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

Note by the Secretary-General

The **Secretary-General has the honour** to transmit to the members of **the** General Assembly te summary of the principal findings **and** conclusions for **remedial** action of the Board **of** Auditors, **contained in** its reports to the General Assembly on the audit of **the accounts** for **tho financial period ended 31 December 1988, prepared by** the Board of Auditors in **accordance with General Assembly resolution 43/216** of 21 December 1988,

* A/44/150.

ANNEX

Letter of transmittal

22 June 1989

Sir,

I have the honour to transmit to you, in accordance with the request by the General Assembly in its resolution 43/216, the document summarising the Board of Auditors' principal findings, conclusions and recommendations of common interest, classified by audit area and, where appropriate, identifying the audited organisation contained in its reports to the General Assembly on the audit of the accounts for the financial period ended 31 December 1988.

Accept, Sir, the assurances of my highest consideration.

(~~Signed~~) Eufemio C. DOMINGO
Chairman, Commission on Audit of
the Philippines and
Chairman of the
United Nations Board of Auditors

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

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Concise summary of principal findings, conclusions and recommendations of common interest, classified by audit area, contained in the reports of the Board of Auditors to the General Assembly on the audit of the accounts of organisations with a financial period ended 31 December 1988

1. In paragraph 9 of its resolution **43/216** of 21 December **1988**, the **General Assembly** recommended that the **Board** of Auditors continue to submit to it a concise **document** summarising its **principal findings**, conclusions and recommendations of common interest, classified by audit area and, where appropriate, *identifying* the audited organisation.
2. Because 1988 was the first year of the biennium **1988-1989**, the Board prepared reports only *on* organisations that have annual financial **periods**. **The** findings, conclusions and recommendations included in the present report are only those of relative importance in audit areas of common interest to the **organisations being** reported on and listed below. Findings, conclusions and recommendations **in** audit areas that are not of common interest to the organisations for which reports were prepared will be found in the individual reports.

United Nations Development Programme (**UNDP**) **a/**

United Nations Relief and Works Agency for Palestine Refugees in the Near East (**UNRWA**) **b/**

United Nations Institute for Training and Research (**UNITAR**) **c/**

United Nations High Commissioner for Refugees (**UNHCR**) **d/**

United Nations Population Fund (**UNFPA**) **e/**

3. In addition, the Board examined the accounts of the United Nations Joint Staff Pension Fund, and the audit report thereon will be included in the annual report of the United Nations Joint Staff Pension Board.
4. The principal findings, conclusions and recommendations of common interest, classified by audit **area** follow.

Budgetary control

5. In UNDP, weaknesses continued to be noted in budgetary control: 35 field offices, out of 114, exceeded their allotments at year-end 1988 as compared to 23 in 1987. **Furthermore**, as a result of an erratic recording of unpaid items, certifying officers in field offices are not always in a position to discharge their responsibilities as required. Also, there is no clear relationship between extrabudgetary resources and **extrabudgetary** activities, and budgetary expenditure in **excess** of allotments is frequently charged to extrabudgetary resources when and where they are available, thus weakening budgetary discipline. The Board recommended that, besides enforcing stricter budgetary discipline, budgetary and

extrabudgetary **expenditure** should be combined into a unified allotment patterned after total recognised **needs** of the field offices.

6. In both funds of UNITAR, expenditures exceeded allotments and **some** projects were observed to have incurred expenditures even though no allotments had been **issued**. The Board recommended that expenditures should not be allowed to exceed allotments and that no **expenditures should be incurred for** any special purpose projects unless allotments **have** been issued for the purpose.

7. In UNDP, UNFPA and UNRWA, the criteria for recording unliquidated obligations with respect to both administrative and **programme** expenditure **are** too flexible **and** the application creates an uncertainty with respect to the fair representation of reported expenditure. This was demonstrated in 1988 by the fact that, **on** average, 17 per cent of unliquidated obligations reported as 1987 expenditures by the executing agencies of UNDP programmes were cancelled in 1988. Such "**flexibility**", when occurring in the normal course of business, is an indication of deficiencies in accounting policies. In addition, such policies deviate from generally accepted accounting principles *in* the case of equipment and sub-contract expenditure. The Board recommended that the accounting policy regarding the recording of unliquidated obligations at year-end by executing agencies as well as by headquarters units should be clarified in order to prevent the possibility of abuse. That policy, furthermore, should conform with generally accepted accounting principles.

8. In UNRWA, it was noted that all unliquidated obligations at year-end are not reported in the appropriate "reserve", as note 3 to the financial statements would appear to **indicate**.

9. In UNHCR, it was noted that, although gradual reductions **in** the status of unliquidated obligations for the past three years has been accomplished due to regular reviews, delays in the flow of information appear to render the reviews less effective. In addition, the review of project expenditures at headquarters and a branch office disclosed delays by implementing agencies in meeting reporting requirements, which impaired the **effectiveness** of expenditure monitoring and resulted in overspent allotments. The Board recommended that effective measures should be introduced to facilitate the flow of financial information between UNHCR and its executing agencies to assure further improvement in the control of project funds.

Accounts and financial reporting

10. In UNDP and UNFPA, it was noted that a portion of administrative and programme support costs appears to be misclassified in statement I and reported as programme expenditure. The guidelines issued by the Administration to clarify that matter are neither complete nor fully **implemented**. As a result, there is doubt with respect to the proper presentation of some \$6 million reported as programme expenditure in UNDP and \$1.65 million in UNFPA. The Board recommended that comprehensive and specific guidelines should be issued and implemented in order to clarify the delineation between administrative, programme support and programme costs as presented **in** statement I. Improvements were also noted with respect to the timely audit of programme expenditure reported by executing agencies. However,

the proportion of unaudited programme expenditure to total programme **expenditure** remains too **high** to enable the Board to express an unqualified **audit** opinion. The Board recommended that further efforts are needed to obtain audited statements of UNDP and **UNFPA** expenditure incurred by **executing** agencies **in** time for the issuance of the audit opinion on the financial statements of **UNDP**. Adequate procedures allowing for **government-executed** programme **expenditure** to be properly audited have not been drafted yet, and the **specialized** unit that was to implement such procedures **is** not **operational**. The Board recommended that **adequate procedures** should be designed and implemented to allow for government-executed expenditure to be properly audited at year-end.

11. In UNITAR, it was noted that the organization is to **incur** substantial losses for long outstanding receivables and deferred charges **for** which no records are **available** to determine their nature. Furthermore, lapses in accounting control, especially in the reconciliation aspects, resulted **in** several discrepancies in the balances of the accounts. The Board recommended that the **Administration should** provide **in** the General Fund budget for the possible losses from the **undocumented** accounts receivable and deferred charges **and** that efforts should be **made** to update and improve the reconciliation **of** accounting records, so that errors in the balance of accounts are **minimized**.

12. In UNRWA, under the fund accounting system operated by the Agency, two additional funds were established in **1988**, the specificity of which and the need for two separate **funds** with distinct financial statements do not appear clearly. In the Board's opinion, separate funds should not be multiplied unless they respond to clearly identified and specific needs. In addition, operation pertaining to the **school voluntary assistance** fund are not accounted for in compliance with regular procedures and the amount shown in the fund statement cannot be ascertained. It **was** recommended that income and expenditure of the school voluntary assistance fund should be fully accounted for and regularly reported in the Project Funds statements VII and VIII. The costs of administering the Area Staff Provident Fund increased substantially in 1988, **for** the most **part** because of the engagement of **a** global custodian of the assets of the Fund. The costs charged by the custodian and the need for one appears highly questionable considering his limited role and the **numerous** shortcomings identified in the discharge of his responsibilities. In the Board's opinion, there is an urgent need for the Agency to review its agreement with the global custodian with a view to gaining a better control of his activities.

13. In UNHCR, it was determined that the present **basic** accounting policy of not reflecting overdue pledge receivable in the accounts should be reviewed to ensure consistency of application, in view of the flexibility in the due dates of some outstanding pledges. Also, action should be taken to correct the wrong recording of an outstanding contribution of \$6,015,582 and appropriate action **should** be initiated towards its collection.

Cash management

14. Present cash management guidelines in UNDP do not **clearly** identify the policy objectives of the organization and, as a result, do not provide adequate **guidance** for decision on foreign exchange and investment transactions. **Also**, Procedures

for carrying out such transaction⁶ (bidding, atop loss limits, number of **major** banks to deal with, limits by bank) are not always spelled out with the required precision. **As a result**, the breakdown of investments by currency is based on expectations of changes in the foreign exchange markets to an extent which appears to expose the organisation unnecessarily to exchange risks. The Board recommended that the present policies should be revised with a view to limiting the exposure to **exchange** risks and making procedures **more** stringent.

15. Basic cash management **guidelines** are still lacking at UNFPA, the present investment policy **results** in unnecessary exposure to currency **risk**, and the average maturing of UNFPA investments remains very short, **Organizational** arrangements for carrying out such policies appear unnecessarily cumbersome. **Investment** policies and procedures, including currency risk **management** and the determination of **limits** by banks, should be reviewed and incorporated into operational guidelines. By the same token, organisational arrangements for carrying out such policies should be streamlined.

16. In UNHCR, the review of cash management showed inadequate operational and custodial control⁶ over mail remittance⁶ and the dollar **zero balance imprest** account. The Board recommended that donors should be requested to provide bank instructions when remitting contributions by bank transfers to enable the **organization** independently to identify remittances and confirm that funds are credited at due dates. **As per** the dollar zero balance **imprest** account, it is recommended that **procedures** should be strengthened by determining, on a case-by-case **basis**, monthly drawing limits in addition to existing **limits** and that instruction⁶ should be issued to the branch offices to limit withdrawals only to amounts immediately **needed**.

Technical co-operation and project activities

17. In UNDP, it was observed that delays in the implementation of projects result from inadequate or belated contribution of government counterpart, **difficulties** in the recruitment or clearance of experts, or inadequate project design. There is **also a strong** tendency to formulate project⁶ with a view to being present in all areas of development policy and to spread resources thin, over a large number of **small** projects, particularly when programme resource⁶ are limited. Furthermore, it **was** noted that project budgeting suffers from over-optimistic phasing in of expenditure and underestimation of costs. In the Board's view, the responsibility for the delays in implementation **may** rest with UNDP itself, the executing bodies, or the Governments, and it agrees that the implementation of **small** projects is certainly justified when such projects play a "catalytic!" role in the area concerned but, in fact, their impact is **most** often marginal. This does not mean that large-scale projects are necessarily more effective than **small** ones but, in the Board's opinion, it strongly suggests that country programmes are not **sufficiently** focused on key areas and that the procedure⁶ initiated to co-ordinate the programmes and activities of competing **specialized** agencies are not always as effective as the situation would require. Additionally, in the Board's view, project budgets should be formulated on a realistic basis in terms of both the phasing in and costing of project inputs. The accuracy of those budgets is essential to the proper planning of expenditure, to the monitoring of project costs and to the devising of an adequate investment strategy.

18. In UNFPA, and in the Board's view, the present framework and procedure for the allocation of funds to projects **and programmes** represent an improvement over previous arrangements governing that matter **and** should be completed and implemented. A review of country project expenditure in African countries revealed that the **system** of "priority **countries**" established **In** 1981 was not always reflected in the allocation of programme resources. As allocations by country at the **beginning** of the year are usually significantly higher **than** actual expenditures at **year-end**, the present trend of UNFPA programme expenditure in such countries appears **not** to be in line with the "priority countries" system **in** general, and **in** sub-Saharan **Africa** in particular where, considering that several sub-Saharan African "priority countries" with a population of **5** million or more were allocated **less** than \$1 million each in 1988 and, furthermore, for five of them, the 1989 allocations were substantially lower than in 1988.

19. It was observed that a final report and final financial report for a special purpose grant project in UNITAR, which was terminated on 31 August 1988, had not been submitted, which indicates a deviation from the provision of the special purpose grant agreement. Additionally, it was disclosed that a UNITAR **fellow** received a \$30,000 grant from a private foundation for a project with the funds remaining in his custody instead of being accounted for as UNITAR funds depriving the organisation of the corresponding programme support income. The Board recommended that the Administration should follow the provisions of special purpose grant agreements regarding submission of final reports **within** six months after completion or termination of a project. Special purpose grants should always be accounted for **as** UNITAR funds so that project support income can be derived.

20. In UNHCR, **gross** financial mismanagement of a project by an implementing agency was found. Also, a number of UNHCR field offices **are** operating on **ad hoc** and informal arrangements with host countries. The Board recommended that measures should be taken to review the causes of late implementation of projects and delays in **meeting** reporting requirements by implementing agencies **in** order to ensure further improvement in project delivery. Also, the development and conclusion of a **comprehensive** formal standard agreement between UNHCR and host countries should be undertaken in order to enhance the management of UNHCR assistance and protection programmes.

Notes

a/ Official Records of the General Assembly, Forty-fourth Session, Supplement No. 5A (A/44/5/Add.1).

b/ Ibid., Supplement No. 5C (A/44/5/Add.3).

c/ Ibid., Supplement MO. 5D (A/44/5/Add.4).

d/ Ibid., Supplement No. 5E (A/44/5/Add.5).

e/ Ibid., Supplement No. 5G (A/44/5/Add.7).