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FINANCIAL REPORTS AND AUDITED FINANCIAL STATEMENTS,
AND REPORTS OF THE BOARD OF AUDITORSReport of the Advisory Committee on Administrative
and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions met with the Board of Auditors in September 1984 and discussed with it the Board's reports to the General Assembly on the financial accounts of the United Nations, 1/ including the International Trade Centre 2/ and the United Nations University, 3/ for the biennium ended 31 December 1983; the United Nations Development Programme, 4/ the United Nations Children's Fund, 5/ the United Nations Relief and Works Agency for Palestine Refugees in the Near East, 6/ the United Nations Institute for Training and Research, 7/ the voluntary funds administered by the United Nations High Commissioner for Refugees, 8/ all for the year ended 31 December 1983; the Fund of the United Nations Environment Programme for the biennium ended 31 December 1983; 9/ the United Nations Fund for Population Activities for the year ended 31 December 1983; 10/ the United Nations Habitat and Human Settlements Foundation for the biennium ended 31 December 1983; 11/ and the United Nations Industrial Development Fund for the year ended 31 December 1983. 12/ The Advisory Committee's observations on the report of the Board on the accounts of the United Nations Joint Staff Pension Fund for the year ended 31 December 1983 13/ will be submitted separately to the General Assembly at its thirty-ninth session in a report which will also include the Committee's recommendations on the report of the United Nations Joint Staff Pension Board.

2. In the cases of UNDP, UNICEF and UNFPA, the documents containing the reports of the Board of Auditors also contain observations thereon by the respective

* A/39/150.

executive heads. The Advisory Committee found the inclusion of these observations to be useful, and recommends that, for the future, other executive heads should include any comments they may have in like manner.

3. The Advisory Committee has no comments on the Board's reports on the financial statements of the United Nations University, the United Nations Institute for Training and Research, the United Nations Habitat and Human Settlements Foundation or the United Nations Industrial Development Fund. Comments on the remaining reports of the Board may be found in paragraphs 4 to 30 below.

A. United Nations

4. The broad areas covered by the Board of Auditors in its report on the financial statements of the United Nations are indicated in paragraph 5 of its report, and the findings are summarized in paragraphs 7 to 21.

5. In paragraphs 22 to 34, the Board considers the question of budgetary control. In paragraphs 23 to 25, the Board, after commenting on the late submission of the budget for the 1982-1983 biennium, recommends closer co-operation and communication between the Budget Division and submitting offices. While the Board's report relates to the biennium 1982-1983, the Advisory Committee recalls that the timing of the preparation of the proposed programme budget for 1984-1985 and improvements that could be made for subsequent bienniums were discussed in the Fifth Committee, in the Economic and Social Council, in the Committee for Programme and Co-ordination 14/ and in the Advisory Committee. 15/ Furthermore, the arrangements for the various phases of preparing the proposed programme budget for the biennium 1986-1987 were discussed in the Committee for Programme and Co-ordination at its twenty-fourth session. That Committee, after expressing satisfaction with the efforts to improve the budget preparation process, requested the Secretary-General to ensure that the arrangements indicated in his report (E/AC.51/1984/10) would be followed. 16/ In view of the foregoing, the Advisory Committee hopes that the previous timing problems associated with the submission of programme budget documentation will be eliminated beginning with the biennium 1986-1987.

6. In paragraph 28 of its report, the Board notes that regular reviews to establish the validity of outstanding obligations have not been carried out as required. The Advisory Committee has drawn attention, in its first report on the programme budget for the biennium 1984-1985 (A/39/7) submitted to the thirty-ninth session, to the amounts of unliquidated obligations which have been provided for at the end of each of the last three bienniums, and the proportion of these amounts which have subsequently been surrendered in accordance with Financial Regulation 4.4. The Committee notes the steps that the Secretary-General intends to take in order to facilitate a full determination of the validity of unliquidated obligations, and intends to return to this question in the context of its forthcoming examination of the modalities for estimating requirements and forecasting expenditures.

7. The Advisory Committee sought further information on the observations made in paragraphs 31 to 34 of the Board's report concerning budgetary control at the United Nations Office at Geneva. The Committee was informed by representatives of the Board that expenditures amounting to \$858,800 were incurred for major maintenance at the Palais des Nations, and were charged to the current maintenance account in section 28, where savings had arisen, rather than to section 32.

8. The expenditures which, according to representatives of the Secretary-General, were not foreseen at the time of the preparation of the 1982-1983 budget included costs of repair, refurbishing and painting at the Palais des Nations and Petit Saconnex (\$617,000) and modifications to air conditioning systems (\$51,000) and several other items at a total cost of \$190,800. The Advisory Committee is of the view that its concurrence should have been sought before these projects were undertaken. The Committee was also informed that obligations for purchases of supplies, in an amount of \$86,700, were charged against the 1982-1983 appropriations, although the supplies were not delivered until 1984. Financial Regulation 4.3 states that "Appropriations shall remain available ... following the end of the financial period to which they relate to the extent that they are required to discharge obligations in respect of goods supplied and services rendered in the financial period ..." Since the supplies in question were not delivered until after the end of the financial period, the obligation for their purchase should not have been charged to the biennium 1982-1983. The Advisory Committee notes, from the statement in paragraph 34, that the Administration has issued instructions to discontinue this practice.

9. Procurement practices are considered in paragraphs 38 to 53 of the Board's report on the United Nations, as well as in the reports on the International Trade Centre (paras. 14-23), UNICEF (paras. 16-28), UNRWA (paras. 16-18) and UNHCR (paras. 17-24). The Board draws attention to areas where financial regulations, rules and policies have not been fully complied with; it points out a number of shortcomings in, *inter alia*, the specifications of items for purchase, in bidding procedures, in the role of the Committee on Contracts (especially where low bidders are not selected), and in the timing of procurement. The Advisory Committee shares the concern of the Board, and urges that the respective administrations pay closer attention to all aspects of the procurement process, both to ensure full compliance with the applicable rules and to achieve optimum use of available resources.

10. While the Board, in paragraph 40, notes improvements in United Nations procurement systems and procedures during the biennium, it adds that there is a need to document procedures for the evaluation of vendors' performance, to develop a procurement manual to reflect the status of implementation of the automated purchase and payment system (APPS), and to strengthen the arrangements for physical security of United Nations property. More information is provided on APPS in paragraphs 94 to 97, where the Board, after noting shortcomings in a number of phases of the project, expresses the view, in paragraph 96, that APPS cannot be completely implemented as originally planned. As a result, the Board recommends an approach which will permit further refinement to those phases of the project that are now in operation. The Advisory Committee recalls that this system has a history of delays in implementation, having originally been intended for completion

in 1979. The Committee therefore shares the concerns expressed by the Board of Auditors and trusts that the necessary steps will be taken to ensure the early completion of a functional system.

11. The travel programme is discussed in paragraphs 54 to 57. In December 1980, authority to approve and manage travel programmes was delegated to heads of departments and executive officers. The Board reports that control of travel has improved as a result, but that weaknesses still exist, evidenced by belated review and approval of travel plans, travel not reflected in approved quarterly programmes and ad hoc travel requests. The Board further notes that the administration has requested heads of departments and offices to give their personal attention to the control of travel costs. In this connection, the Advisory Committee notes that further procedures will be introduced requiring the prior approval of the Office of the Secretary-General for all travel of staff to meetings and conferences. 17/

12. Technical co-operation activities are considered in paragraphs 62 to 79. While the Board notes that satisfactory action has been taken on most of the recommendations in its previous reports, certain deficiencies remain. The Board describes weaknesses in project management at Headquarters and UNIDO in paragraphs 64 and 76, respectively. It also notes instances in UNIDO where expenditures were incurred in excess of project allocations (para. 72), while in other cases projects had been rephased from prior years but little or no expenditures had subsequently been recorded (para. 74). At regional commissions, while significant efforts have been made in the management of technical co-operation activities, established procedures have not always been complied with. Among the lapses noted by the Board are the establishment of trust funds for technical co-operation without proper conclusion of agreements between the Administration and donors, and the commencement of trust fund operations prior to the provision of funds (para. 70). In most cases, according to the Board, the Administration has given assurances of its intention to take the necessary remedial action. The Advisory Committee welcomes these assurances by the Administration, but is at the same time concerned by the extent of the shortcomings reported by the Board. For this reason, the Committee considers that it would be beneficial if the Board's observations on technical co-operation activities could be brought to the attention of the Governing Council of UNDP.

13. In paragraphs 80 to 93 the Board of Auditors reports on its review of the computer operations of the Electronic Data Processing and Information Systems Division (EDPISD). In its review, the Board discusses the utilization of the New York Computing Service (NYCS) by the United Nations Secretariat and by other United Nations organizations in New York. It recommends, inter alia, a review and harmonization of policies of all United Nations organizations utilizing NYCS on a joint basis, including the development of policies and procedures for joint facilities planning, acquisition and utilization (para. 82). The Administration's reply as reported by the Board in paragraph 83 is that NYCS was established as a facility under the regular budget to provide services to United Nations Headquarters, and that, while computing services are provided to other United Nations organizations in New York, the Centre is not under joint management. The Advisory Committee recalls that among the functions of EDPISD are to administer electronic data processing services and facilities at Headquarters and to establish standards and guidelines for EDP installations. 18/ While the Committee recognizes that responsibility for the management of NYCS rests with EDPISD, it agrees with

the Board (para. 86) that compliance with the standards set by EDPISD should be monitored.

14. In paragraphs 98 to 111, the Board reports on its review of the Internal Audit Division. In paragraph 104, new responsibilities of the Division are described. These relate to the audit of programme performance, including determining the validity of submissions, the effectiveness of monitoring procedures, the accuracy of the data accumulated and the reliability of the results obtained. After noting that these additional responsibilities have not been accompanied by an increase of resources, the Board concludes that present internal audit coverage is inadequate to provide the Administration with sufficient assurance that internal controls are operating efficiently. The Board therefore recommends that the present resources of the Internal Audit Division should be reviewed and measures taken to correct deficiencies. In paragraphs 108 and 109, the Board considers the training programme in the Division and suggests a review of the situation to "ensure an acceptable level of professional capacity and competence".

15. This is not the first time that the Board of Auditors has recommended strengthening of the Internal Audit Division. In its report for the biennium 1978-1979 the Board commented extensively on the need to improve the internal audit function. 19/ In 1980-1981 the Board noted that there was still "much to be accomplished in the development of professional skills, particularly in the application of computer skills to audit". 20/ The Advisory Committee, in its first report on the proposed programme budget for 1984-85, 21/ recalled that it had requested updated information on the status of implementation of the Board's recommendations, and regretted that this information had not been included, although it had earlier been requested by the Committee. In view of this, the Committee considers that the reviews recommended by the Board of Auditors in paragraphs 107 and 109 should be undertaken without further delay, and their results reflected in the proposed programme budget for 1986-1987.

16. The Board of Auditors notes in paragraph 114 of its report that Financial Rule 110.26 requires that physical inventories should be taken of supplies, equipment or other property of the United Nations at such intervals as deemed necessary to ensure adequate control over such property. The Advisory Committee considers that the maintenance of adequate control over United Nations property is essential if losses are to be avoided. Consequently the Committee fully shares the views of the Board as expressed in paragraph 117.

17. In paragraphs 118 to 122, the Board discusses procedures for writing off losses of property, and concludes that these have not been satisfactory, particularly in respect of offices away from Headquarters. In paragraph 119, the Board cites examples of three peace-keeping missions where the losses written off by the Administration (\$956,776), are some \$4.2 million less than the amount submitted for write-off by the missions concerned (some \$5.2 million). In response to its enquiries, representatives of the Secretary-General informed the Advisory Committee that the property losses reported to the Board of Auditors in accordance with Financial Rule 111.10 (b) 22/ excluded mainly amounts related to contingent owned property damage and losses, and that this accounted for the differences

referred to above. In view of the amounts involved, the Advisory Committee agrees with the recommendation of the Board, in paragraph 122 of its report, that present systems and procedures should be reviewed, and acceptable criteria and guidelines established to facilitate the determination of cases to be considered for write-off.

B. International Trade Centre

18. In paragraphs 10 to 13 of its report on the International Trade Centre, the Board discusses posts charged to the regular budget, which, in the opinion of the Board, should have been charged to the Programme Support Costs Fund. According to information given to the Advisory Committee, 17 posts were so charged in 1982, but retroactively adjusted in 1983, on the recommendation of the auditors. In this connection, the Advisory Committee notes that a consultant has recently been retained to review, inter alia, the distribution of headquarters posts between the regular budget and the support costs budget and to examine the feasibility of establishing a rationale for the distribution of posts under these different sources of funds. The Committee welcomes this action, and recommends that the results of the study should be reflected in the proposed programme budget for 1986-1987.

19. The Board of Auditors discusses issues related to procurement in paragraphs 14 to 23 of its report. The Advisory Committee's comments may be found in paragraph 9 above.

C. United Nations Development Programme

20. In paragraphs 26 to 48 of its report on UNDP, the Board of Auditors discusses general programme matters, including project budget control, reviews of long duration projects, evaluation of projects and programmes, the results of tripartite reviews and evaluations, terminal assessment reports, agency performance reviews, and tripartite participation in the programming process. In paragraphs 49 to 62 the Board reports on the results of its reviews of individual projects. The comments of the Administrator on these sections of the Board's report may be found in paragraphs 6 to 17 of the Administrator's observations.

21. In paragraphs 66 to 69, the Board draws attention to the standards of accommodation of UNDP staff members and their eligible family members on official travel by air. UNDP has recently decided to apply the most economical full economy fare (Business Class) when the duration of the flight exceeds six hours, except for travel in connection with the education of staff members' children. The Board points out that the UNDP arrangement is less economical than the standard applied in the United Nations, whereby entitlement to the class immediately below first class is restricted to flights exceeding nine hours. The Committee recalls that the United Nations standard was established by the Secretary-General in 1983 and brought to the attention of the General Assembly at its thirty-eighth session. 23/

22. On the question of experts and consultants, the Board draws attention in paragraph 73 to cases where contracts with consultants have been signed after their

services had commenced. While the Administrator, in paragraph 24 of his observations, states that only a small number of contracts had been signed on a retroactive basis, the Advisory Committee is of the view that this practice should be discontinued altogether, unless there is an overriding reason to the contrary.

D. United Nations Children's Fund

23. The Board of Auditors discusses procurement questions in paragraphs 16 to 28 of its report on UNICEF. The Advisory Committee's comments on procurement may be found in paragraph 9 above.

24. In paragraph 31 of its report the Board notes that substantial cash balances are being maintained in non-interest bearing local currency bank accounts. The Advisory Committee recalls that the Board made a similar comment last year. 24/ While the UNICEF Administration has responded that the amounts involved total less than two weeks of UNICEF cash expenditure, the Advisory Committee considers that more could be done to improve cash management at field offices, so as to reduce further the level of non-interest bearing bank accounts.

25. Physical inventories of UNICEF property are discussed in paragraphs 43 to 47 of the Board's report. The Advisory Committee's comments on this issue may be found in paragraph 16 above.

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

26. In paragraphs 16 to 18 of its report on UNRWA, the Board discusses the procurement of supplies and equipment. The comments of the Advisory Committee may be found in paragraph 9 above.

F. Voluntary funds administered by the Office of the
United Nations High Commissioner for Refugees

27. In paragraphs 17 to 24 of its report on the voluntary funds of UNHCR, the Board discusses the procurement of supplies and equipment. The comments of the Advisory Committee may be found in paragraph 9 above.

G. Fund of the United Nations Environment Programme

28. In paragraphs 25 to 28 of its report on the Fund of UNEP, the Board discusses the arrangements made regarding the currency of payment of salary for internationally recruited general service staff in UNEP. The Board notes that the UNEP administration has been paying these staff members 70 per cent of their salary in convertible currency, which is the proportion payable in convertible currency to professional staff and technical co-operation personnel. The maximum proportion authorized by Headquarters for payment in convertible currency to internationally

recruited general service staff is 25 per cent or 50 per cent, depending on the dependancy status of the staff member. Representatives of the Secretary-General informed the Advisory Committee that, so far as was known at Headquarters, this was a situation that had arisen only in UNEP, and was restricted in application to some 30 staff members. While the facts given by the Board were essentially correct, consultations on the matter were continuing between Headquarters and UNEP.

29. Non-expendable property is referred to in paragraphs 23 and 24. The comments of the Advisory Committee on inventory control systems may be found in paragraph 16 above.

H. United Nations Fund for Population Activities

30. In paragraph 17 of its report on UNFPA, the Board discusses standards of travel in UNFPA. The Advisory Committee's comments on this issue may be found in paragraph 21 above.

Notes

1/ Official Records of the General Assembly, Thirty-ninth Session, Supplement No. 5 (A/39/5 and Corr.1), vol. I.

2/ Ibid., vol. II.

3/ Ibid., vol. III.

4/ Ibid., Supplement No. 5 A (A/39/5/Add.1).

5/ Ibid., Supplement No. 5 B (A/39/5/Add.2).

6/ Ibid., Supplement No. 5 C (A/39/5/Add.3).

7/ Ibid., Supplement No. 5 D (A/39/5/Add.4).

8/ Ibid., Supplement No. 5 E (A/39/5/Add.5).

9/ Ibid., Supplement No. 5 F (A/39/5/Add.6).

10/ Ibid., Supplement No. 5 G (A/39/5/Add.7).

11/ Ibid., Supplement No. 5 H (A/39/5/Add.8 and Corr.1).

12/ Ibid., Supplement No. 5 I (A/39/5/Add.9).

13/ Ibid., Supplement No. 9 (A/39/9).

14/ See, for example, document A/C.5/38/7 submitted at the request of the Economic and Social Council.

15/ Official Records of the General Assembly, Thirty-eighth Session, Supplement No. 7 (A/38/7), para. 4.

16/ Ibid., Thirty-ninth Session, Supplement No. 38 (A/39/38), paras. 324 and 326.

17/ ST/AI/319.

18/ Organization of the Secretariat. ST/SGB/Organization, Section P (VI).

19/ Official Records of the General Assembly, Thirty-fifth Session, Supplement No. 5 (A/35/5), vol. I, sect. II.

20/ Ibid., Thirty-seventh Session, Supplement No. 5 (A/37/5), vol. I, sect. II, para. 81.

21/ Ibid., Thirty-eighth Session, Supplement No. 7 (A/38/7 and Corr.1), paras. 28.87-28.89.

22/ Financial Rule 111.10 (b) states that "There shall be provided to the Board of Auditors details of losses of cash, stores and other assets written off."

23/ A/C.5/38/22 and the associated report of the Advisory Committee (A/38/7/Add.6).

24/ Official Records of the General Assembly, Thirty-eighth Session, Supplement No. 5 B (A/38/5/Add.2).
