM	Q1, 2012	UNICEF agrees that measures must be established and communicated to improve field office inventory [non-expendable property] management as UNICEF approaches IPSAS adoption.