

United Nations
**GENERAL
ASSEMBLY**
FORTY-SECOND SESSION
*Official Records**



FIFTH COMMITTEE
8th meeting
held on
Tuesday, 13 October 1987
at 10 a.m.
New York

SUMMARY RECORD OF THE 8th MEETING

Chairman: Mr. AMNEUS (Sweden)

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

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Distr. GENERAL
A/C.5/42/SR.8
16 October 1987

ORIGINAL: ENGLISH

The meeting was called to order at 10.05 a.m.

AGENDA ITEM 113: FINANCIAL REPORTS AND AUDITED FINANCIAL STATEMENTS, AND REPORTS OF **THE** BOARD OF AUDITORS (continued) (A/42/5/Add.1 and 2, A/42/372, A/42/399, A/42/437, A/42/430 and A/42/579)

(a) UNITED NATIONS DEVELOPMENT PROGRAMME (continued)

1. Mr. BROWN (Associate Administrator, United Nations Development Programme) said that the UNDP Administration was always grateful **for the comments** and criticisms of the Board of Auditors, which in the current year had **been particularly thorough**. It had benefited considerably from the opportunity to discuss the Board's opinions and findings in depth. Nevertheless, there were **differences** of technical opinion on several of the points which the Board had made, for some of **the** procedures which the auditors favoured or requested were not consistent with practices followed in UNDP **pursuant to decisions by its Governing Council and the General Assembly**.

2. The Board had criticised UNDP for its reliance **on the audit** procedures and findings of **executing agencies**. Yet in earlier audits the Board had recognized the practice, and if UNDP were to abandon it fundamental **changes would be necessary**; it would remain to be seen how costly **conducting its own** audits would be. **Such a change** lay outside the purview of the Administrator, and could **be resolved** only by decision of the Governing Council. The Administration was therefore **unable to take account** of the Board's recommendations on that matter.

3. On **several** other matters, the Board's recommendations conflicted with decisions **taken by the Governing Council**: for example, on the issues of programme support costs, **the treatment** of income and expenditure in the case of cost-sharing arrangements, **government cash counterpart** contributions and trust funds, and also the operational reserve. **Some** of the other points raised **by the Board** were operational in character, and had been reviewed from time to time **by the Governing Council**. The Board's **remarks** would **be made** available to the Council for discussion at its **1988** session.

4. The Governing Council had requested a full report on **UNDP's** experience with **government** execution of projects. An evaluation had taken **place**, and the report would be submitted to the Council at its June 1988 session.

5. The ratio of administrative support costs to total programme delivery was a **matter of continuing** concern. The UNDP Administration nevertheless believed that **it was wrong** to use a crude measure of the relationship **between** administrative **costs** and programme delivery from **IPFs** (indicative planning **figures**) as a test of efficiency and economy. **IPF delivery was only one of the tasks performed by the UNDP Administration**. He was not suggesting that there **should be no cap on** administrative costs. In fact, for the period **1988-1989** the Administration expected a substantial increase in programme delivery **although it had submitted a** zero-growth budget for those years. The increase was a sign of its determination to **keep the ratio between programme delivery and administrative costs under control**.

(Mr. Brown)

6. The auditors had expressed concern lest programme delivery be increased at the expense of quality. He did not regard that as an issue because, over the past three years, the Administration had greatly expanded the number of quality control measures in operation. Indeed, it had been criticized on the ground that the new procedures would delay programme delivery. In fact, a recent study showed that UNDP had been able to reconcile all three requirements: administrative efficiency, increased programme delivery and improved quality.

7. Some of the problems raised by the auditors had already been resolved. Such was the case with the exchange-rate problem in one country, and with the amortisation of expenditure on office premises. It was also the case with the incidents of fraud or preemptive fraud, all of which had been resolved either by full recovery of the amounts involved or by disciplinary action.

8. In some cases, the UNDP Administration agreed that the auditors had raised valid criticisms. That was the case with non-expendable property. New Inventory control procedures would come into effect in 1998, and he hoped that they would resolve the problem. Again, a backlog had developed in the clearing of travel accounts. Action was being taken to deal with the problem, and it was estimated that full reconciliation would have been completed by August 1998. Many steps had been taken to improve budget controls, and the UNDP Budget Section had agreed that all resident representatives and deputy resident representatives should have the chance to review budget controls when they visited headquarters. A budget management manual for use at headquarters would be issued before the end of the year, and the field manual was being updated.

9. The Division of Management Information Services had been criticized for lacking a clear strategy. The auditors had been given a long explanation of the problems UNDP had faced in dealing with electronic data processing while the technology was in a state of rapid development, but he agreed that the strategic plan being used by the Division needed to be updated, and that data communication between UNDP headquarters and field offices should be streamlined.

10. The Canadian representative had asked what proportion of government-executed projects were properly audited. Between 11 and 11 per cent were probably rather more than the proportion of projects not executed by Governments. It was quite possible that UNDP would re-examine its reliance on external audits for government-executed projects. At the moment it generally received certified statements of expenditure from the governmental departments concerned; Governments, applied their own auditing procedures. The matter would be among those taken up in the report to the Governing Council at its June 1988 session.

11. The Canadian representative had also asked what adjustments had had to be made to the UNDP accounts upon receipt of audited accounts from executing agencies. The issue was an important one. The audited accounts for 1984-1985 from one agency had included \$3.2 million not mentioned in the original sums reported to UNDP. To correct it, however, it had only been necessary to decrease the budgetary provisions for 1984 and increase them for 1985, so that the aggregate effect of the discrepancy had been zero. Over the years, the total effects of such adjustments

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had been a reduction of \$370,000 in the accounts for 1983 (with corresponding increases in the accounts for other years); a decrease of \$170,000 in 1984; a decrease of \$1,035,000 in 1985, and a decrease of \$96,000 in 1986. The adjustments for 1986 should be viewed in the context of total transactions exceeding \$1 billion. The reconciliations made necessary by the receipt of audited accounts from executing agencies had not involved expenditure that ought not to have been incurred, only shifts of expenditure from one year or one category to another. He hoped that that point would be borne in mind when the Fifth Committee made its recommendations.

12. The representative of India had asked what specific problems UNDP faced in attaining higher rates of delivery. The matter had been discussed in great detail in a working group of the Governing Council, and several factors had been identified as affecting the rate of delivery. The problem was, in fact, tripartite, involving the executing agencies, Governments and UNDP itself. Still, programme delivery was expected to be greater in 1987 than in 1986, and greater in 1988 than in 1987.

13. The representative of Brazil had asked why the financial statements for UNDP relating to 1986 had not been submitted direct to the Board of Auditors by the Administrator. Perhaps there was a misunderstanding and the representative had meant to refer to the Administrator's financial report, for the financial statements had of course been submitted to the Board. In any case, the Administrator's financial report contained no information which had not already been made available to the Board of Auditors.

14. The Brazilian representative had also asked about the losses incurred because of the backlog in reconciliations of accounts. Out of a total outstanding of \$860,000 relating to 1986 and before, only 915,000 had been identified as needing to be written off, mainly because the staff members concerned had left UNDP before settling their accounts.

15. On the relationship between UNDP and UNEFPA, he said that a high-level meeting of representatives of the two agencies had already been arranged to review how best to deal with some of the issues raised by the Board of Auditors.

16. The Administration had given a full explanation in its written comments for the size of the Programme's liquid reserves. The liquidity of UNDP's funds could not be judged simply by looking at the totals recorded on the balance sheet: accounts which were fungible must be distinguished from those which could be used only for clearly specified purposes. Thus, out of the \$685 million UNDP held in liquid assets, \$200 million were, on instructions from the Governing Council, to be held as a distinct and highly liquid operational reserve. The Governing Council had also called for \$25 million to be held in reserve for the construction of offices and housing for project staff. A further \$147 million lay in accounts established for cost-sharing, government cash counterpart contributions and other trust funds: none of that money could be shifted to any other account. To protect UNDP, moreover, all contributors to trust funds were asked to pay their contribution in advance. As a result, the Programme would always have substantial

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balances in the trust funds. That should not give rise to criticism; it was a prudent management practice, since it meant that the Programme would never have to draw on general resources to make good a shortfall in cost-sharing or trust-fund-supported activities. That left a total of \$330 million in liquid general resources, but the value of that balance would change very rapidly as the exchange rate of the United States dollar fluctuated: the dollar value of general resources denominated in non-United States currencies had increased by some \$100 million in 1986. The programme could not operate on the assumption that the value of the dollar would continue to fall.

17. Against the size of the reserves, it was necessary to set the volume of planned spending by UNDP in the coming years. Between \$800 million and \$900 million was expected to be spent in 1987 from general resources; the Programme also had unallocated obligations of \$280 million. Although UNDP received its income on a yearly basis, it generally entered into commitments for projects ranging two to four years in advance. As of June 1987, it had held over \$1 billion in signed commitments against its general resources.

18. The United States delegation had submitted a series of questions relating to audits of non-core activity funds and projects executed by agencies other than UNDP. Those questions should really be directed to the Board of Auditors. The UNDP Administration could not direct the auditors to audit a particular part of UNDP's operations; nor could it explain variations in the thoroughness of an audit, or the Board's failure to audit certain activities in the past.

19. Mr. FIGUEIRA (Brazil) said it appeared from the Deputy Administrator's Comment 6 that one of his delegation's questions had not been phrased clearly enough. He had been interested in the letter dated 30 April 1987 transmitting the financial statement of UNDP for 1986 to the Chairman of the Board of Auditors. That letter had not been signed by the Administrator or the Associate Administrator, as one would normally have expected. As the Board had issued a qualified opinion on the UNDP accounts, he wondered whether the failure of the Administrator or Associate Administrator to sign the letter of transmittal implied that they had wished to dissociate themselves from the statement.

20. Mr. BOUR (France) said that it was not unusual for comments and recommendations by the Board of Auditors to be at variance with decisions taken by the Governing Council or even the General Assembly. Neither the Council nor the Assembly had a complete picture of the financial situation of UNDP, and one of the functions of the Board was to suggest improvements. The Board's comments should not be rejected out of hand merely because they conflicted with the directions given to the Administration by the General Assembly or the Governing Council.

21. Although he had noted the Associate Administrator's explanation for the large liquid reserves held by the Programme, his delegation was still not convinced of the need for them to be so large. Given the findings of the Board of Auditors submitted to the Governing Council in May 1987, he also wondered why the Administration had sought a revision of the formula governing the size of the operational reserve (A/42/5/Add.1, para. 59).

22. Mr. LADJOUZI (Algeria) expressed the view that, once comments made by the Board of Auditors had been adopted by the Fifth Committee and the General Assembly, it was incumbent on the Administration to implement them. On the issue of liquidity, his delegation considered that the level of liquidity was due, at least in part, to increased pledges by member States and accordingly expected that there would be a rise in IPPs. He wished to know whether the Associate Administrator could confirm that UNDP would be in a position to submit proposals for raising IPPs once the contributions of Member States exceeded UNDP's forecasts.

23. Mr. GUPTA (India) said that the Board of Auditors had pointed out that there was considerable scope for improvement in the utilization of local opportunities for procurement in developing countries. There had been intense discussion of that issue in the Governing Council in June 1987 when it had been decided to add two temporary posts to the Interagency Procurement and Supply Unit.

24. The auditors had also pointed out that the Administration was charging exchange losses to IPPs although no clear decision had been reached as to whether such a procedure was appropriate. He would welcome the comments of the Associate Administrator on both points.

25. Mr. BROWN (Associate Administrator, United Nations Development Programme), replying to the representative of Brazil, said that, on the date of the letter of transmittal, namely, 30 April 1997, both the Administrator and he himself had been absent from headquarters attending a meeting of the Administrative Committee on Co-ordination. The letter had accordingly been signed by Mr. Andrew J. Joseph, the officer-in-charge. As the entire senior management of UNDP had endorsed the letter, it seemed appropriate that the officer-in-charge should sign it. There had moreover been a deadline for the submission of the letter. There was no implication that senior management was not behind the statement that the accounts had the approval of UNDP.

26. In reply to the representative of France, he wished to point out that the Governing Council of UNDP was analogous to the Board of Directors of an organization, which was the ultimate authority as to what that organization could do. He was in no way suggesting that the Board of Auditors was not entitled to make a comment, critical or otherwise, on a decision which the General Assembly or Governing Council had taken. He considered, however, that it was wrong to qualify an opinion on the accounts of UNDP because the Administration had followed the directions of its governing body. The issue concerned the policies of the governing body and should therefore, in his view, be addressed to that governing body. The Administration would lay itself open to criticism: condemnation for doing things contrary to the decision of its governing body. There was no way in which the Administration could act on the basis of an audit report which conflicted with a decision of its governing body. The qualification by the Board of Auditors therefore was out of order.

27. Many fundamental issues were involved. UNDP was a voluntarily funded organization which had been entrusted by the General Assembly to the management of a Governing Council. Within that Governing Council certain operational procedures and precedents had been established. For example, there had never been a vote in

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the Governing Council, one of the reasons being that, if there was a vote with which major donors disagreed, then, on the next occasion, donors would vote with their feet. UNDP was therefore in a different position from a body which was financed by assessed contributions. The issue was very important and, in his view, should be discussed at the highest level.

28. The representative of Algeria had expressed the view that, once the Fifth Committee had adopted the report of the Board of Auditors, the Administration should immediately implement its recommendations. In his view, any decision of the Fifth Committee which ran counter to the policies established by the Governing Council would mean that the UNDP Administration, before taking action, would see its responsibility as being to seek the direction of the Governing Council. It was not fair to place the Administration in the middle, between the Fifth Committee and the Governing Council.

29. The question of the operational reserve, to which the representative of France had referred, continued to be discussed in detail in the Budgetary and Finance Committee of the Governing Council. The UNDP accounts reflected the decision taken on the matter by the Governing Council.

30. The representative of Algeria had asked whether, because of increased liquidity resulting from rises in pledges, the Administration would recommend increased IPFs. While it was true that between 3 and 4 per cent of the increase in liquidity resulted from increased pledges, approximately \$100 million of the increase was the result of the appreciation of many currencies against the United States dollar. One consequence had been that the real value of the IPFs established in 1985 was now lower in dollar terms. A UNDP task force was currently examining the implications of fluctuating exchange rates and, following the Pledging Conference in February 1988, the matter would be discussed further in the UNDP management group with a view to reaching agreement on what steps needed to be taken.

31. On the point raised by the representative of India, he could confirm that the process of recruiting the two additional staff members authorized for the Interagency Procurement and Supply unit was under way. A full review was to be made of the whole issue of procurement. Most procurement from UNDP funds was however undertaken by the agencies. UNDP had sent missions to virtually all the executing agencies in connection with the reorganization of their procurement policies. It was however up to the executing agencies themselves to make the necessary changes, as UNDP could not dictate to them what they should do. Many agencies had however indicated that they were aware of the issue and were doing their best to improve local procurement in developing countries.

32. The representative of India had referred to paragraph 57 of the report of the Board of Auditors (A/42/5/Add.1) regarding the charge to a country's IPF of loss on exchange without awaiting the results of arbitration. In that connection, it was the practice of UNDP to charge a country's IPF with the exact cost of purchase of local currency.

33. Mr. LADJOUZI (Algeria) • ~~the view that, when there was a conflict between the views of the auditors and the decision of the governing body, there should be a reference to such conflict in the auditors' report and the governing body's view should also be sought. A serious problem of co-ordination was involved.~~

34. Mr. BOUR (France) agreed that where there was a difference between a prior decision of the Governing Council and the audit, the issue should be brought to the attention of the Governing Council, which could then reconsider its previous decision.

(b) UNITED NATIONS CHILDREN'S FUND (continued)

35. Ms. LOKHAUG (Acting Deputy Executive Director, Operations, United Nations Children's Fund) said that she had been asked by the Executive Director to make it very clear to the Fifth Committee that the UNICEF Administration considered the issues raised by the Board of Auditors during their review of the agency's 1986 accounts to be of critical importance. The existence of a temporary disclaimer was both grave and regrettable. In that connection UNICEF welcomed an expanded audit, as proposed by the Board of Auditors, endorsed by ACABQ and widely supported by delegations, and hoped that the expanded audit could take place as soon as possible so that the Board would be in a position to finalize its report and issue an audit Opinion before the 1986 Executive Board meeting in April 1988.

36. All necessary remedial action would be taken and indeed many corrections were already under way. The Executive Director had asked the various divisions involved for a preliminary report on remedial actions taken, to be followed up on a continuing basis by senior executive management. As recommended by the Advisory Committee, UNICEF would submit to that Committee at its 1988 autumn session, the comprehensive report on the status of implementation of all recommendations contained in the report of the Board of Auditors.

37. The issues raised by the Board of Auditors could be divided into three major categories, namely; technical accounting issues; systems issues; and policy issues. On all technical issues, UNICEF had already introduced the corrective measures agreed upon with the auditors and the General Assembly in the process of taking remedial action on other technical accounting issues. She believed that answered the question raised by the representative of the Ukrainian SSR. On the "systems" issues raised by the representative of Denmark, speaking on behalf of the European Community, UNICEF was continuing progress towards achieving the necessary modification. Provisional solutions would be found for some systems issues because UNICEF had already begun to review and update its accounting system, an exercise which would be completed in 1989. All of the various policy issues raised by the Board of Auditors would be presented to the Executive Board in 1988 for its consideration.

38. During the audit, it had become clear that it would be useful to clarify further some of UNICEF's accounting procedures and the corresponding accounting policies, particularly with respect to supplementary funding. It had been agreed that, owing to the limited scope of the 1986 audit, the auditors and the

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Administration would not be able to come to an agreement regarding certain outstanding issues within the specified time-frame. The Administration agreed that, for accounting presentation purposes, several of the 1986 balances should be restated.

39. The representative of Brazil had asked why the audit had not been completed. The answer was that the auditor* had had a deadline within which to finalize the audit report for presentation to ACABQ and the Fifth Committee. By the time that it had been determined that certain issues remained unresolved, most of the team had returned to their home countries. Within the time and financial resources allotted for the year-end audit, the auditor8 had therefore been unable to undertake further analysis to ascertain mutually acceptable account balances. It was therefore agreed that an opinion would not be issued on the 1986 financial reports until the auditor8 had additional time to complete the 1986 audit with a possible expanded audit.

40. One major issue reviewed by the report had related to accounting for projects funded by supplementary resources, notably the temporary allocation* from general resources, the timing of income recognition and the possibility that expenditures might have been incurred in excess of commitments. Those practice8 had not been started in 1986 but had been followed for many years past. Since it was not possible for the auditor8 to audit all areas each year, it had only been in 1986 that those practice8 had been reviewed.

41. The concept of "noted" projects, as a supplement to general resources programmes had been formalized in 1970. Such projects were unique in the United Nations system since they were not like trust fund projects but were approved and reviewed as an integral part of other activities. In 1976 the UNICEF Executive Board had established the policy of treating supplementary funds as part of UNICEF's total income; however, in order to meet donor reporting requirements, separate accounts were maintained for such so-called "noted" projects.

42. During the period 1975-1986, UNICEF had followed a consistent policy on the timing of recognition of supplementary funds income. Using a method similar to that adopted for general resources, income from a donor Government had been recognized following discussions and the receipt of a firm pledge or the actual cash amount. As a result of those discussions, the contribution might be recorded as income for the current year for the entire amount, or recognized in part as deferred income. That policy had been applied consistently during 1986. However, upon review of the documentation by the Administration during the audit, it had become clear that, in certain cases, the proper documentation to record the discussions on the timing of income had not been placed on file. In addition, the issue of donors' intentions had not been specifically stated in UNICEF's accounting policies and that could leave ambiguity as to procedure8 followed regarding the recording of current versus deferred income.

43. The representatives of Denmark (speaking on behalf of the European Community), the Netherlands and Nigeria had raised the issue of the timing of income recognition as it related to the 1986 income statement. They had noted that, in

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paragraph 22 of the ACABQ report (A/42/579), a readjustment of the UNICEF accounts, based on the incomplete audit analysis, would result in an excess of expenditure over income of 85.9 million. However, as noted in paragraph 23 of the ACABQ report, an extended audit of 1986 would include a restatement of the income for 1984 and 1985 which would probably result in wmpenrating accounting entries and would thus offset much of the adjustment to the 1986 account. UNICEF agreed with the auditor that in its accounting policy on the recognition of income it should take donors' intention into account. UNICEF had already begun to obtain in writing from donors the form81 annualization of their contributions for income recognition by UNICEF. That was also reflected in UNICEF's financial regulations and rules, which would become effective in January 1988.

44. On the issue of the temporary allocation of funds to "noted" projects, the Executive Board had confirmed as recently as 1986 that there were no substantive difference between projects financed from general resources and "noted" projects financed from supplementary funds. Both types of project were subject to recipient approval by the Government and the UNICEF Executive Board and they generally formed components of the same projects. Accordingly, in cases where the pledge for a "noted" project was assured, or in times of urgent need, UNICEF had begun implementation prior to receipt of the firm pledge or supplementary funds, if adequate general resources funds earmarked to the country concerned were available to cover the expenditures. In short, all expenditures were recorded as incurred and the result was only a rephrasing of the approved country programme. At no time could or would the Executive Director approve expenditures in excess of the total country programme recommendations approved by the Executive Board.

45. The Administration was well aware of the steady growth of income from supplementary resources, which had increased from \$16 million in 1976 to \$164 million in 1986. With that in mind, the Administration and the Executive Board had reviewed supplementary funded project policies in 1983, 1985 and 1986. The UNICEF Administration agreed with the Board of Auditors that a clear statement of current procedures should be submitted to the Executive Board for its approval. Indeed, the Executive Board had decided the previous year to conduct a full review of the subject in 1988. The Administration's report would cover all of the issues raised by the auditor regarding supplementary funding and would be submitted to ACABQ, as recommended, for its review and comments, in December 1987. In addition, the Executive Director had decided to hold an informal consultation with the Executive Board in late November 1987 to review the issue.

46. In response to the reference made by a number of delegations to expenditures on UNICEF's fortieth anniversary celebrations, she said that the Administration was currently preparing a report on revenues and expenses related to these activities, including First Birth Run and Sport Aid, for submission to the 1988 session of the Executive Board for post facto approval.

47. The Auditors' comments on UNICEF's mechanism for the transfer of funds between budget lines and between categories was undoubtedly valid from the management auditing point of view. The planned implementation of their recommendation would allow for greater transparency and management control. In addition, in 1987 the

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Executive Board had established new budgetary expenditure categories which would tighten control procedures. The practice of making automatic year-end budget transfers had been stopped. In future, budget control would be used as one of the criteria in evaluating the performance of UNICEF managers. The transfers noted by the auditors totalled 1.8 per cent of the allotment between categories, which was well within the 5 per cent repeatedly given to the Executive Director as a guideline by the Executive Board.

48. The use of purchase orders for individual contracts had already been discontinued before the audit was made. An administrative instruction had been issued, clearly stating that the use of purchase orders was limited to procuring equipment and supplies. The issue had recently been reviewed at the senior management level and the use of purchase orders to procure services from institutions had also been discontinued. Regarding the UNICEF financial regulations and rules currently being drafted, she assured the Committee that the auditors' recommendations were being given full consideration.

49. In conclusion, she thanked those delegations which had noted that the temporary disclaimer on the UNICEF account was not due to any fraud or presumptive fraud or any misuse of funds. UNICEF continued to honour the pledge of its first Executive Director that every penny given to UNICEF was a penny in trust. She also thanked the Board of Auditors for their very professional approach. The UNICEF Administration looked forward to a quick resolution of the temporary disclaimer. UNICEF did not regard its mandate to provide for the world's mothers and children as an excuse for having less than the best management practices. Several delegations had stressed, however, that rigid or bureaucratic administrative procedures should not be allowed to hinder programme implementation. UNICEF accepted the challenge of reconciling the goals of proper internal management controls and transparent reporting systems with program implementation. UNICEF intended to be as professional in the administration of the funds entrusted to it as it was in their utilization.

50. Mr. MUDHO (Kenya) said that his delegation had full confidence in the ability of the UNICEF Administration to overcome the shortcomings noted by the Board of Auditors and to continue UNICEF's valuable work. He asked whether the proposed expanded audit could be completed in time for the next session of the Executive Board.

51. Mr. BOUR (France) welcomed the determination expressed by the UNICEF Administration to take remedial measures. He had no doubt that after corrective action had been taken UNICEF would continue to have the full support of donors and of the international community as a whole. He trusted that the corrective measures would be put into effect as soon as possible. He was, however, dismayed by the slow pace of progress in rectifying problems in the Greeting Card Operation and UNIPAC to which attention had been drawn in previous reports of the Board of Auditors, and inquired about the reasons for the situation.

52. Mr. LADJOUZI (Algeria) welcomed the constructive attitude of the UNICEF Administration and its readiness to respond as far as possible to the recommendations of the Board of Auditors. His delegation had serious doubts,

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however, about the validity of the fundamental reproach addressed to UNICEF, which was that it used temporary allocations from general resources in order to finance projects. When the expanded audit was carried out, the opportunity should be left to UNICEF to continue the practice so that it could enjoy the necessary flexibility in the execution of projects. He asked what the value of the recommended expanded audit would be to UNICEF, and what implications it would have for the organization's programme and projects. He emphasized that where considerable expenditures were involved as in the case of the fortieth anniversary celebrations, the opinion of the Executive Board should be sought in advance.

53. Mr. DEVREUX (Belgium) said that in its report to the forty-first session of the General Assembly (A/41/5/Add.2) the Board of Auditors had noted in connection with UNICEF's Greeting Card Operation that the total amount of commissions and direct expenses linked to card sales was 26.7 per cent of gross sales. In two years, the rates were 65.6 and 53.3 per cent respectively. The Board of Auditors had commented that if the target of 25 per cent had been achieved there would have been a saving of 81.4 million. The discussion on that point in the General Assembly had brought out the fact that some national committees contributed a part of their income to UNICEF's general resources but that UNICEF did not use those figures to calculate the net overheads of the national committees and encourage them to make possible savings. In that context, therefore, his delegation would like to know what change, if any, there had been in the ratio of commissions and expenses to sales since the last session, what efforts had been made to stay within the 25 per cent limit, and whether the highest rates of 65.6 and 53 per cent had been reduced. He also asked whether UNICEF had taken steps to calculate the overhead costs of the various national committees and compare them, with a view to making savings and increasing UNICEF's net resources.

54. In paragraphs 87 to 91 of its current report, the Board of Auditors noted that certain expenditures connected with the building of UNICEF House, including the salary and allowances of the project manager, the fees of a consultant recruited for the project, and expenditures on wiring and lighting, had been charged to the regular budget instead of to the UNICEF House budget. The fact that the Executive Director had been asked by the Advisory Committee to prepare a detailed report on the utilization of the UNICEF House budget, and that the Executive Board had several times asked to be informed of the costs of UNICEF House, made the matter particularly serious. Given the special attention which had been paid to the programme, his delegation found it hard to believe that the irregularity was the result of a mistake or of negligence. He would like to know how such a practice could have arisen and when, by whom and how the incorrect charges had been approved, in respect of each item.

55. Mr. MURRAY (United Kingdom) asked what stage had been reached in the drafting of separate financial rules and regulations for UNICEF, and, if those regulations were still incomplete, under what rules UNICEF was currently operating. He endorsed the previous speaker's comments on the UNICEF House costs and noted that, in one instance, the salary and allowances of the project secretary had first been correctly and then incorrectly shown (A/42/5/Add.2, para. 89 (b)). He would like to know how such a thing could happen. The Advisory Committee had expressed itself very strongly (A/42/579, para. 33) on the use of purchase orders and he was glad to

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hear that the practice had already been discontinued. In the summary of its review of UNICEF activities and structures, the Joint Inspection Unit referred to UNICEF's support cost/programme cost ratio as being among the worst in the United Nations system (A/42/34, para. 92). He wondered whether the Administration would like to comment on that remark.

56. Ms. LOKHAUG (Acting Deputy Executive Director, Operations, UNICEF), replying to questions raised by the representative of France, said that, since it was impossible to change a complicated accounting system overnight, some provisional solutions would be necessary. However, the most critical issues would be addressed in a major change to the Fund's accounting system which had been approved by the Executive Board in the spring of 1987. Action would be taken as rapidly as possible, taking into account all the recommendations made by the auditors as well as the complications of the Fund's field system.

57. With respect to the questions raised by the representative of Algeria, the practice of funding temporary allocations from general resources would be addressed in the draft paper on supplementary funding, comments on which would be invited during the informal consultations of the Executive Board in late November 1987. Meanwhile, efforts would be made to ensure both that the Fund did not lose its flexibility and that it pursued a clear policy as approved by the Board. While she felt that the question relating to the cost of an expanded audit should be referred to the Chairman of the Board of Auditors, she anticipated that such an audit could be funded from savings in UNICEF's administrative budget.

58. With respect to the question raised by the representative of Belgium as to the rate of commission paid to national committees, it should be remembered that those committees were not formally parts of UNICEF but conducted their operations in harmony with the guidance of the Executive Board under the terms of a standard recognition agreement. The ratio of the committees' direct expenses to their gross sales had improved from 27.3 per cent in 1985 to 26.5 per cent in 1986. The specific rates quoted by the representative of Belgium had been substantially reduced in 1986 and, in addition, one major national committee had reduced its retention rate by 5 per cent, as part of an overall effort to bring its rate down to 25 per cent.

59. As for action taken by the Fund to calculate the net overhead rates of the national committees, the adoption in early 1987 of a new standardised reporting format for the income and expenditures of national committees would allow a more meaningful comparison to be made in the course of the next financial year. It should be recalled, meanwhile, that the commissions charged by national committees were used not only to cover administrative expenses but also to promote various important UNICEF activities, including fund raising and the enhancement of information capacities.

60. In reply to the question relating to UNICEF House, the Executive Board had agreed that a full report on the one-time installation cost should be provided in 1988. Since the project had already been fully scrutinized both by the Advisory Committee and the Executive Board, the Fund's internal auditors had been requested

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to verify that all the one-time installation wets had been charged to the appropriate budaet line. It had been discovered during that review that some items had been charge. to the wrong budget line: such errors were immediately corrected and noted in the auditors' report. With regard to the question of staff costs, the international professional staff required for the project had been charged to the ruqular administrative budget for international staff wsts, because of the several years' duration of the project, in acwrdance with standard UNICEF policies and procedures. However, the, albeit temporary, charging of expenses related to the consultant against an incorrect budget line had been rectified. The Fund was determined to ensure that all UNICEF House coats would finally be charged to the correct wst centre.

61. With respect to the question raised by the representative of the United Kingdom, the Fund's financial regulations had been approved by the Executive Board in 1987, while its financial rules had been drafted and tinalized and were awaiting final clearance by the United Nations Office of Legal Affairs. The rules would be distributed to all delegations represented on the Executive Board at least 60 days bet ore becoming et tective, and in any event no later than 1 November 1987, in order that both the rules and the regulations should take effect on 1 January 1988, at the beginning of a new financial biennium. For the time being, UNICEF remained subject to the Financial Rules and Regulations of the United Nations and the signif icant accounting policies summarized in document A/42/5/Add. 2.

62. With respect to the methodology used by the Fund to calculate its overhead wsts and to compare such costs with those incurred by other agencies, the current methodology, although different from that discussed in the report of the Joint Inspection Unit, had been recommended by a former Inspector of the Unit, approved by the Advisory Committee and endorsed by the Executive Board. According to that methodology, overhead wsts fluctuated between 10 and 11 per cent, which were quite low figures by comparative standards. If a different method were to be applied, allowance would have to be made for the tact that UNICEF was both a funding organization and an executing agency. However, even if the calculation was made on a broader basia, UNICEF would be able to claim one of the lowest levels of overhead costs in the development field.

63. Mr. DEVBEUX (Belgium) said that his delegation, while pleased to note the success in improving commission rates, regretted that progress had not been made in the use of existing data to calculate and wmpare amounts retained by national committees which were not made over to UNICEF. He hoped that further action might be taken with a view to increasing the Fund's income without adversely affecting the Goodwill of the national committees.

64. Ms. LOKHAUG (Acting Deputy Executive Director, Operations, UNICEF) said that the comments made by the representative of Belgium would be studied during the review of information relating to national committees. However, it should be appreciated that UNICEF would not necessarily reap any additional financial benefit, since the funds retained were already used for UNICEF purposes.

65. Mr. MURRAY (United Kingdom) expressed the view that the Fund's performance with respect to overhead costs was not quite as successful as had been suggested. However, he agreed that the subject was complicated and hoped that it might be possible at some time to compare costs on a more equal basis.

AGENDA ITEM 115: PROPOSED PROGRAMME BUDGET FOR THE BIENNIUM 1988-1989

Programme budget implications of draft resolution A/42/L.1 concerning agenda item 24 (A/C. 5/42/12)

66. Mr. NSELLE (Chairman of the Advisory Committee on Administrative and Budgetary Questions) said that the Secretary-General indicated, in his statement of the programme budget implications of draft resolution A/42/L.1, that if the resolution was adopted there would be no need for additional appropriations under the regular budget for the biennium 1988-1989. Requirements for the Ad Hoc Committee had already been included under section 3E of the proposed programme budget. With regard to requirements for the International Conference on Kampuchea, the procedure to be followed if the Conference was reconvened was outlined in paragraph 9 of the Secretary-General's statement. Should it be decided in the course of 1988 to convene the Conference, the Secretary-General would endeavour to meet the requirements from within resources allocated in the budget for 1988-1989. If that was not possible, he would get in touch with the Advisory Committee to request authorisation for additional commitments.

67. General Assembly resolution 41/213 had called for a new budgeting process, one feature of which was that the programme budget should include expenditures related to political activities of a "perennial" character whose mandates were renewed annually, together with their related conference costs. The situation in Kampuchea fell into that category and the adoption of the resolution would not therefore give rise to any additional amount.

68. Mr. SEGUIS (Philippines), speaking on behalf of the Association of South-East Asian Nations, said that the draft resolution on the situation in Kampuchea (A/42/L.1) had already received widespread support, the number of co-sponsors standing at 63. The work of the Ad Hoc Committee remained vital to the stability and security of the South-East Asian Region. Vast numbers of refugees continued to rely on the generosity of neighbouring countries, Thailand in particular. There was no need to stress the importance of achieving a political solution based on the resolutions repeatedly adopted by the General Assembly. He urged Member States to continue to provide the Ad Hoc Committee with the resources it needed so that it could continue the quest for peace and stability in the region, which had so far proved elusive.

69. Mr. BIDNY (Union of Soviet Socialist Republics) said that his delegation had consistently opposed the consideration by the United Nations of the situation in Kampuchea, on the grounds that it was in opposition to the desires of the Kampuchean people and their Government and moreover a violation of the provisions of the Charter regarding non-interference in the internal affairs of states. The attempts being made in some quarters to use United Nations resolutions in order to interfere in Kampuchea could only heighten tension in the region and make the situation worse.

70. The CHAIRMAN proposed, on the basis of the recommendations of the Advisory Committee, that the Fifth Committee should inform the General Assembly that, should it adopt draft resolution A/42/L.1, no additional appropriations or programmatic changes would be required under the proposed programme budget for the biennium 1988-1989. With regard to paragraph 5 of the draft resolution, he proposed that the Fifth Committee should inform the General Assembly that, should a decision to reconvene the International Conference on Kampuchea be reached in the course of 1988, the Secretary-General would endeavour to accommodate the related requirements from within resources programmed under sections 3 and 29 of the proposed programme budget for 1988-1989, and that, should those resources prove insufficient, the Secretary-General would seek the concurrence of the Advisory Committee on Administrative and Budgetary Questions to enter into the necessary commitment with regard to the balance of the requirements for the Conference.

71. Mrs. TON NU TLI NINH (Viet Nam), speaking in explanation of her delegation's vote, said that as in previous years the delegation of Viet Nam wished to state its formal reservation regarding the programme budget implications of draft resolution A/42/L.1 as described in document A/C.5/42/12. Her delegation intended to continue to vote against the draft resolution. It could not, therefore, give its approval to the allocation of budget resources to Ad Hoc Committee activities or to the eventual reconvening of the so-called International Conference on Kampuchea, for reasons that were self-evident. Her delegation would also oppose the section on the co-ordination of the Kampuchean humanitarian assistance programmes in their current form. In so doing, it was not repudiating humanitarian assistance as such, but it could not condone the channelling of such assistance to support criminal and subversive activities undertaken by the Khmer Rouge forces against the rehabilitation of the former victims of their genocidal rule.

72. In that connection, she quoted from a July 1987 report on Cambodian refugees in Thailand submitted by a representative of OXFAM. The report stated that, from a humanitarian point of view, the recognition by the United Nations of the Coalition Government of Democratic Kampuchea had serious negative consequences. It allowed aid to be channelled to the border, where thousands of people lived as virtual hostages in order to legitimize the Coalition. In military terms, the Coalition was dominated by the Khmer Rouge, with the same leaders as during the Pol Pot years of mass murder. That represented a grave danger to the Cambodian people. At the same time, Cambodia itself received virtually no official development aid, again because the Coalition Government of Democratic Kampuchea was the recognized Government. Breaking that diplomatic impasse was therefore an important first step. One way of achieving that would be to have an empty seat at the United Nations. That might facilitate negotiations leading to national reconciliation.

73. A second reason for her delegation's opposition was that, as currently distributed, humanitarian assistance was unfair, since the bulk was not being granted to those really in need, the millions of men and women of the People's Republic of Kampuchea who were daily endeavouring, against the greatest odds, to rebuild their nation and country after the hell on earth of the Pol Pot régime. Instead, as the representative of OXFAM had stressed, the bulk went to those who still refused to let go of the Kampuchean people.

74. Mr. TEP (Democratic Kampuchea) said that, since no additional appropriations or programmatic changes would be required if the General Assembly were to adopt draft resolution A/42/L.1, his delegation could see no reason to challenge the proposal under consideration other than a political desire to sow confusion over the true nature of the Kampuchean problem. Given Hanoi's record of aggression against his asuntry since 1978, he would have been astonished if the tepresntative of Viet Nam had not criticized the draft resolution. However, whatever the reasons invoked by Viet Nan to justify its agqression against and occupation of Kampuchea, the majority of the world community recognized that Hanoi's actions constituted a flagrant violation of the sovereignty, independence and territorial integrity of a Member State of the United Nations. Furthermore, the military occupation of Kampuchea threatened the peace and stability of the entire region. The occupation of Kampuchea and the annexation of Laos - a step leading to the formation of the so-called Indo-China Federation - was the major destabilizing factor in South-East Asia and was giving rise to growing mistrust in the region. The massive displacement of the inhabitants of Kampuchea represented a new form of colonization which threatened the very survival of the nation.

75. Committed as it was to the purposes and principles of the Charter, Democratic Kampuchea wished to see the situation in Kampuchea removed from the agenda of the General Assembly once Viet Naa had withdrawn all its forces from Icampuchea, ceased interfering in that country's internal affairs and recognized it as an independent country. The eight-point peace proposal made by the Coalition Government of Democratic Kampuchea and the ASEAN countries constituted a constructive framework for negotiations toward a peaceful solution of the problem, in accordance with the relevant resolutions and the Declaration on Kampuchea. However, all such proposals had met with a flat refusal on the part of Hanoi, and the statement just made by the representative of Viet Nam provided an example of that refusal. In the face of such persistent defiance of General Assembly resolutions, it was essential that the United Nations should continue to be involved in the search for a comprehensive political solution and that the work of the Ad Hoc Committee of the International Conference on Kampuchea should be encouraged and enhanced. His delegation appealed to all Member States to vote in favour of the proposal, and to contribute thereby not only to the survival of Kampuchea as a nation but also to the restoration of peace and stability in South-East Asia and the world as a whole.

76. At the request of the representatives of Viet Nam and the Byolorusaian Soviet Socialist Republic, a recorded vote was taken on the proposal.

In favour: Argentina, Australia, Austria, Bahamas, Bahrain, Bangladesh, Barbados, Belgium, Belize, Benin, Bhutan, Botswana, Brazil, Brunei Darussalam, Burma, Cameroon, Canada, Chile, China, Colombia, Costa Rica, Côte d'Ivoire, Democratic Kampuchea, Denmark, Ecuador, Egypt, Finland, France, Germany, Federal Republic of, Ghana, Greece, Guatemala, Guinea-Bissau, Honduras, Iceland, Indonesia, Ireland, Israel, Italy, Jamaica, Japan, Jordan, Kenya, Kuwait, Lesotho, Liberia, Malawi, Malaysia, Maldives, Mali, Mauritania, Morocco, Nepal, Netherlands, New Zealand, Niger, Nigrsia, Norway, Oman, Pakistan, Peru, Philippines, Portugal, Qatar, Rwanda, Saint Lucia, Saudi Arabia,

~~Senegal, Sierra Leone, Singapore, Somalia, Spain, Sri Lanka, Sudan, Swaziland, Sweden, Thailand, Togo, Trinidad and Tobago, Tunisia, United Arab Emirates, United Kingdom of Great Britain and Northern Ireland, United States of America, Uruguay, Venezuela, Yugoslavia, Zaire, Zambia.~~

Against : Afghanistan, Angola, Bulgaria, Byelorussian Soviet Socialist Republic, Cuba, Czechoslovakia, Ethiopia, German Democratic Republic, Hungary, Libyan Arab Jamahiriya, Mongolia, Poland, Ukrainian Soviet Socialist Republic, Union of Soviet Socialist Republics, Viet Nam.

Abstaining: Algeria, Guyana, India, Iran (Islamic Republic of), Iraq, Madagascar, Mexico, United Republic of Tanzania, Yemen, Zimbabwe.

The proposal was adopted by 88 votes to 15, with 10 abstentions.

77. **Mr. GOUDIMA (Ukrainian Soviet Socialist Republic)** said that his delegation had voted against the proposal because it believed that the activities called for in draft resolution A/42/L.1 were unnecessary, especially in view of the declaration of the People's Republic of Kampuchea on the political solution to the Kampuchean problem, contained in document A/42/632.

70. **Mr. HÜRBAS (Turkey)** said that, had his delegation been present during the voting, it would have voted in favour of the proposal.

The meeting rose at 1.05 p.m.