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### FINANCIAL REPORTS AND AUDITED FINANCIAL STATEMENTS, AND REPORTS OF THE BOARD OF AUDITORS

#### Note by the Secretary-General

The Secretary-General has the honour to transmit to the members of the General Assembly the synthesis of the main observations of common interest contained in the reports of the Board of Auditors on the audit of the accounts for the financial period ended 31 December 1985, prepared by the Board of Auditors in accordance with General Assembly resolution 40/236 of 18 December 1985.

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LETTER OF TRANSMITTAL

30 June 1986

Sir,

I have the honour to transmit to you, in accordance with the request by the General Assembly in resolution 40/238, the synthesis of the main observations of common interest contained in the reports of the Board of Auditors to the General Assembly on the audit of the accounts for the financial period ended 31 December 1985.

Accept, Sir, the assurances of my highest consideration.

(Signed) R. T. NELSON  
Auditor General of Ghana  
and Chairman of the  
United Nations Board of Auditors

The Secretary-General of  
the United Nations  
New York, N.Y.

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Synthesis prepared by the Board of Auditors of the main  
observations of common interest contained in its reports  
to the General Assembly on the audit of the accounts for  
the financial period ended 31 December 1985

1. In paragraph 4 of its resolution 40/238 of 18 December 1985, the General Assembly requested the Board of Auditors to submit to it in future, in a separate, concise document, a synthesis of the main observations of common interest as related to the efficiency of the financial procedures and controls, the accounting system and related administrative and management areas in accordance with regulation 12.5 of the Financial Regulations of the United Nations.

2. The observations are contained in the reports of the following organizations for which the Board of Auditors has audit responsibilities:

United Nations  
United Nations Development Programme (UNDP)  
United Nations Children's Fund (UNICEF)  
Voluntary Funds administered by the United Nations High Commissioner for Refugees (UNHCR)  
United Nations Fund for Population Activities (UNFPA)  
United Nations Environment Programme (UNEP)  
International Trade Centre (ITC)  
United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA)  
United Nations Institute for Training and Research (UNITAR)  
United Nations University  
United Nations Habitat and Human Settlements Foundation (UNHHSF)  
United Nations Industrial Development Fund

3. In addition, the Board has examined the accounts of the United Nations Joint Staff Pension Fund, and the audit report will be included in the annual report of the United Nations Joint Staff Pension Board.

4. The main observations contained in the above-mentioned reports relate to the areas discussed below.

Financial situation

5. For a significant number of years, the Board has qualified its opinion on the fairness of the financial position of the United Nations to the extent of the ultimate realization of the assessed contributions unpaid, and the Board has provided the equivalent amounts in the respective reports.

6. In this connection, the Board has noted that the Secretary-General in the financial report for the biennium ended 31 December 1985, 1/ has provided a succinct and full reflection of the growing impact on the Organization arising from the practice of withholding payment of assessed contributions due to the regular budget and to certain peace-keeping activities.

7. The Board of Auditors, moreover, has noted in various past and current reports the concern of the Secretary-General and the interim in-house measures taken by him regarding the financial situation of the United Nations (see A/40/1102 and Corr.1-3). The Board has also noted the views expressed by the Advisory Committee on Administrative and Budgetary Questions on the report of the Secretary-General on the subject (see A/40/1106).

8. The Board's opinion on the financial statements is once more subject to the ultimate realization of the various unpaid assessed contributions as reflected in the respective financial statements and the relevant comments of the Secretary-General in the financial report for the biennium ended 31 December 1985.

#### Accounts and financial reporting

9. Weaknesses reported include the following:

(a) Accounts were not thoroughly analysed and reconciled prior to the preparation of the financial statements and schedules (United Nations University);

(b) Bond investments with a book value of \$1,005,000 were reported as part of cash at banks rather than as investments (UNEP);

(c) The change in the accounting treatment of adjustments to unpaid pledges of prior periods was not adequately disclosed in the financial report (UNHHSF);

(d) Deficiencies appeared in the timely crediting of budget surpluses to some contributors (ITC);

(e) Errors were made in the adjustments and eliminations in the combination of the 1985 accounts of UNICEF and the Greeting Card Operation; errors were also made in the revaluation of asset and liability accounts at year-end; inconsistencies were noted in the treatment of cash discounts and there were abnormal debit balances for unliquidated obligations (UNICEF);

(f) A review should be made of the existing accounting arrangements between UNITAR and the United Nations to ensure that the functions are effectively and efficiently co-ordinated and performed;

(g) The existing procedures for recording pledges and deliveries relating to the contributions in kind should be changed to permit an earlier recording of execution/liquidation (UNHCR).

#### Budgetary control

10. Observations made relate to the following points:

(a) Preparation and submission of budget proposals continued to be delayed, with significant cases noted for the biennium 1984-1985; transfers were made between appropriation sections without adequate compliance with relevant financial regulations; at offices away from Headquarters unliquidated obligations were not thoroughly reviewed and excess expenditures were incurred (United Nations);

(b) Obligations were raised in 1985 for activities to be undertaken in 1986 and for which no appropriations were available for 1986-1987 (United Nations University);

(c) Cost of equipment was accounted for as a deferred charge since the corresponding appropriation had already been exceeded, and inter-fund charges were noted (UNEP);

(d) Invalid and long outstanding balances of unliquidated obligations were noted (UNHHSF);

(e) Retention of unliquidated obligations beyond the financial period to which they relate and weaknesses in the recording and reporting at year-end of unliquidated obligations for project accounts were noted (ITC);

(f) Part of headquarters rental cost was charged to a country project for administrative and operational support (UNFPA);

(g) Budgetary reserves were used for purposes other than those for which they had been approved; the bulk of 1983 balances of unliquidated obligations transferred to accounts payable at the close of 1984 did not represent valid obligations as prescribed by relevant financial regulations; expenditures of \$1.7 million for the production of a report were charged to improper resources and as a result the budgetary savings in the regular budget were overstated (UNICEF).

#### Capital assets

11. The Board made the following observations on capital assets in the report on UNICEF: not all costs of computer equipment acquisition were taken up as capital assets and, furthermore, contrary to the stated policy of spreading the cost of capital assets over a number of years, the reported acquisitions were expensed during the same year; and two office buildings were acquired during 1985 for which no appropriation had been provided in the approved budget for the biennium 1984-1985.

#### Cash management

12. Several observations were made concerning the following matters:

(a) Processing of cash transactions at Headquarters was delayed before deposit in an official bank account; the system for investment placement was time consuming and slow, diminishing the possibility of obtaining higher interest rates; monitoring of cash balances was not regularly made, which deprived the Organization of potential interest income (United Nations);

(b) Contributions from two member States were erroneously taken as income of the operating fund rather than of the endowment fund (United Nations University);

(c) Unpaid pledges outstanding for prior periods and advances to some staff members were not being recovered or liquidated in accordance with existing practice (UNHHSF);

(d) There was a large outstanding balance receivable as rent arrears from a former tenant of the UNITAR building;

(e) There were inordinate fluctuations during recent years in the inter-fund balance between UNDP and UNFPA;

(f) Contrary to UNHCR financial instructions, a significant number of field offices operate their bank accounts on an overdraft basis, resulting in an adverse effect on the efficient and economic management of funds;

(g) The administration failed to complete a formulation of adequate policies, procedures and guidelines for an effective investment function, as recommended by the Board in its previous report (Industrial Development Fund);

(h) Improper payments were made for freight on purchases and payments were made on the basis of pro forma rather than final invoices from suppliers (UNICEF).

#### Computer operations and EDP systems

13. Comments made by the Board addressed the following issues:

(a) A review of the resource requirements of the New York Computer Service should be made to ensure that it can adequately cope with the projected expansion of user needs and services in EDP; although the Computer Service exercises adequate control over computer operation and access to programme and data files, it does not carry out programmes- and systems-testing involving all procedures at users' premises, but it adopts a rather decentralized approach, resulting in users being responsible for internal security and system functioning; the usage of all programmes and functional modules of the Automated Purchase and Payment System should be further enhanced; there are operational and technical deficiencies in the computer operations at some offices away from Headquarters such as physical security at the Data Processing Section, inadequate exchange of information on long-term planning of computerized applications with the computer centres within the United Nations system and a computer mainframe that is incompatible with other systems (United Nations);

(b) The system is being run by the same group that maintains it; no written contingency plan is available and back-up procedures are inadequate; a number of programme errors resulted in incorrect account balances; there is a lack of user involvement at various stages of systems development; the computerized general ledger system uses only fixed budgeted exchange rates (UNICEF).

#### Consultants and experts

14. Observations were made dealing with the following matters:

(a) Rosters of consultants and experts were not established; requesting departments and offices did not consider all available candidates; procedures for the review and issuance of contracts for consultants and experts and control over consultancy funds were ineffective and inadequate in a number of instances (United Nations);

(b) There was a high incidence of agreements issued or signed with retroactive effect or with starting dates preceding required approvals (United Nations University) (UNHHSF);

(c) Consultants were hired in cases where the staff of the divisions concerned should have the necessary technical knowledge (UNDP);

(d) Performance evaluations of consultants were not carried out in line with the provisions of relevant administrative instructions (UNHCR);

(e) Emoluments were paid in excess of the \$12,000 ceiling (UNICEF).

#### Expendable and non-expendable property

15. Observations were raised addressing the following issues:

(a) Absence of long-term maintenance and replacement plans for equipment and insufficient arrangements for the disposal of obsolete equipment; inadequate security and custodial control over attractive items and insufficient control system over the use of audio/video equipment (United Nations);

(b) Lack of information on supplies, equipment and other property for which records are to be kept, as required by financial rules (UNDP);

(c) Purchase orders outstanding since 1980 and 1981 (UNRWA);

(d) Lack of provision in existing arrangements for economic and efficient use of project vehicles and inadequate control over their use; ineffective management of property items at some field offices (UNHCR);

(e) Improper accounting treatment of inventories at consignees of the Greeting Card Operation of UNICEF and overstatement of combined balance of raw materials, work-in-process and finished goods inventories due to retroactive adjustments, the validity of which could not clearly be established because the journal vouchers were either incomplete or had no supporting documents.

#### Internal audit

16. Observations were raised in the reports of the United Nations and of UNHCR to the effect that audit coverage at offices away from headquarters should be extended and that recommendations made in internal audit reports, particularly those relating to project implementation, should be given prompt and careful attention.

#### Payroll, staff costs and personnel issues

17. Comments were made by the Board concerning the following areas:

(a) Overtime work in excess of the required hours was approved in a number of cases; some permanent appointments were not properly reviewed and procedures for staff resources planning were inadequate (United Nations);

(b) Improvement is needed in the methodology used in the salary survey exercise for local staff (UNDP);

(c) At UNRWA, the International Staff Regulations and Rules do not take into account the notion "locally recruited staff"; further, the non-resident allowance was taken into account in determining Joint Staff Pension Fund contribution, which is not in line with United Nations Staff Rules. Additionally, social security supplements have been paid to all area staff since 1981 without provision to that effect in the area staff regulations and rules and the Occupation Classification Manual. Likewise, special compensation allowances are paid to certain staff although the conditions for payment are not fulfilled; the payment of other allowances should be reviewed to ascertain their validity.

#### Procurement

18. Several observations were made in this area, as follows:

(a) A number of deficiencies were noted regarding contract arrangements and the adequacy of application of terms of contracts at Headquarters; at offices away from Headquarters instances of contracts awarded without competitive bidding were found (United Nations);

(b) At UNDP, the use of the Inter-Agency Procurement Services Unit standards was found to be deficient;

(c) The reimbursable procurement system established between UNFPA and UNICEF was found to be cumbersome, and procurement by implementing agencies should be discontinued, as UNFPA is now in a position to procure its own equipment and supplies;

(d) Restrictive use of the liquidated damages clause for all high-value purchases was again found at UNRWA, and the register of approved suppliers was not being kept as required;

(e) Contract procedures required by regulations and rules were not thoroughly applied in a number of cases involving significant amounts; internal control procedures and monitoring system for procurement were still incomplete (UNHCR).

#### Revenue-producing activities

19. The Board made the following observations:

(a) Operational, accounting and financial deficiencies that require urgent investigation were found under a contract arrangement for Catering Services, the Gift Centre and the Souvenir Shop; procedures for granting permission for parking facilities at the Vienna International Centre were ineffective (United Nations);

(b) A committee should be formed to be responsible for the award of contracts for publications of UNITAR project activities, and written guidelines for such awards should be issued.



### Technical co-operation and project activities

20. Several observations were made that addressed the following:

(a) Certain operational problems still hindered efficient and effective project implementation and monitoring; accounting for project expenditures of UNCTAD associated agencies required refinement; further improvements for a more realistic phasing and rephasing of projects were required; independent evaluation of technical assistance activities such as workshops, training courses and seminars was needed to assess whether those activities were efficiently and effectively carried out (United Nations);

(b) Three publications for which the final manuscripts had not yet been submitted were reported as having been completed in 1985; a very low expenditure rate of only 25 per cent of funds available was found for a certain project (UNHHSF);

(c) Project documents did not always clearly describe the reporting requirements and the submission of progress reports was not always in line with the schedule; in a certain project a substantial increase in the equipment component was noted, which was not a main objective of the project's activities (ITC);

(d) Compliance with the policies and procedures for the establishment of special purpose grants was inadequate and resources from the general fund were utilized to supplement special purpose projects; additionally, the management of a project included three organizations not in the original agreement (UNITAR);

(e) Delays occurred in project implementation that were caused partially by highly optimistic estimates for achieving project objectives within established timeframes; project design and formulation were unclear and incomplete; recurrent deficiencies were found in various aspects of the monitoring of projects and project budget revisions, and considerable delays occurred in the submission to the legislative body of fact sheets on some projects (UNDP);

(f) Serious deficiencies were found in the evaluation and built-in self-evaluation exercise of project activities (UNFPA);

(g) Certain internal control weaknesses existed in the project monitoring system of implementing partners, which required an urgent and resolute approach, especially at the field offices in three countries (UNHCR);

(h) To ensure efficient and economic utilization of funds, project planning and implementation, and in particular budgetary procedures, a more realistic approach was required (Industrial Development Fund).

### Travel

21. The Board's observations in this area include the following:

(a) Reports on travel costs were not completely submitted; as a result the required control reviews were inadequately carried out. The manual of procedures for the management of travel costs issued in 1973 requires revision; no contractual

agreements have been entered into between two offices away from Headquarters and respective travel agents despite long-standing relationships and significant value of business with them (United Nations);

(b) Efforts should be continued to ensure that invoices on travel costs are promptly obtained and settled (UNITAR);

(c) Justification for travel should indicate clearly why the proposed duration is essential and department heads should review this justification more closely. Furthermore, draft travel plans should show the estimated direct and indirect cost of each trip (UNDP);

(d) Business class fares were allowed for travel on home leave and on education grant. Contrary to a General Assembly resolution, travel costs were paid for some delegates to the 1985 Executive Board session (UNICEF).

#### Trust funds

22. The following observations were made:

(a) Tax was withheld from royalty income contrary to the Convention on Privileges and Immunities of the United Nations; a grant was made from a trust fund for services considered not in line with the purpose of that fund; a trust fund has not been financially closed although it was operationally terminated in 1973 (United Nations);

(b) A project was approved by the Governing Council of UNDP although in the understanding of the Board the mandate given by the General Assembly in resolution 33/147 does not include direct action by UNDP in the undertaking of such a project.

#### Fraud or presumptive fraud

23. Cases of fraud or presumptive fraud are contained in the reports of the United Nations, UNDP and UNHCR.

#### Notes

1/ See Official Records of the General Assembly, Forty-first Session, Supplement No. 5 (A/41/5), vol. I, sect. I.

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