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at 3 p.m.
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SUMMARY RECORD OF THE 10th MEETING

Chairman: Mr. MAYCOCK (Barbados)

Chairman of the Advisory Committee on Administrative and Budgetary Questions: Mr. MSELLE

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The meeting was called to order at 3.25 p.m.

AGENDA ITEM 116: FINANCIAL REPORTS AND AUDITED FINANCIAL STATEMENTS, AND REPORTS OF THE BOARD OF AUDITORS (continued) (A/45/5 and Corr.1 and 2, vols. I, II and III, and Add.1, Add.2 and Corr.1, Add.3-5, Add.6 and Corr.1, Add.7 and Add.8 and Corr.1; A/45/457, A/45/509, A/45/537 and A/45/570 and Corr.1)

1. Mr. CHOUDHURY (India) said that the low utilization of extrabudgetary resources, which for certain sections of the regular budget of the United Nations had been less than 50 per cent, raised doubts regarding current procedures for the preparation of estimates of such resources. The Administration should indicate when it intended to submit a report on that methodology; the Board of Auditors and the Advisory Committee on Administrative and Budgetary Questions (ACABQ) should also keep extrabudgetary expenditures under closer review, particularly for such items as personnel recruitment and the procurement of equipment and supplies, with a view to ensuring that the rules and regulations of the Organization were fully respected. For example, during the biennium 1988-1989, only 20 per cent of the purchase orders which had been subject to bidding or requests for proposals had been made using the proscribed competitive bidding procedure. While departures from the rule were sometimes required, exceptions should not become more common than the rule. It was to be hoped that the Board would follow the matter closely and keep the General Assembly informed.

2. With regard to rent not credited to general income, the Economic Commission for Africa (ECA) and the other regional commissions should be asked to undertake a revision of rental and operating costs charged to the specialized agencies and other entities.

3. As for the irregular termination of a staff member's appointment by which the staff member had been awarded an indemnity higher than what he would have received at normal retirement age, it was to be hoped that such cases, which were difficult to justify and did not help maintain staff morale, would be avoided.

4. The Administration of the United Nations Development Programme (UNDP) should explain why it was necessary to establish a high number of project-related posts at headquarters; temporary assistance costs should also be reflected as such in the budget, rather than be charged against established posts. In addition, his delegation hoped that the Administration would avoid hiring consultants for long periods of time or to do work that could be done by regular staff members.

5. As the Board had noted in its report on the United Nations Population Fund (UNFPA) (A/45/5/Add.7), the financial statements for trust funds showed a debit balance of $235,088. That was a violation of financial regulation 5.2. No expenditure should be incurred until the funds to cover it were available. Nor should meetings such as the International Forum on Population in the 21st Century or the meeting of UNFPA staff at Noordwijk be charged as projects. In the case of the United Nations Children's Fund (UNICEF), his delegation hoped that the Administration would make every effort to increase programme delivery, particularly

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in Africa and Asia, and pay greater attention to project planning, monitoring and evaluation.

6. The Office of the United Nations High Commissioner for Refugees (UNHCR) should record the purpose of every transfer of funds between donors and recipients, ensure that such transfers were made in accordance with the policies and aims of UNHCR, exercise adequate control over the use of the Unearmarked Trust Fund and ensure that voluntary contributions were accepted and utilized in a manner consistent with the financial regulations and rules of the United Nations governing the use of trust funds.

7. The Board's recommendations regarding the reorganization of the Area Staff Provident Fund of the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) should be implemented in the light of the Advisory Committee's observations and recommendations.

8. The Administration of the United Nations Institute for Training and Research (UNITAR) should limit the Institute's expenditures and keep them within the approved budget and allotment. UNITAR should also record a liability of $73,138.69 in its books to reflect the rent owed the United Nations for the UNITAR office at Geneva.

9. Mr. GOMEZ (Associate Administrator, United Nations Development Programme), responding to questions raised in connection with the report of the Board of Auditors on UNDP (A/45/5/Add.1), said he was pleased that one of the problems that had caused the Board to issue a qualified opinion in its 1988 report had been resolved, namely the lack of a breakdown by project of Government cash-counterpart expenditure. Unfortunately, the Board had once again issued a qualified opinion, in the current instance because of a lack of audited financial statements from UNDP executing agencies and for government-executed programme expenditure. UNDP had made every effort to obtain statements from those bodies, but it was likely that the problem would remain for some time. Existing procedures and systems were apparently inadequate.

10. With regard to government-executed programme expenditure, it was true that audited expenditures at the time of audit, i.e. at the end of April 1990, had represented only 23 per cent of all project expenditures, which totalled $100 million; however, approximately 67 per cent of all expenditures had been audited by 10 October 1990. Furthermore, certified financial statements had been supplied in all cases.

11. The auditing of accounts was a statistical sampling of transactions entered into the accounts. To date, all accounts had been subject to auditing; however, in the future, the UNDP Administration hoped to apply less rigid standards in that area: only one third of all projects would be audited each year, with 100 per cent coverage achieved every three years. That measure would be taken up in consultations with the Board of Auditors. With regard to operating funds provided to Governments, it should be noted that, with the introduction of simplified accounting procedures, those balances had been reduced by $3 million.

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12. The UNDP Administration agreed with the Board of Auditors, ACABQ and many delegations that generally accepted accounting principles should be followed. Accordingly, UNDP welcomed the recommendation that the Panel of External Auditors should commission a study, perhaps utilizing the services of the International Accounting Standards Committee (IASC), on possible guidelines for the harmonization of financial statements. Several of the Board's observations had concerned technical issues rather than matters of principle. Consequently, measures had already been taken to rectify such problems as accrued interest, reconciliation and bank confirmations.

13. The question of unliquidated obligations could be separated into two elements. The first related to accounting and, he hoped, would be addressed in the study that IASC would be asked to carry out. The second element had to do with possible abuses of existing instructions. In that regard, UNDP had issued stricter guidelines in order to minimize potential problems and ensure compliance with the UNDP Financial Rules. Furthermore, the Panel of External Auditors was also reviewing the question, although it was the understanding of UNDP that few, if any, abuses had been found. It was therefore appropriate to await the Panel's recommendations.

14. With respect to the evaluation of procedures relating to the concept of a two-year project budget cycle, UNDP agreed with the auditors that it was too early to draw firm conclusions from the test, but it would follow the results closely and decide in due course.

15. The issue of project-funded posts at headquarters was of serious concern to UNDP and would be addressed in detail in the context of a strategy leading to the formulation of the budget for the biennium 1992-1993. UNDP proposed to reduce the number of such posts, implement a more restrictive policy with regard to their establishment and review the relevant guidelines.

16. The charging of costs for temporary assistance to budget lines for established posts was a matter which UNDP wished to pursue with the auditors so as to ensure that the presentation of such costs did not give rise to any misunderstandings. In all cases the accounting treatment of those costs was in conformity with current procedures. UNDP used temporary assistance to provide support during peak work-load periods and to cover extended sick and maternity leave. The practice made it unnecessary to maintain a level of established posts greater than required and allowed the replacement of staff members who were absent but still charged against posts. In those cases temporary assistance funds were charged because posts were encumbered and could not be double charged, and because the work-load was temporary. In the case of a vacant post which had to be filled on a temporary basis owing to unforeseen exigencies, the practice had been to charge the vacant post in question.

17. With regard to Special Service Agreements and the hiring of consultants, there was no adequate device for the hiring of short-term staff. The Division of Personnel of UNDP was reviewing all Special Service Agreements and would evaluate

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the traditional system of contracts. Under that review, the Division would develop an up-to-date strategy for temporary employment, since it viewed it as its most urgent task. Any situation which contradicted the guidelines outlined in paragraph 169 of the report of the Board of Auditors (A/45/5/Add.1), would be monitored. Exceptions, if any, would be cleared at the Director of Personnel or Administrator level and reasons logged for future reference.

18. While it was true that there had been a significant increase in the number of trust funds managed by UNDP, the trust fund was a modality authorized by the Governing Council to enable donors to fund specific activities and projects in co-operation with recipient Governments. UNDP ensured that each trust fund agreement included provisions to cover its costs. Nevertheless, it proposed to review the matter further to see if it was possible to streamline trust fund operations and reduce their number.

19. A Division of Personnel task force had been formed to review the system of functional titles, which would incorporate both General Service and Professional levels. The title of each post would clearly reflect its appropriate occupational group. The Common Classification of Occupational Groups established by the International Civil Service Commission (ICSC) would be used to establish the correct occupational designation of each post. Once endorsed by senior management, functional titles would be revised accordingly.

20. UNDP fully supported the recommendation on personal responsibility and financial liability. A circular had been issued in August 1990 drawing the attention of all staff to existing rules in that regard and highlighting those areas in which abuses might occur. In addition, no write-off would be approved without complete documentation regarding personal liability. Any indication of loss due to actions contrary to the Financial Regulations and Rules or to instructions issued in connection therewith would be fully investigated and appropriate action would be taken.

21. The representatives of Canada and China had raised questions on procurement practices. In the case of UNDP, the auditors had identified an inconsistency between the General Administration Manual and financial rule 114.23. Further, they had felt that the limit of $20,000 established for bidding was too high. The limit had been raised from $10,000 to $20,000 to take into account the effects of inflation, saving of staff time, simplification of procedures and the Administrator's desire to delegate further responsibility to field offices.

22. The representative of China had raised a question concerning budgetary discipline. Whereas the Administration had always concurred with the view that further improvements could be made in budgetary control, that should not be taken as an indication there were serious, system-wide problems with regard to the management and control of the overall budget or specific components thereof. Any discussion of budgetary control and discipline should be considered in the broader context of overall budget performance to avoid erroneous conclusions on the basis of isolated occurrences of allotment over-expenditures. In that regard, the

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Administration was satisfied with the budget performance for the biennium 1988-1989, since total expenditures had remained within the appropriations approved by the Governing Council.

23. In the five cases of over-expenditure against allotments at headquarters, a thorough review of the units' budgetary performance had been conducted in an effort to avoid any repetition in the future. With regard to field offices, it should be noted that in 1989 only five field offices had exceeded their allotments, as compared with 35 in 1988, 23 in 1987 and 30 in 1986. That reflected a considerable improvement in budgetary control and discipline. The situation in those five offices would be reviewed in detail to identify the reasons for over-expenditure and appropriate corrective measures would be taken.

24. The representative of the United States of America had raised a question on the funding of trust funds. The Financial Regulations and Rules applied to both trust funds and sub-trust funds. The applicable rule stated that UNDP should enter into commitments under trust fund activities only when it had received from the donors funds sufficient to finance such commitments, or where an agreed payment schedule covering the commitments existed. In 1989, one country, with the concurrence of the Administrator, had found it necessary to pay amounts due in 1989 early in the following year. The Administrator had agreed in order to avoid the impact on recipient Governments of terminating projects in 1989, thus incurring the costs inherent in restarting projects in 1990.

25. The United States representative had also questioned the Administration's reluctance to undertake criminal proceedings against staff members found guilty of fraud. The question of whether to pursue criminal proceedings was evaluated on a case-by-case basis. In the light of Section XX of the Convention on Privileges and Immunities of the United Nations, it was the Secretary-General who determined whether it was in the Organization's interest to pursue criminal proceedings. In one case, for example, such action was deemed appropriate in view of the significant amount involved. In other cases, either the amounts in question were recovered, or they were considered too small for legal action to be practical or cost-effective.

26. With regard to the use of Special Services Agreements to compensate staff at higher levels than their grades would permit, the Division of Personnel had used such Agreements to hire technical specialists in the field of electronic automation at a higher gross salary than for an equivalent grade within UNDP. That had been done in recognition of the market forces applying to such specialists and the fact that no long-term career would be available to them. The higher salary levels had been offset, however, by the benefits available to regular staff, such as pension and annual leave. In terms of total cost to the Organization, the two packages were equivalent.

27. UNDP was aware that the increasing ratio of operating costs to total expenditure was of concern to Member States. That matter would be addressed in the context of the 1992-1993 budget. Lastly, with regard to the management structure,

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the review decided on in June 1990 was proceeding, and in June 1991 a report would be submitted to the Governing Council.

28. Mr. GARRIDO (Philippines) said he would appreciate it if the Chairman of the Board of Auditors could confirm whether consideration was being given to establishing a new format for UNDP financial reporting. Another point which required clarification concerned the implementation of the new or revised guidelines for the delineation of programmes and expenditures.

29. With regard to the United Nations Capital Development Fund, UNDP could perhaps issue annual reports which would be of great use to the members of the Fund and the Board of Auditors. Lastly, it was necessary to explain why, in paragraph 40 of the report of the Board of Auditors (A/45/5/Add.1), personnel appointment procedures for both internationally recruited and locally recruited staff were described as "cumbersome" if those procedures were uniform throughout the United Nations system.

30. Mr. MICHALSKI (United States of America) said it was encouraging to note that the administrative budget of UNDP for 1992-1993 would reflect the effort made by the Administration to reduce the share of UNDP resources allocated to administrative expenditures. With regard to the Special Services Agreements, he would appreciate knowing whether any of those Agreements provided that some persons should receive emoluments comparable to those received by an Under-Secretary-General or Assistant Secretary-General.

31. According to the information contained in paragraph 161 of the report of the Board of Auditors, it could be inferred from the number of probationary appointments which were converted into permanent appointments either that the Programme's recruitment procedures were exceptionally efficient or that the staff performance assessment procedures were deficient or virtually non-existent. It would be important to know the Administration's opinion in that regard.

32. With regard to the Inter-agency Procurement Services Office, it would be useful to know whether the Administration was considering a review of the functioning of the Office in order to reduce the level of resources allocated to the search for providers, when in reality it was the private sector which should seek to win UNDP as a customer. Lastly, with regard to the recommendation in paragraph 117 (f) of the report of the Board of Auditors that UNDP assets should be placed in creditworthy banks, it would be important to know whether UNDP funds had been invested in banks which were currently on the verge of bankruptcy.

33. Miss BEAULIEU (Canada) requested confirmation as to whether she had fully understood what the Associate Administrator had said with regard to the qualified opinion of the Board of Auditors concerning the fact that executing agencies could not comply with the stipulated deadlines for the submission of their financial statements, and if so, whether there was any plan to take corrective action in the future. With regard to the projects executed by Governments, certified financial statements had been mentioned, and she would appreciate clarification of that term.

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34. Mr. GOMEZ (Associate Administrator, United Nations Development Programme) said that the questions raised by the representative of the Philippines could better be answered by the Chairman of the Board of Auditors. Concerning the reference to creditworthy banks, that term had been used by the Board in its report. In any case, it should be noted that the UNDP cash and investment management system was an extremely sound and well administered operation. The Programme's view of the Inter-agency Procurement Services Office was that it had helped to reduce system expenditures, that it provided a useful service and that it should not be seen as a monopolistic or oligopolistic arrangement for the procurement of supplies or services, but rather as a mechanism to promote competence. With regard to Special Services Agreements, there was one consultant in UNDP whose emoluments would be equivalent or similar to those received by a higher-ranking official such as an Assistant Secretary-General.

35. Concerning the question raised by the representative of Canada, the qualified opinion had indeed referred to the absence of audited financial statements from executing agencies and Governments. With regard to the former, it was very difficult for the executing agencies to submit them on time and, regrettably, it was not expected that the problem could be solved in a very short time. Concerning the meaning of the term certified financial statements, the statements submitted by UNDP had been certified by the Officer-in-Charge of the Division of Finance. The same was true of the financial statements submitted by Governments, which were certified by authorized government officials.

36. The CHAIRMAN said that the Chairman of the Board of Auditors would reply to the questions raised by the delegation of the Philippines at a later meeting.

37. Mr. KITATANI (Deputy Executive Director, United Nations Population Fund) said that the qualification on the ground of the absence of audit statements from United Nations executing agencies and the problem of tardy submission of expenditure reports were issues that also concerned the United Nations Population Fund (UNFPA) and for which solutions were being sought. The submission of financial statements on a biennial basis should solve the problem, provided that the executing agencies submitted audit certificates in a timely manner to the Board of Auditors. In order to rectify that situation, the Governing Council in June 1990 had approved appropriate amendments to the Fund's Financial Regulations. Beginning with the biennium 1990-1991, it would be possible to submit audited financial statements to the General Assembly and the Governing Council. The Governing Council had also invited the Board of Auditors to issue a special report for the first year of the biennium, through the Advisory Committee on Administrative and Budgetary Questions (ACABQ), on any related matters which might require the attention of the Governing Council and the General Assembly.

38. With regard to the other ground for the qualification, namely, the absence of audited expenditure statements for projects executed by Governments and non-governmental organizations, he assured the Fifth Committee that UNFPA was devoting all due attention to that subject. Although steps had been taken, a large number of Governments had found it difficult to submit year-end audit reports. In order to improve the financial reporting, Governments would be assisted in training

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their staff so that their financial reporting and audit responsibilities could be discharged satisfactorily. Steps were also being taken to streamline the existing system, to strengthen the capacity of the UNFPA field offices and headquarters units, to meet additional demands arising from government-executed projects and to ensure that such projects were properly reported and audited.

39. UNFPA was currently reviewing and updating its financial reporting and auditing procedures for projects executed by non-governmental organizations. At least 75 per cent of the funds spent by non-governmental organizations were supported by audit certificates received within one year after the closing of the annual accounts. Although UNFPA did not no-mally finance the cost of audit exercises, it was taking steps to reimburse certain non-governmental organizations for the cost of independent audits when such organizations were unable to comply with the audit requirements owing to financial constraints. In doing so, it took into account the amount of the approved project budget, the nature of the project and previous experience with the organization concerned.

40. In the past 20 years, UNFPA had financed or co-financed numerous meetings at all levels, and all expenditures had been charged to project budgets. A listing of such projects was provided to the Governing Council annually in the Executive Director's report on allocations to projects. The subject of the delineation between programme, programme support and administration costs was a point that UNFPA would take into account in formulating its plans and budgets in the future; it would try to establish clear policy guidelines in that regard.

41. Ms. LOKHAUG (Deputy Executive Director, United Nations Children's Fund), referring to several points raised by delegations, said that UNICEF followed a policy of strict control and management of cash advances. For example, it had established that no further transfers of funds could be made in respect of an activity if a certificate of use of prior funds had been outstanding for more than six months. UNICEF had already taken several steps to ensure full and complete compliance with the guidelines. All field offices had been asked to obtain the supporting documentation on cash advances from Governments and submit it to headquarters as soon as possible. On the initiative of the Comptroller, a high-level task force had been established to review and further refine the control and management of advances at both field offices and headquarters. The format of the reports submitted by UNICEF field offices on the status of advances had been modified to highlight for corrective action those advances that were overdue.

42. Only three years earlier, the general resource cash balance of UNICEF had been very low, and the Fund had been cautious in the income projections and programme planning levels included in the subsequent medium-term plan, so as to restore the general resource cash balance to the level required to meet its liquidity needs. The strategy had been effective to the point that current cash levels now exceeded the level required by the Fund's liquidity policy. The current financial medium-term plan approved by the Executive Board of UNICEF provided the basis for reducing the general resources cash balance by the end of 1993 in a systematic and orderly fashion by planning for an increase in programme expenditures. Thus, the

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medium-term plan called for general resource programme expenditures for the 1990-1991 biennium to increase by 40 per cent over the levels spent in the 1988-1989 biennium. UNICEF had faced accelerated rises and falls in its liquidity. Rather than weaken programme effectiveness by sharply accelerating and decelerating programme delivery, it believed it more prudent to take a medium-term view and maintain smooth changes in programme delivery.

43. The Executive Board had on several occasions authorized the Executive Director to commit general resources to supplementary-funded projects that had remained unfunded for more than a year, provided that sufficient general resources were available. A detailed report on the use of general resources for supplementary-funded projects was presented to the Executive Board each year, and the most recent medium-term plan approved by the Executive Board included an amount of $16 million to be spent from general resources in the 1990-1991 biennium for that purpose. At a time when UNICEF had a high liquidity balance, such action helped to ensure that programme delivery remained along the lines approved by the Executive Board, and to avoid the possibility of weakening programme quality by suddenly increasing the general resources country programme.

44. As a general policy, UNICEF did not favour housing-construction activities, but exceptional situations could arise in developing countries where a lack of minimal infrastructure could imperil the implementation of important programmes, and such situations called for exceptional solutions. Reference had been made to a case in which housing had been built for the project staff of a national Government; in that case, the implementation of a programme involving $24.5 million and benefiting 3.4 million people would have been jeopardized. She wished to stress that the housing involved in that case had been for the project staff of the national Government and that programme funds had never been used to supply housing for UNICEF staff.

45. There were a few instances where some field offices had engaged the services of experts and consultants to perform duties that could have been performed by regular staff members. The Administration had encouraged all field offices to make full use of in-house resources before hiring consultants. With regard to the use of consultants at headquarters and field offices, she said that the current estimates of expenditures for the 1990-1991 biennium for the services of short-term Professional staff from the administrative budget was $3.1 million for headquarters and $1.3 million for the field offices. That level of expenditure was within the limits set in the biennial administrative budget approved by the Executive Board. With regard to the amount of resources spent from the programme budget on consultants, she said that, in 1989, the cost of consultants and short-term personnel had amounted to $11.7 million, or 2.3 per cent of a total programme expenditure for the year of $501 million. Of that amount, $10.5 million had gone to field offices and $1.2 million to headquarters.

46. The Executive Board had requested that a full report on UNICEF's long-term headquarters space requirements should be prepared for its 1991 session, and that topic, along with UNICEF staffing requirements for the 1992-1993 biennium, would be

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reviewed at that time. It should be noted that the majority of UNICEF staff was located in field offices and not at headquarters. In 1980, 75.7 per cent of all core posts had been located in field offices, and by 1990, the percentage had increased to 83.3 per cent. With regard to the issue of property controls, she said that the head of each UNICEF office was responsible for maintenance and accountability of property records, and for sending to headquarters an annual statement indicating that a physical inventory had been carried out, together with a report of the total value of non-expendable equipment. UNICEF headquarters maintained a master inventory list in its computer system.

47. With regard to the question of the timely submission of reports on the implementation of the recommendations of the Board of Auditors and ACABQ, she said that UNICEF had submitted a report on specific measures taken to implement the recommendations (E/ICEF/1989/AB/L.13) to the Executive Board at its April 1989 session, and at that same session, the Executive Director had submitted a more detailed report on several actions that had been taken to improve budget, financial and accounting controls (E/ICEF/1989/2, Part II). At its 1990 session, the Executive Board of UNICEF had considered a report prepared for the Board of Auditors and ACABQ regarding General Assembly resolution 44/183 (E/ICEF/1990/AB/L.14).

48. In the 1988-1989 financial statements, expenditures from the Emergency Reserve Fund had been reported at the country level since they were an adjunct to other country-level expenditures and were controlled by the country office. Nevertheless, in order to achieve greater transparency, UNICEF had agreed to report expenditures from the Emergency Reserve Fund separately, beginning with the 1990 interim financial statements.

49. Although most field offices had improved their implementation rates, there were some that required attention. Steps had been taken to improve monitoring procedures, so that whenever it appeared that a field office had low levels of planned expenditures for the year, headquarters would follow up with the field office concerned to improve the situation. It should be recognized that some field offices operated in extremely difficult circumstances and faced many implementation difficulties resulting from external factors totally beyond their control.

50. The Executive Board had decided in 1987 that biennial financial reports would be prepared and that decision had been supported by ACABQ. In its resolution 44/183, however, the General Assembly had requested the Board of Auditors to carry out an audit examination of substantive matters, including management issues, in respect of the first year of each biennium. It must therefore be determined whether, considering that it was currently preparing biennial financial reports, UNICEF would have to change that practice and, unlike other organizations in the system, submit such reports annually. If the Fifth Committee decided to recommend the change, it would have to mention that in its draft resolution on the item.

51. Mr. MICHALSKI (United States of America) expressed satisfaction that the Executive Board of UNICEF had begun to take measures in response to the observations and recommendations of the Board of Auditors, particularly with respect to cash management. He asked whether UNICEF awarded special-service agreements which might involve salaries higher than that of an Under-Secretary-General or Assistant Secretary-General and whether there had been instances of fraud other than those indicated by the Board. He also wished to know whether, in 1991, there would be an audit of the expenses for the World Summit for Children and, if so, whether the results would be made public. It would also be interesting to know whether UNICEF had taken measures such as rent collection in order to recover a portion of the $1.3 million earmarked by a field office for housing construction and how many housing units had been built with that sum. In his delegation's view, new auditing procedures had not been established for UNICEF and, more than that, the General Assembly had placed UNICEF on an equal footing with UNDP and UNEP, which were required to submit reports from their governing councils in non-budget years. It would be better not to introduce changes in that regard, but rather to maintain the system.

52. Mr. GARRIDO (Philippines), referring to the four field offices which had incurred expenses exceeding their allotments, asked whether the UNICEF Executive Board planned to suspend new appropriations to those offices or whether it had allocated resources to them from the budgetary surplus.

53. Ms. LOKHAUG (Deputy Executive Director, United Nations Children's Fund) said that UNICEF did not award special-service agreements which involved the payment of salaries in the Under-Secretary-General and Assistant Secretary-General categories. It was UNICEF's intention to submit a report to the Executive Board at its next session on the expenses for the World Summit for Children, provided that the relevant accounts had already been closed.

54. She had no information on the number of housing units constructed. Only a portion of the $1.3 million earmarked for construction was for housing; the rest was for construction under the project itself. UNICEF had not taken and did not plan to take any measure whereby the Government concerned would reimburse it for a portion of the expenses.

55. Although there had been reports that four field offices had exceeded their 1989-1990 budgetary allotments, there had been cases at those offices and at many others in which expenditure was below the allotments. None the less, UNICEF had begun to apply much stricter budgetary control measures and, since early 1990, it had begun to introduce better computerized methods of budgetary control. UNICEF had not had to incur expenditure in excess of the approved budget; it had done nothing more than transfer between allotments. All cases of fraud had been brought to the attention of the Board of Auditors.

56. Mr. MILES (Director, New York Liaison Office, United Nations Relief and Works Agency for Palestine Refugees in the Near East) said that the topic of unliquidated obligations was rather more technical in nature and had resulted in certain differences between the Board of Auditors and various organizations in the system;

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they could be attributed, above all, to the applicability of the generally accepted accounting principles. The recommendation by the Panel of External Auditors that a study should be conducted with a view to formulating proper accounting norms and principles which could be applied system-wide, was therefore positive. UNRWA would be interested in participating in such a study.

57. ACABQ had done a detailed analysis of the situation of the Area Staff Provident Fund. Owing to a considerable increase in the Fund's assets (from $107.3 million in 1979 to $500 million in 1989), the growing responsibility of those who managed the Fund, and the greater complexity of the day-to-day problems which arose, the Commissioner-General had launched an initiative to redefine the relationship between the Fund and the Agency and restructure its management. As part of the process, the Commissioner-General had hired a consultant, whose recommendations had begun to be implemented in 1988. The first major change involved the appointment of a global custodian. Other changes recommended by the consultant concerning the relationship between the global custodian and the investment managers had not been made, largely because they had not had the necessary support of the representatives of the Fund's members and the Commissioner-General. Much of the criticism levelled at the activities of the global custodian in the report of the Board of Auditors stemmed from the fact that the new investment structure, of which the custodian was to be only one part, had not been established. He had therefore been unable to carry out any of the duties which had been originally assigned to him. Consequently, the Agency had negotiated a reduction in the custodian's fees, commensurate with his limited duties and changed market conditions.

58. The second major change involved the adoption of measures aimed at separating management of the Fund from the financial administration of the Agency. To that end, a special unit had been established to manage the Fund; it reported directly to the Commissioner-General. That unit, which was financed from the Fund, had only begun operating, but it was hoped that it would be able to separate management of the Fund from the administration of the Department of Finance, in addition to improving that administration. As for the possibility of a financial disaster in the Fund because of investments in high-risk instruments, the fact was that in a three-year period, investments of that type had been made on only six occasions and the amounts involved had been relatively small. Moreover, measures had already been taken with the aim of determining more accurately the type of investments which could be made by Fund managers. The observation that the Fund's administrative costs continued to be too high was a matter of opinion. In any case, the analysis of those costs, contained in the report of the Board of Auditors (A/45/5/Add.3, paras. 94-98), concluded that total administrative expenses had not been extraordinarily high compared to the costs of other funds of the same size.

59. Referring to the remark that the global custodian's fees were too high for his limited duties, he said that those fees had been set on the basis of the description of his duties and market rates. In fact, the fees had been reduced every year since 1988 and the Agency would continue to attempt to hire the global custodian on the most favourable possible terms in future.

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(Mr. Miles)

60. It must be acknowledged that the members of the Provident Fund Advisory Committee did not have specialized knowledge in finance. The recommendation by the Board of Auditors that as part of the current reorganization, an investment advisory committee made up of experts should be created, was therefore positive. If that was done, the current Provident Fund Advisory Committee, an essential vehicle for membership participation, would, however, be maintained, but its advisory functions would be of a more general nature.

61. With regard to the suggestion that the Commissioner-General should consider replacing the firms or people currently responsible for administering the Fund's resources, the Commissioner-General, in exercising his duties relating to the administration of the Fund, remained aware of the need to monitor the investment managers' performance and to make any necessary changes, and he would continue to do with the aid of the new machinery that was to be set up.

62. Information had been requested on steps taken by the Administration to eliminate abuse and the weaknesses identified by the Board of Auditors. The Board's report did not actually refer to any instances of abuse, but he hoped that where weaknesses had been found the explanations provided dealt with the points raised and allayed Committee members' fears.

63. Mr. MICHALSKI (United States of America) said that, although the Provident Fund was financed separately from the Joint Staff Pension Fund, he wished to know whether the Commissioner-General had considered the possibility of transferring its administration to the Joint Staff Pension Fund, subject, of course, to payment of appropriate fees. He also wished to know why the Provident Fund was administered separately from the Joint Staff Pension Fund. Having the Provident Fund administered by the Joint Staff Pension Fund would be a way of reducing administrative costs, since the Board's report showed that the Joint Staff Pension Fund's administrative costs were lower than those of the Provident Fund.

64. The Board's conclusions on the Provident Fund's financial situation, which were more detailed than its conclusions on any other subjects in recent years, suggested that serious problems had arisen in the administration of the Provident Fund. Since the Provident Fund was not financed from Member States' assessed contributions, however, one could assume that if the Fund's administration did not improve and its resources were wasted owing to either poor investments or high administrative costs the Fund's beneficiaries would be the ones to suffer, not contributors to the Agency. The United States Government did not intend to provide any sort of subsidy or make any additional contribution to compensate for any losses that the Fund might sustain.

65. Mr. MILES (Director, New York Liaison Office of the United Nations Relief and Works Agency for Palestine Refugees in the Near East) said that, although there had been discussions between the staff who operated the Provident Fund and the staff of the Joint Staff Pension Fund, which had offered to take over the administration of the Provident Fund, he was unable to say whether the issue raised by the United States had been discussed. Naturally, he would inform the Commissioner-General of

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(Mr. Miles)

the matter. However, much would depend on the position taken by the Joint Staff Pension Fund. The way in which the UNRWA Provident Fund was administered was very different from the way in which the United Nations Joint Staff Pension Fund was administered, and the field staff who carried out a high proportion of the administrative work would have to continue to do so. Assistance from the Joint Staff Pension Fund could be beneficial in other areas, such as in investment-related matters.

66. With regard to the second point raised, any losses that might occur would have a greater adverse effect on beneficiaries than on contributors. In any event, it must be stressed that the Provident Fund's assets had increased from $100 million 10 years earlier to $500 million, which gave reason to believe that the Fund was properly adminstered.

67. Mr. GUPTA (India) said that the extremely extensive experience of the Joint Staff Pension Fund and its Investments Committee would be of great use to UNRWA in reorganizing its own structures, particularly with regard to the investment advisory committee that was to be set up.

68. Mr. KINCHEN (United Kingdom) reaffirmed his country's political and financial support for UNRWA and said that the important thing to remember when considering the Provident Fund's administration was the welfare of the Fuud's participants. With regard to the relationship between the investment managers and the custodian, it would have been useful to have more information on the implementation of the Board's earlier recommendations. Lastly, although the United Kingdom agreed that it was appropriate to take advantage of the expertise of the Investments Committee of the Joint Staff Pension Fund, it was not clear whether the Investments Committee had the necessary mandate to provide advice on the management of the Provident Fund's resources. In paragraph 66 of its report, the Advisory Committee seemed to be recommending the establishment of an advisory committee with a mandate similar to that of the Investments Committee. That possibility should be given careful consideration.

69. Mr. MILES (Director, New York Liaison Office of the United Nations Relief and Works Agency for Palestine Refugees in the Near East) said that he did not know to what extent it would be possible to consolidate the investment advisory functions of the Provident Fund and the Joint Staff Pension Fund, but the matter could certainly be given further consideration. Any decisions taken in that connection would largely depend on the mandates of the bodies concerned and on the two parties' assessment of practical considerations. The Commissioner-General would, in any event, be duly informed of the suggestions put forward.

70. Mr. ROMERO-PEREZ (Deputy Regional Representative, Office of the United Nations High Commissioner for Refugees (UNHCR)) said that UNHCR was having very serious financial difficulties, owing primarily to continually increasing refugee flows, without a corresponding decrease in refugees already under its care and protection, and to the unpredictability of voluntary funds. As a result it had been necessary to carry out repeated budget revisions, with serious consequences for refugees, countries of asylum, implementing partners and UNHCR itself.

(Mr. Romero-Perez)

71. With specific reference to comments in the Advisory Committee's report (A/45/570), UNHCR was looking for different terminology concerning funds that fell within the category of trust funds - terminology that would be easier to relate to the overall programme and budget presentation. Changes had been made in administrative procedures relating to "simple transfers", and the members of the Committee could rest assured that special donations were essentially destined for operational partners who were participating in the implementation of refugee programmes. The amount mentioned in paragraph 54 of the report represented some 2.8 per cent of total 1989 voluntary expenditures. With regard to the statement on unearmarked contributions, UNHCR agreed with the recommendations of the Board of Auditors and would implement them should such funds be made available in the future. Following agreement with the two donors, no further administrative costs would be charged to that fund.

72. UNHCR was implementing the auditors' recommendations on the payment of pledges. In one case, for example, it had succeeded in reducing outstanding contributions from one donor in an amount of $15.8 million at the end of 1989 to approximately $60,000 by the end of September 1990. In 1990 UNHCR and the World Food Programme had put in place a new procedure for the timely reimbursement of costs incurred by UNHCR. The 1990-1991 programme and budget presentation envisaged total reimbursements of $11 million and $19.4 million, respectively, for the two years in question.

73. With regard to the improper recording and inventory of non-expendable property totalling $13.5 million, it must be borne in mind that out of that total a sum of $830,000 represented UNHCR property that had since been properly inventoried. The balance of $12.6 million had been handed over to implementing partners under existing agreements.

74. Mr. MICHALSKI (United States of America), referring to the recommendation made by the Board of Auditors in paragraph 5 (h) of its report (A/45/5/Add.5), asked whether steps had been taken in the case of offices whose administrative costs exceeded programme costs to close the offices or to raise the level of programme implementation.

The meeting rose at 6.15 p.m.