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

Internal control procedures relating to benefits and allowances

Note by Secretary-General

1. In its resolution 41/176 of 5 December 1986, the General Assembly requested the Secretary-General and the executive heads of the United Nations organizations and programmes concerned, inter alia, to review internal control procedures relating to the benefits and allowances received by United Nations staff members and to take the necessary measures to improve internal control procedures with a view to preventing waste, fraud and abuse and to report thereon, through the Board of Auditors and the Advisory Committee on Administrative and Budgetary Questions, to the General Assembly at its forty-second session. The report of the Secretary-General on this subject is contained in document A/42/437.

2. Accordingly, the Secretary-General has the honour to transmit to the General Assembly the responses of the executive heads of the organizations and programmes concerned, namely, the United Nations Development Programme and United Nations Fund for Population Activities, the United Nations Children's Fund, the United Nations Relief and Works Agency for Palestine Refugees in the Near East, the United Nations Institute for Training and Research, the Voluntary funds administered by the United Nations High Commissioner for Refugees, the Fund of the United Nations Environment Programme, the United Nations Habitat and Human Settlements Foundation, the United Nations University and the International Trade Centre.

* A/42/150.

A. United Nations Development Programme and United Nations
Fund for Population Activities

1. Since UNDP also administers UNFPA staff members' benefits and allowances this report covers the response of both UNDP and UNFPA.
2. Over the last several years, internal control has received increased attention by senior management. Also, internal control is reviewed systematically by Internal Audit with a view to streamlining and improving systems and procedures. The goals of UNDP are to streamline procedures in order to increase efficiency and effectiveness, and to strengthen controls and thereby reduce the possibility of waste, fraud and abuse.
3. In response to the General Assembly's concern, the Administrator wishes to report the following major efforts made by UNDP to improve internal control procedures relating to staff benefits and allowances.
4. Since UNDP and UNFPA are field-oriented organizations, many of their activities such as the administration of allowances and benefits related to locally-recruited staff are decentralized to the field offices. UNDP internal controls are designed to reflect this situation. As a result, emphasis has been placed, inter alia, on the provision of detailed guidelines and instructions to Resident Representatives and their staff who are discharging internal control functions. In order to make the fullest use of these instructions and guidelines, extensive training of all categories of staff is being continuously provided. This has been supplemented by a team of Roving Finance and Administrative Officers who provide urgent assistance, including on-the-job training as required in the field.
5. Concerning staff benefits and allowances, extensive reviews and audits have been, and will continue to be conducted at Headquarters and in the field. Emphasis has been placed on areas with a high risk of loss to the Organization. Reviews are carried out in close consultation with the United Nations and the experience gained is shared in full.
6. UNDP has conducted a detailed review of the system of internal controls governing the following staff benefits and allowances:
 - (a) Education grant;
 - (b) Income tax reimbursement;
 - (c) Rental subsidy deduction;
 - (d) Dependency allowances;
 - (e) Medical Expense Assistance plan.
 - (a) Education grant
7. It is the policy of UNDP to review and confirm all education grant payments.

8. Moreover, UNDP, in close co-operation with the United Nations, carried out a comprehensive audit of education grant payments made in respect of the school year 1983-1984. Where required, this review was extended to cover previous and subsequent years. In addition to normal auditing procedures, it included third-party confirmations from all schools concerned. The audit disclosed a very small number of discrepancies which were investigated, and for which recovery action has been taken and, where found necessary, appropriate disciplinary action is being taken under the Staff Rules and Regulations. As a result of the experience gained in carrying out this audit, the administrative instructions governing the payment of education grant have been revised and reissued, providing for improved and strengthened internal control procedures.

(b) Income tax reimbursement

9. As a condition for reimbursement of income tax, staff members must certify that they will, upon request, provide proof of taxes paid. When tax laws preclude the release of information to any third party without the consent of the taxpayer, staff members are required, as a condition of reimbursement, to sign a consent form authorizing the tax authorities to communicate information directly to the Organization.

10. In addition, to strengthen internal control, cheques for tax advances and reimbursements are issued jointly to the tax authority and the staff member unless proof is provided that he or she has already paid such taxes, in which case a cheque may be made payable to the staff member only. Cheques made payable jointly to the tax authority and the staff member are subsequently examined to ensure that they have been endorsed by the staff member and are paid to the tax authority.

11. UNDP, in close co-operation with the United Nations, is currently carrying out a comprehensive audit of income tax reimbursements made to staff members in respect of the years 1983 and 1984. The audit seeks to confirm that monies reimbursed to staff members by the Organization were paid to the tax authorities and that any subsequent refunds received from the tax authorities by staff members have been returned to the Organization.

(c) Rental subsidy/deduction

12. In 1986, a detailed analysis and comprehensive audit of the rental subsidy/deduction scheme were conducted.

13. As a result, a number of measures have been taken to improve the administration of this scheme. One of these measures was the introduction of new procedures which stress the obligation of the staff member to submit rental subsidy/deduction forms within a specified period. Failure to do so results in automatic rental deduction, through the payroll, as if the staff member had obtained accommodation free of charge from the Government, the Organization or related institutions.

(d) Dependency allowances

14. The payment of dependency allowances is closely monitored by the Organization. A review of in-house procedures concluded that sufficient internal controls are in place to avoid abuse. One of the important control mechanisms is the annual submission and certification by the staff member of the amount earned by the spouse. Procedures are also in place for third-party confirmation.

(e) Medical Expense Assistance Plan

15. Effective 1 September 1987, a new Medical Insurance Plan (MIP), developed jointly by the United Nations, UNDP and UNICEF will replace the present Medical Expense Assistance Plan (MEAP) for Field locally-recruited staff members and their dependants. On the basis of the experience gained during the many years MEAP has been in operation, the new plan is designed to improve insurance coverage and to reinforce existing control procedures, including the possibility of third-party confirmation.

Other benefits and allowances

16. As regards other staff benefits and allowances, a continuous review of internal control procedures is carried out by UNDP. For example, a detailed review of the monitoring of leave records at Headquarters and in the field has resulted in more precise instructions thereby tightening controls. At Headquarters, computerized leave records were introduced in 1987. Furthermore, a thorough review of all aspects of travel has been initiated. The review is aimed at strengthening controls through more effective procedures.

Inter-organization co-operation

17. In view of the common objectives to improve internal controls and prevent waste in the area of staff entitlements, the United Nations, UNDP and UNICEF have established an interdisciplinary working group whose mandate is to develop improved procedures and internal control systems for specific entitlements. It is expected that by sharing experience and resources all three organizations will make progress in these areas.

Conclusion

18. As a result of constant review, internal control procedures are continuously improved. This has led to significant improvement in the administration of staff benefits. Cases of fraud and abuse, which have been relatively very few, given the size and complexity of UNDP/UNFPA, have been subject to recovery and disciplinary action. In this connection, it should be stressed that these numerous and thorough reviews and audits have confirmed that, with very few exceptions, staff members conduct themselves at the highest level of integrity.

B. United Nations Children's Fund

1. UNICEF management has given continued attention to the establishment and maintenance of a system of effective internal controls. Internal controls are reviewed systematically by Internal Audit throughout the year and where feasible, suggestions are made for streamlining and improving systems and procedures in order to increase efficiency and effectiveness, reducing the possibility of waste, fraud and abuse.
2. UNICEF is a field-oriented organization and many of its activities such as the administration of allowances and benefits related to staff are decentralized to the field offices. The process of maintaining effective internal controls has therefore included an active involvement and participation of field office management who are provided from time to time with guidelines, instructions, staff training and reorientation to enable them to discharge their responsibilities effectively. Towards this end, a circular entitled "Internal Financial and Administrative Controls" was issued on 13 January 1986 reminding them of their accountability in this area.
3. As a follow-up to the General Assembly resolution mentioned above UNICEF issued to all Heads of Offices an Executive Directive of 23 January 1987 inviting attention to "Urgent Action on Selected Management Issues". Among other things, they were requested to take effective follow-up action on internal audit observations, both in terms of timeliness of responses and the substance of actions taken.
4. In order to undertake a comprehensive review of UNICEF internal control procedures relating to staff benefits and allowances, a cross-functional working group was formed in December 1986 at UNICEF New York headquarters. It undertook a systematic review of the procedures and developed flow charts indicating at each step the responsibility for exercising controls. The group has made several recommendations to streamline some procedures and strengthen internal controls. The review has shown that adequate procedures and mechanisms exist to minimize possibilities of waste and misuse.
5. UNICEF has issued to all Heads of Offices an Executive Directive (CF/EXD-IC 1987-14) of 23 April 1987. "Strengthening of Internal Control Procedures relating to Staff Benefits and Allowances", in order to share with them the report and flow charts prepared by the group as a source of reference and guidance for their daily operation.
6. The audit of education grant payments and income tax reimbursements disclosed a very small number of discrepancies only in respect of income tax reimbursements. Following investigation, recovery action has been taken and, where necessary, appropriate disciplinary measures instituted under the Staff Rules and Regulations.
7. In view of the common objectives to improve internal controls and prevent waste in the area of staff entitlements which are the same throughout the system, the United Nations, UNDP and UNICEF have established an interdisciplinary working group whose mandate is to improve procedures and internal controls. It is expected that the sharing of experience and resources will benefit all three organizations.

8. As a result of constant review, the system of internal controls has worked effectively on the whole. Given the size and complexity of UNICEF, cases of fraud and abuse have been relatively very few and have been subject to recovery and disciplinary action. In this connection, it should be noted that, with very few exceptions, staff members conduct themselves at the highest level of integrity.

C. United Nations Relief and Works Agency for Palestine Refugees in the Near East

Introduction

1. In almost all the matters raised in the 1985 audited financial statements under the heading of Payroll and Personnel Systems, the internal control procedures have been reviewed, solutions have been adopted and, in so far as time has allowed the necessary research to be completed, measures have been taken to improve these procedures with a view to preventing waste, fraud and abuse. These matters are referred to in this report under their appropriate headings.

Locally-recruited international staff members

2. A comprehensive review is in progress of personnel rules, directives, instructions and circulars to ensure that the contractual liabilities of the Agency to staff, including "locally-recruited" staff, are clearly defined and easily identified. The objective of this study is to also ensure that the authority of the UNRWA Occupation Classification Manual and various other personnel directives is clarified.

Non-Resident's Allowance in determining contributions to the United Nations Joint Staff Pension Fund

3. International staff rule 103.4 of UNRWA was aligned with United Nations staff rule 103.5 with effect from 1 April 1985. The revision directly reflects the content of the United Nations rule, which authorizes continuance of the allowance for those in receipt of it prior to when that rule was changed. Under article 54c of the Pension Fund rules, such staff members are entitled to have the non-residence allowance included in their pensionable remuneration.

Interim social security supplement

4. The interim social security supplement for Area Staff in the Syrian Arab Republic was incorporated in their salary scale effective 1 June 1986.

Special compensation allowance

5. The special compensation allowance, which was introduced in 1981 to make up for the large difference in emoluments that existed between the salaries of UNRWA and those of other employees, will be reviewed in the context of the next salary survey to be carried out by the experts of the International Civil Service Commission.

Dependency allowances

6. The annual verification of dependency status of UNRWA's Area staff members, which was discontinued on a trial basis as from the beginning of 1984, has been reinstated as from the beginning of 1987.

Transitional personal allowance

7. All staff members concerned (except one who was transferred) have now been promoted to a higher grade and their transitional personal allowances have been cancelled in all cases as it was considered that after 13 years of satisfactory service in the same post, these staff members were now fully qualified.

Additional assignment allowances

8. The specific references to additional assignment allowances to Area staff in UNRWA's Occupational Classification Manual, Personnel Directive A/3 and other memoranda are being reviewed and measures will be taken to identify all such allowances in one document as recommended by the auditors.

D. United Nations Institute for Training and Research

1. Benefits and allowances received by UNITAR staff members are approved by the Office of Financial Services of the United Nations on behalf of the Institute on the basis of article VIII.7 of the UNITAR Statute.

2. In order to further improve internal control, the Executive Director of UNITAR has requested the Office of Financial Services of the United Nations not to process payment requests of UNITAR staff for such benefits and allowances that have not been reviewed and confirmed by the Institute's administration prior to their submission. This measure ensures that the information needed to approve such payments is correct.

E. Voluntary funds administered by the United Nations High Commissioner for Refugees

1. A process of reorganization of UNHCR began in 1986 and is continuing. Although this process aims essentially at increasing UNHCR's operational efficiency, it is also for a major part related to the strengthening of internal control procedures in general. These efforts and achievements are reflected in the report of the Board of Auditors to the General Assembly on the accounts of the United Nations High Commissioner for Refugees for the year ended 31 December 1986 (see, in particular, paras. 5 and 17-20) which is being submitted to the General Assembly.

2. UNHCR's payroll is directly handled by the United Nations Office at Geneva. The responsibility of UNOG includes the granting of benefits and allowances, and, therefore, the measures undertaken by the United Nations Secretariat in order to

strengthen control also apply to UNHCR. UNHCR has strongly supported these measures and will continue to do so in the future, as far as the Office itself is involved and can contribute.

3. Within UNHCR's personnel service a review of past practices in the administration of education grant payments and rental subsidies and deductions was carried out and changes were introduced to ensure close supervision by an experienced Personnel Administration Officer.

4. Payment of dependency allowances is closely supervised by UNHCR. Annual submissions concerning dependency status and the earnings of spouses are important control mechanisms. All official documents submitted to support claims for dependency allowances are carefully studied to ensure authenticity before payments are authorized.

5. Reimbursement of income taxes for UNHCR staff is administered by the United Nations Secretariat in New York. The careful controls applied by the Secretariat are applicable to UNHCR staff at Headquarters and in the field. For example, staff members must sign a form authorizing the tax authorities of their country to communicate information about their individual returns directly to the United Nations before any reimbursements for taxes owed are authorized. Cheques issued for tax advancements or reimbursements are payable jointly to the staff member and the relevant tax authorities, thus ensuring that the staff member cannot cash the cheque unilaterally.

6. UNHCR is satisfied that its present internal controls together with those of the United Nations Secretariat and the United Nations Office at Geneva are sufficient to prevent waste, fraud and abuse in the administration of benefits and allowances. The support of the internal and external auditors in reviewing both the controls and the operation of the administrative systems within UNHCR are an additional important guarantee of the efficient use of the funds made available to UNHCR for the payment to staff members of benefits and allowances under the Staff Rules and Regulations.

F. Fund of the United Nations Environment Programme

Granting and recovery of advances to staff members

1. The Board of External Auditors had been informed of a case of fraud which was identified and detected during the biennium 1984-1985. Administrative Tribunal Judgement No. 353 of 7 November 1985 refers to this case. I wish to mention in connection with this case that an investigation was carried out by the Internal Audit Unit, Nairobi, subsequently concerning the possible responsibilities of others in this affair. The Director, Internal Audit Division in his report of 21 October 1986 (AUD-4-16-3 (679/86)) confirmed that it was not possible to establish any gross negligence or impropriety on the part of any staff member.

2. As a result of this case, a complete review of certification and approval procedures of advances to staff members and internal control systems for the recovery of such advances was conducted to prevent recurrence of such problems in

future. Within the policy frame set out by the Controller of the United Nations in his memorandum of 7 August 1987, UNEP has instituted appropriate action on granting and recovery of advances to staff members. The internal controls and the related responsibilities and functions are now adequately and effectively carried out.

Accounting controls and financial management systems

3. A UNEP Finance Manual was completed and introduced in July 1984 and is regularly updated by Finance and Accounting Instructions issued on specific issues as and when required. The External and Internal Audit Services and the Office of Financial Services have reviewed this manual and commented positively on its contents, which include internal control procedures.

Rental subsidy entitlement controls

4. UNEP has reviewed the question and is preparing guidelines for the determination of reasonable monthly housing rental subsidies with due consideration to various local factors affecting such entitlements. These facts and data will form the basis for granting future entitlements.

Education grant payments

5. Internal control procedures have been supplemented by more regular test checks by internal and external auditors and by more direct consultations with United Nations Headquarters on policy matters and on problematic cases.

Payroll, dependency and other staff benefits and allowances

6. The administration initiated prompt financial and personnel actions and streamlined procedures by the development of new computerized monitoring and control systems. These EDP systems allow a better and quicker control and will be further improved by other EDP programmes in the next few years.

Travel

7. UNEP continued its efforts towards strengthening internal controls in the administration of travel and adopted a competitive approach to the selection of a travel agency for the organization. An effective administrative and financial control over travel costs is ensured.

Cash management

8. Reviews were made of banking, investments arrangement and petty cash holdings, including financial records, reports, internal controls and monitoring systems, which indicate that the present systems and procedures meet the requirements of prompt processing and payments and the standards set for internal control purposes.

Summary of UNEP's actions

9. During the period under review the Board of Auditors and the Internal Audit Service continued to report results of specific audits and issues to the management of UNEP.

10. Regarding the prevention of fraud, abuse and waste and with reference to General Assembly resolution 41/176, the majority of problems identified and specified for other United Nations offices did not exist in UNEP, but were reviewed and evaluated in the light of the points made for other offices.

G. United Nations Habitat and Human Settlements Foundation

Granting of education grant, salary and travel advances and recoveries

1. The established policy on granting advances and recovery is strictly adhered to by UNCHS and the United Nations Finance Manual is followed to ensure accounting controls and financial management systems.

Education grant

2. The policy regarding advances against education grant and the recovery thereof as set out in ST/AI/181/Rev.7 dated 11 June 1986, particularly paragraphs 6 to 15, is supplemented by internal control procedures which call for more regular reviews.

Salary advances

3. Through regular monthly review of accounts receivable ageing, timely and automatic recovery of salary advances are consistently implemented as per established procedures under staff rule 103.14 (a) (i), (ii) and (iii).

Travel and travel advances

4. The administration of travel is done through a single appointed travel agency and UNCHS has strengthened its internal controls on submission of all travel claims within the required period of time except in the cases of back-to-back mission. Travel advances for which no claims are submitted within the required period are automatically recovered from salary.

Controls over rental subsidy entitlements

5. Within the framework of ST/AI/275/Rev.1 dated 5 April 1984 and taking into account the local conditions, UNCHS has appropriate guidelines for the administration and preparation of monthly rental subsidy payment to staff members who are entitled to it.

Cash management

6. UNCHS administers its cash holdings through the United Nations Treasury by fully participating in the United Nations Investment Pool. At its headquarters and

Information Offices away from headquarters, petty cash funds and imprest accounts are kept to a minimum required. Cash holdings under current bank accounts are also kept at the monthly cash requirements levels thus investing excess cash in high interest-bearing investments accounts.

Payroll and other allowances and staff entitlements

7. UNCHS payroll has a fully computerized monitoring system with streamlined internal control procedures. The present EDP systems provide adequate information with regard to the inputs initiated through personnel actions and other payroll inputs. However, UNCHS will continue its endeavour to further develop improved payroll EDP programmes in future.

Summary of UNCHS actions

8. The UNCHS management has received reports of the Board of Auditors and the Internal Audit Service on specific audits during the period under review. Regarding the prevention of fraud, abuse and waste with reference to General Assembly resolution 41/176, such cases of fraud, abuse and waste did not exist in UNCHS during the period under review.

H. United Nations University

1. As is normally the case in any United Nations agencies, the application and interpretation of entitlements under the Staff Regulations and Rules and relevant Personnel Directives and Administrative Instructions are the responsibility of Personnel Services. Once authorization has been made, payment is processed in accordance with the Financial Regulations and Rules of the United Nations by Financial Services of the University. The Legal Counsel provides services on matters having legal implications and consultations on interpretation of these Regulations and Rules as appropriate. Personnel Services work in close co-operation and collaboration with Financial Services under the supervision and guidance of the Director of Administration of the University not only in terms of the procedures relating to the benefits and allowances payable to staff members of the University, but also on streamlining of these procedures aiming at greater effectiveness and efficiency in the operations of these two areas affecting the University as a whole.

2. With regard to the control procedures relating to the benefits and allowances received by the staff of the United Nations University the following is a brief summary of the type of allowances paid and brief description as to how they are monitored.

Medical scheme (GS staff)

3. The position within the University with regard to the reimbursement of medical and dental expenses for locally-recruited General Service staff is as outlined in Appendix E to the Staff Rules.

Rental subsidies

4. The United Nations University abides by the relevant administrative instructions as outlined in ST/AI/275 and its subsequent revisions. The Personnel Services is quite active in establishing "reasonable" rent figures and all rental subsidy payments are calculated by the Personnel Services and verified for accuracy by the Finance Services prior to payments being effected. All recalculations of monthly rental subsidy are based on cable advice from our office in North America, which is in close liaison with the International Civil Service Commission.

Dependency allowance

5. The Personnel Services evaluate and ascertain who is eligible for dependency allowance. This entails the verification of dates of birth and in the case of a spouse the verification of their earnings. Through P.5 action instructions are provided to the Finance Services that initiate payments. There is a constant review of all staff members who are claiming dependency allowance with particular attention given to documentary evidence of support and occupational earnings. There were four cases of overpayment of dependency allowance during the past two years, all of which have since been recovered. Efforts are being made to implement a system that will enable all dependency allowance payments to be computerized on a time/period basis. All changes in dependency status are implemented through P.5 action, copies of which are made available to United Nations Headquarters.

Education grant

6. The United Nations University abides by the relevant rules and regulations as stipulated in the latest ST/AI on Education Grant. The University is in a position to monitor all education grant claims very thoroughly as there are relatively quite few claims submitted. All abnormal types of expenses that are claimed are referred to the Salaries and Allowances Unit in United Nations Headquarters prior to their being reimbursed to the staff members. It is a United Nations University policy not to give advances for future scholastic years until all prior advances have been cleared. All advances outstanding for education grant at this moment are considered current. Staff members are reminded if their advance is still outstanding beyond the school year to which it relates.

Staff travel/home leave/family visit

7. As the relevant staff rules and regulations and administrative instructions are quite explicit in this regard, the University is able to monitor these types of expenses effectively. Every effort is being made to reduce travel costs by combining other official travel with home leave and buying cheaper excursion and other cost-saving tickets.

Salaries and related allowances (Professional staff)

8. It should also be noted that all salary and final pay emoluments for staff members in the Professional and higher category are paid and controlled by the Payroll Section at United Nations Headquarters but that the University reviews and

verifies all charges received from them for salary related items on a monthly basis. Annual increments and promotions are processed through P.5 actions, copies of which are made available to United Nations Headquarters.

9. The University is in the process of computerizing many aspects of its financial activities and every effort is being made to improve the current system while maintaining strict internal control procedures that will allow it to fulfil its financial obligations in the most effective manner.

10. In conclusion, the internal control procedures relating to the benefits and allowances received by the staff of the United Nations University have been constantly reviewed and that the existing control procedures have proved to be most effective that there have been no cases of fraud or abuse. The External Auditors have recently completed an audit inspection of the accounts of the University, with particular attention being paid to the procedures relating to benefits and allowances such as dependency allowances and education grant, and as yet no audit observations were made in this regard.

I. International Trade Centre

1. The United Nations Office at Geneva maintains ITC's payroll. ITC is applying United Nations control procedures and changes to these procedures are introduced as and when changes are introduced by the United Nations. ITC uses its own computerized checklists in order to avoid overpayment of any kind as well as possible administrative errors. In addition, ITC has requested the Internal Audit Division on 10 February 1986 to review its internal control procedures. No cases of waste, fraud or abuse were reported. In case of doubt, ITC consults with the Department of Administration and Management and sometimes also with the United Nations Office at Geneva.

2. Any problem cases are discussed with officials of the Office of Human Resources Management, notably twice each year on the occasion of regular meetings of CCAQ (PER).
