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

Presentation and format of financial statements and accounting policies of all audited organizations and programmes

Report of the Secretary-General

1. In paragraph 13 of General Assembly resolution 43/216 of 21 December 1988, the Assembly requested the Secretary-General and the executive heads of the United Nations organizations and programmes and other relevant entities, in consultation with the Board of Auditors, to explore the possibility of standardizing the presentation and format of financial statements and accounting policies of all audited organizations and programmes, taking into account previous relevant studies, and to report with proposals thereon to the Assembly at its forty-fourth session.

2. General Assembly resolution 43/216 is an outgrowth of Assembly resolution 42/206 of 11 December 1987, in which the Board of Auditors was requested to initiate a study on standardization of the presentation and format of financial statements of all organizations and programmes audited by the Board and to report thereon to the General Assembly at its forty-third session. In response to that request, the Chairman of the Board of Auditors informed the Fifth Committee at its 14th meeting, on 24 October 1988, that the Board had decided to recommend that the study should be entrusted to a specific task force of the administrations of the organizations and programmes audited by the Board. He added that the Board of Auditors was prepared to provide technical advice, in a consultative capacity.

* A/44/150.

3. The accounts presented to the General Assembly by the Board of Auditors cover the activities of 12 different United Nations organizations and programmes, including the Joint Staff Pension Fund. 1/ The General Assembly has approved specific administrative arrangements for many of these bodies, including the designation of responsibility for maintenance and presentation of accounts. As a result, the accounts of 9 of the 12 organizations and programmes are transmitted to the Board of Auditors by officials other than the Secretary-General. 2/

Approach taken by the Secretary-General

4. The 12 organizational entities whose accounts are presented to the General Assembly are involved in a wide range of activities, from peace-keeping to technical co-operation, from humanitarian assistance to training and research and the environment. They vary greatly in size and complexity and, accordingly, in the level of detailed information they can reasonably present in their periodic reports. The financial statements themselves are presented in accordance with four different sets of financial regulations and there are a number of financial rules and policies whose application is specifically related to one or another of those entities.

5. In the course of preliminary consultations, it became apparent that the presentation of financial statements and accounting policies followed by the bodies are to a large extent already harmonized, if not standardized. For the most part, such differences as exist between them are due to their differing mandates and consequent financial regulations and rules. From this preliminary analysis the conclusion was drawn that, rather than convening a task force of representatives of the 12 bodies, an alternative approach would be followed, designed to address the subject more narrowly, but with greater precision.

6. In view of these considerations, the present report may be seen as providing a partial response to the request of the General Assembly. It briefly compares the accounts of 11 of the 12 organizational entities, explores the concept of standardization, both of financial statements and of accounting policies, and suggests a line of action that might be pursued in further work in this field. In the view of the Secretary-General, the accounts of the United Nations Joint Staff Pension Fund may perhaps be considered sui generis and thus outside the scope of this study.

Standardization of presentation and format of financial statements

7. Many points of similarity exist in the presentation and format of financial statements of the organizational entities in question. Each follows the principles of fund accounting and submits statements of financial position and the results of operations, supported by schedules that present additional detail appropriate to the particular body. Each set of statements includes certifications as to their correctness signed by appropriate senior officials, letters of transmittal signed by the Executive Head and the Chairman of the Board of Auditors, and the report of the Board of Auditors. All (except the voluntary funds of the United Nations High Commissioner for Refugees) contain financial reports and all contain statements of significant accounting policies. Most contain footnotes to explain significant

elements of the financial statements, and some provide further explanatory annexes. A comparative summary of the presentation of the financial statements is presented in table 1.

8. As may be seen from table 1, the framework within which financial statements are prepared and presented, while not completely standard, is generally harmonized, and the form of presentation is, to a large extent, comparable. It would appear to be possible to resolve remaining differences in approach so that the framework of the presentation of financial statements could be standardized, should the General Assembly so desire.

9. In the late 1970s, following an initiative by the Panel of External Auditors, the Administrative Committee on Co-ordination (through one of its subsidiary bodies, the Consultative Committee on Administrative Questions), conducted a study on the harmonization of financial statements of the organizations of the United Nations system. The Committee agreed that the presentation of financial reports and statements should be based on the general principles of clarity, simplicity, meaningfulness and full disclosure, and that the recommendations of the International Accounting Standards Committee could serve as useful guidelines for its work. It recognized, however, that the possibilities of harmonization of the presentation of financial data depended to a notable extent on the financial policies and procedures followed by the organizations. The study had recommended a common structure for the financial reports and statements, which remains the basis for presentation utilized by the 12 bodies with which the present report is concerned.

10. While the general presentation of financial reports and statements is already common to a large extent, the standardization of presentation of specific financial data between organizations and programmes raises technical questions of a different order. As might be expected, many more statements and schedules are presented in respect of the larger entities than the smaller ones. For example, the United Nations presents 17 statements and 32 schedules, whereas the United Nations University presents two statements and two schedules. The United Nations Development Programme (UNDP) presents more information on trust funds than does the United Nations, which, for reasons of economy of documentation, excludes from the published document certain information on individual trust funds. This information is made available to the Advisory Committee on Administrative and Budgetary Questions and to the Board of Auditors and to other users on request. Most entities summarize the totality of their operations in an "all funds" statement, and some provide more information on cash and investments held than others. The length and scope of the financial report of the executive head also vary.

11. The basic contents of the financial statements are mandated by the financial regulations under which each entity functions. Beyond these statutory requirements, the provision of further information in the financial statements is, to a large extent, a matter of judgement exercised by the executive head in the context of the need for disclosure of significant financial information, the specific observations of the Board of Auditors and the wishes of the legislative body concerned.

12. In view of these differences, the General Assembly may wish to see further efforts at standardization concentrate on the harmonization of the framework of financial reports and statements rather than on the technical content of individual statements or schedules.

13. Should this approach find favour, the General Assembly may wish to request the entities concerned, in consultation with the Board of Auditors, to develop further the general framework within which financial statements are prepared and, at the same time, invite the governing bodies of the United Nations organizations and programmes to consider the usefulness of the financial information presented to them, having regard to the evolving circumstances of the body concerned and the relevant financial regulations and rules.

Standardization of financial policies

14. The annex to the Financial Regulations of the United Nations provides terms of reference governing the audit of the United Nations. Two of the provisions of the annex require the Board (a) to state whether the financial statements were prepared in accordance with the stated accounting principles and (b) to disclose deviations of a material nature from generally accepted accounting principles. For those entities that are not governed by the Financial Regulations of the United Nations but that have separate financial regulations, there is a comparable provision. Each body includes, as a part of its financial statements, a statement of significant accounting policies. A comparative summary of these principles (or policies) is presented in tables 2A to D. From a review of this summary, it may be seen that to a substantial extent the same accounting methods are followed, but that there are some differences. Most of these differences may have their origin in the financial regulations and rules of the entity concerned - for example, in accordance with its financial rule 104.2, UNDP records income from government contributions only in the year in which it is received, whereas the United Nations records income from government contributions in the year in which it was assessed (or, in the case of contributions to voluntarily funded activities, in the year for which it was pledged).

15. The Board of Auditors keeps under review the stated accounting policies of each organization or programme and draws the attention of the General Assembly to any inconsistent application of such policies. Other matters of concern to the Board in relation to the financial policies are also brought to the attention of the organizational entity itself, and to the General Assembly, in the course of the periodic audits.

16. One of the features of accounting in the United Nations system that has occasionally led to difficulties in interpretation of results is that intergovernmental organizations are not naturally covered by any of the régimes of "generally accepted accounting principles" that govern the financial reporting of either business enterprises or governmental entities. Although all members of the system have agreed to comply, to the extent appropriate, with the accounting standards issued by the International Accounting Standards Committee, there are no international standards of governmental (or public sector) accounting to which the United Nations system could subscribe. Nor would it be appropriate for the system

to adopt the governmental accounting standards of any single Member State. In the absence of such a "generally accepted" basis on which the financial reports can be reviewed, it is important that the basis adopted for their preparation be clearly articulated by each entity.

17. In the light of the review of significant accounting policies contained in table 2, it may be noted that not every organization and programme audited by the Board has disclosed its accounting policies under every heading. The General Assembly may wish to request that such statements be fully comprehensive, beginning with the financial statements for the current year or biennium. The General Assembly may also wish to invite the Board of Auditors to keep under review the stated accounting policies of each organizational entity in relation to the others, and to draw the attention of the Assembly to any specific areas in which it considers a comparative review of such policies to be required, having regard to the respective mandate of each entity.

Conclusion

18. As may be seen from this report, the preparation and submission of financial statements is an evolving process, designed to present clearly the financial results of a given organization or programme in the context of its stated accounting policies.

19. Comparability of results among organizations and programmes audited by the Board of Auditors may most easily be obtained by:

(a) Further developing the standard general framework within which financial statements may be prepared (see paras. 8 and 13);

(b) Ensuring that statements of significant accounting policies are comprehensively prepared in a compatible format (see para. 17).

20. As regards the technical content of individual financial statements and their continuing evolution, this would appear to be a matter for consideration in the context of the evolving needs for disclosure of financial information. In this regard, a continuing dialogue between the executive heads, the Board of Auditors and the respective governing bodies is essential (see para. 13).

21. As regards the standardization of financial policies, in the event that significant differences may arise between entities in their stated accounting policies, the Board of Auditors could be invited to keep the issues under review and to draw the attention of the General Assembly to any specific areas in which it considered a comparative review of such policies to be required (see para. 17).

Notes

1/ The accounts in question are those of the United Nations, the International Trade Centre, the United Nations University, the United Nations Development Programme, the United Nations Children's Fund, the United Nations Relief and Works Agency for Palestine Refugees in the Near East, the United Nations Institute for Training and Research, the voluntary funds administered by the United Nations High Commissioner for Refugees, the Fund of the United Nations Environment Programme, the United Nations Population Fund, the United Nations Habitat and Human Settlements Foundation and the United Nations Joint Staff Pension Fund. It should be noted that in certain cases bodies administering voluntary funds are an integral part of the United Nations Secretariat; others are programmes of the United Nations, and still others are institutions established by the General Assembly that have a special relationship with the United Nations.

2/ The Secretary-General submits the accounts of the United Nations, the International Trade Centre and the United Nations University. In the case of the United Nations Institute for Training and Research, accounts are submitted by the Executive Director of the Institute, but certified by the Controller of the United Nations.

Table 1. Comparison of presentation of financial statements

	United Nations	UNDP	UNICEF	UNHCR	UNRWA	UNEP	UNFPA	Habitat	UND	UNITAR	ITC
Are the financial statements annual (A) or biennial (B)?	(B)	(A) a/	(B)	(A)	(A)	(B)	(A) a/	(B)	(B)	(A)	(B)
Contents of the latest report: b/											
Letters of transmittal	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Financial report	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Auditors' report and opinion	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Overall certification c/	Yes	Yes	Yes	No	Yes	No	Yes	No	Yes	Yes	Yes
Number of statements	17	27	7	3	17	7	4	7	2	5	7
Number of schedules	32	22	12	8	13	7	9	4	2	2	7
Number of notes and annexes	18	27	3	1	19	8	8	-	5	1	1
Length of statement of significant accounting policies (no. of pages)	9	2	3	2	2	2	1	1	3	3	5

a/ Expected to become biennial starting in the biennium 1990-1991.

b/ Based on accounts for the year or biennium ended 31 December 1987.

c/ Where there is no overall certification, individual statements are certified.

Table 2A. Comparative summary of statements of significant accounting policies

	Bases for maintaining accounts	Financial period	Accounting for income (other than contributions), expenditure, assets and liabilities	Contributions	Deferred charges	Fixed and capital assets	Surplus account
United Nations	(i) Financial regulations as adopted by the General Assembly; (ii) Rules by the Secretary-General as required under the regulations; (iii) Administrative instructions issued by the Under-Secretary-General for Administration and Management or the Controller; (iv) Special resolutions of the General Assembly especially as regards peace-keeping, operations.	A biennium, which consists of two consecutive years beginning with even numbered year.	Accrual basis	Assessed: Payments made by Member States are credited first to the Working Capital Fund and then to the contributions due in the order in which the Member State was assessed. Voluntary: Pledges are based on a written commitment to pay a monetary contribution at a specified time or times. Pledges for future years are recorded as deferred income.	Comprise: (i) Expenditure items that are not properly chargeable in the current financial period but are chargeable in a subsequent financial period; (ii) For statement purpose only, that portion of education grant advance that is assumed to pertain to the scholastic year completed as at the date of the statement.	Land and buildings are reported at original cost. Non-expendable assets are budget charges. Construction is held in a construction-in-progress account until completed, and then capitalized at cost.	The surplus account of the United Nations General Fund represents funds available for credit to Member States and from: (i) unobligated balances of appropriations; (ii) savings in liquidation of prior period obligations; (iii) contributions from new Member States; (iv) Miscellaneous income.
ITC	Same as United Nations.	Same as United Nations.	Same as United Nations.	Financed from GATT and United Nations regular budget.	Same as United Nations.	Not applicable.	Same as United Nations where it applies.
UNU	Same as United Nations.	Same as United Nations.	Same as United Nations.	Government contributions are credited to the UNU Endowment Funds. Separate endowment funds are maintained for the following: (i) General account of the University; (ii) Major research and training centres. The principal is invested to keep the original contribution intact. Interest from investment is spent on operations.	Same as United Nations.	Acquisitions are charged against budgetary accounts in the year of purchase.	Same as United Nations.

Table 2A (continued)

Bases for maintaining accounts	Financial period	Accounting for income (other than contributions), expenditure, assets and liabilities	Contributions	Deferred charges	Fixed and capital assets	Surplus account
UNDP (i) UNDP financial regulations, as adopted by the UNDP Governing Council; (ii) UNDP financial rules, established by the Administrator.	Annual on calendar year basis (expected to become biennial in 1990-91.	Same as United Nations, except expenditure for staff entitlements and project executed by Governments accounted for on cash basis.	Recorded as income in the actual amount received by UNDP. A record of pledges in the currency pledged, is maintained.	Same as United Nations, except for treatment of education grant advances.	Policy on capital expenditure applies to capital assets and leasehold improvements. Charged to UNDP biennial budget or project in year in which purchased.	Reflects unexpended resources.
UNICEF (i) UNICEF financial regulations, adopted by the Executive Board; (ii) UNICEF financial rules promulgated by the Executive Director.	Same as United Nations.	Same as United Nations.	(i) Contributions from national committees are accounted for on cash basis; (ii) Supplementary funds contributed by Government for specific purposes are accounted for on basis of pledges; (iii) Net income from greeting card operations; (iv) Unearmarked funds contributed by the public and certain general income on cash basis. Donations-in-kind are reflected in memorandum accounts but not included in the financial statements.	Not stated but reflects prepaid expenditure on financial statements.	Valued at cost less amortization or depreciation.	Reflects fund balance to which is credited excess of income over expenditure. Same as United Nations where applicable.
UNRWA Financial regulations of UNRWA as adopted by the General Assembly.	Annual, which consists of calendar year.	Accounts on accrual basis except for supplies, which are expensed at time of purchase.	Contributions to the General Fund may be used to fund projects for which special donations are sought but not found. Contributions are recorded on a cash basis.	Not stated, but reflects prepaid expenditure on financial statements.	Fixed assets are disclosed at original cost values in a footnote to the balance sheet.	Reflects Working Capital (Operating Reserve). Same as United Nations where applicable.

Table 2A (continued)

	Bases for maintaining accounts	Financial period	Accounting for income (other than contributions), expenditure, assets and liabilities	Contributions	Deferred charges	Fixed and capital assets	Surplus account
UNITAR	Same as United Nations.	Annual, which consists of calendar year.	Same as United Nations.	Same as United Nations.	Same as United Nations.	Same as United Nations.	Reflects fund balance, to which is credited excess of income over expenditure. Same as United Nations where applicable.
UNHCR	(i) Financial regulations of the United Nations; (ii) Financial rules for voluntary funds administered by the UNHCR promulgated in 1974 and consolidated in A/NC.96/503/Rev.2 dated 30 June 1981.	Annual, which consists of calendar year.	Same as United Nations.	Records income from contributions following United Nations policy, except that pledges outstanding for period exceeding five years are not reflected in accounts but are retained in memorandum records.	Supplies procured in a given year are deferred until such time as project commences.	Non-expendable property is expensed in year of purchase.	Maintains the following funds: (i) Working Capital and Guarantee Fund; (ii) Special accounts; (iii) Special Programme Fund. Same as United Nations where it applies.
UNEP	(i) Financial regulations of the United Nations; (ii) Financial rules formulated by the Secretary-General as required under the regulations, including the financial rules of the Fund of UNEP; (iii) Specific decision and administrative issuances of the UNEP Governing Council.	Same as United Nations.	Same as United Nations.	Same as United Nations as it relates to voluntary contributions.	Same as United Nations.	Same as United Nations.	Same as United Nations where applicable.

Table 2A (continued)

	Bases for maintaining accounts	Financial period	Accounting for income (other than contributions), expenditure, assets and liabilities	Contributions	Deferred charges	Fixed and capital assets	Surplus account
UNFPA	(i) UNFPA financial regulations as adopted by the UNDP Governing Council; (ii) UNFPA financial rules established by the Executive Director.	Annual on calendar year basis (See UNDP).	Same as UNDP.	Accrual basis.	Same as UNDP.	Same as UNDP.	Reflects unexpended resources.
UNHESP	Financial regulations and rules of the United Nations and special annex thereto for the Foundation.	Same as United Nations.	Same as United Nations.	Same as United Nations as it relates to voluntary contributions.	Same as United Nations.	Not stated.	Represents funds available for future use of projected activities. Savings are credited directly to surplus.

Table 2B. Comparative summary of statements of significant accounting policies
(Technical co-operation activities) a/

Contributions	Interest and miscellaneous income	Unspent allocations	Deferred income	Unliquidated obligations	System of average costing	System of standard costing	Operating reserve
United Nations	<p>(i) For regular programme activities, trust funds are credited to the General Fund;</p> <p>(ii) For UNDP, UNEPA, UNEP, and others on operating fund basis, credited to their respective operating funds;</p> <p>(iii) For trust funds, credited to the trust fund itself.</p>	Unspent allocations/deferred income comprise balance of allocations issued for both current and future years. These are based on project budgets and allocation advices.	Deferred income from contributions comprises those received in respect of project budgets which extend beyond the current period.	Except for the regular programme, they remain valid for 12 months following end of year. These may be retained beyond 12 months if a firm liability to pay still exists but are reported as accounts payable in the financial statements. Savings are credited to individual projects as reduction of current period expenditure.	Utilizes a system of average costing based on expert-months delivered.	Not applicable.	Operation in accordance with ST/SGB/188.
ITC	<p>(i) For UNDP, UNEPA, and others on operating fund basis credited to their respective operating funds;</p> <p>(ii) Interest accruing from short-term investment or trust fund is credited:</p> <p>(a) First, to the operating reserve to maintain reserve at agreed level;</p> <p>(b) Then to support costs to meet any annual deficit attributable to currency fluctuations;</p> <p>(c) Then to donors' funds.</p> <p>Income from sale of training pack:</p> <p>Credited to training pack revolving fund.</p> <p>Income from sale of electronic data-processing services:</p> <p>Credited to ICC/EDP revolving fund.</p>	Same as United Nations.	Same as United Nations.	Same as United Nations.	For UNDP projects same as United Nations.	Applied to trust fund projects with the annual difference between standard/actual costs transferred to operating reserve.	Pre-determined level of \$700,000. Operated in the context of variance reserve.

Table 28 (continued)

	Contributions	Interest and miscellaneous income	Unspent allocations	Deferred income	Unliquidated obligations	System of average costing	System of standard costing	Operating reserve
UNDP	Contributions income is recorded on receipt of cash.	Credited to the UNDP account or to such other funds to which the income accrued or from which it derived.	Differs from United Nations in that UNDP is the issuing organization of allocations or financial authorizations.	Not applicable.	Same as United Nations, except savings on liquidation of accounts payable are credited to miscellaneous income.	Applies to various elements of project expenditure.	Not applicable.	Established by financial regulation, level set by Governing Council.
UNEP	Same as United Nations.	Same as United Nations.	Same as UNDP.	Same as United Nations.	Same as United Nations.	Same as United Nations.	Same as United Nations.	Same as United Nations.
UNFPA	Accrual basis.	Same as UNDP.	Same as UNDP.	Receipt of contributions in advance of year for which pledged.	Same as UNDP.	Same as UNDP.	Same as UNDP.	Same as UNDP.
UNITAR	Same as United Nations as it concerns special purpose grants.	Same as United Nations as it concerns special purpose grants.	None stated; none reflected in financial statements for special purpose grants.	None stated; none reflected in financial statements for special purpose grants.	Differs from United Nations in that obligations are accounted for on a project basis over life of each project.	None stated.	None stated.	None stated; none reflected in financial statements.

a/ Accounts for UNO, UNICEF, UNRWA, UNECR and UNHCR do not distinguish between technical co-operation activities and trust funds.

Table 2C. Comparative summary of statements of significant accounting policies
(Trust funds, programme support costs and funds held-in-trust)

	Trust funds	Special accounts for programme support costs	Funds held-in-trust
United Nations	<p>Policies for establishment and management contained in ST/SGB/188 dated 1 March 1982. There are two categories:</p> <p>(i) General trust funds;</p> <p>(ii) Technical co-operation trust funds.</p>	<p>(i) Reimbursement, which is a percentage of delivery, is provided for in respect of:</p> <p>(a) extrabudgetary technical co-operation;</p> <p>(b) administrative and substantive activity;</p> <p>(ii) Financial statements reflect special accounts for programme support costs separately, from the funds from which their income is derived.</p>	<p>Resources are set aside and disbursements recorded against these resources, under appendix D (compensation payments), for:</p> <p>(i) Stabilization payments of medical, dental and life insurance premiums of active and after-service personnel;</p> <p>(ii) For payment of potential liability claims;</p> <p>(iii) Other costs associated with the general liability of the Organization.</p>
ITC	Provisions of ST/SGB/188 generally complied with in respect of technical co-operation trust funds.	Same as United Nations, except for the account's operating reserve, which is maintained following the same modality as that of the operating reserve maintained for the technical co-operation trust fund accounts.	None stated.
UNU	Trust funds may be established by the Rector. Policies for establishment and management as contained in ST/SGB/188 dated 1 March 1982.	No policy stated as regards special accounts for programme support costs.	None stated.
UNDP	Same as UNDP main programme.	Reimbursements made to executing agencies from general resources at rates determined by the Governing Council.	Not applicable.
UNICEF	UNICEF does not accept trust funds per se, but Executive Director has authority to establish a special account for specific uses of funds.	Programme support services are charged either directly to the programme or to the administrative budget.	Not considered as UNICEF income; policy the same as trust funds.
UNRWA	No separate policy stated as regards trust funds.	No policy stated as regards special accounts for programme support costs.	None stated.
UNITAR	Differs from United Nations in that there are no provisions for repatriation grants and appendix D payments.	Same as United Nations.	Not applicable.

Table 2C (continued)

	Trust funds	Special accounts for programme support costs	Funds held-in-trust
UNHCR	By definition, funds at the disposal of the High Commissioner for purposes falling outside the annual programme and emergency fund. No special policy stated for general trust funds in the United Nations context.	No policy stated as regards programme support and administration.	None stated.
UNEP	Same as United Nations, subject to administrative authority of the Fund's executive heads. Although exempted from ST/SGR/188 (see para. 3), the Fund none the less, complies with its provisions.	Same as United Nations.	None stated.
UNEPA	Same as UNDP.	Same as UNDP.	Same as UNDP.
UNHSP	Same as UNEP.	Same as United Nations.	None stated.

Table 2D. Comparative summary of statements of significant
accounting policies

(Other special provisions)

	Other special provisions
UNICEF	<p>Procurement and Assembly Centre's stock of programme supplies: reflected at average cost; goods-in-transit valued at actual cost to include freight. Aggregate total represents inventory. Periodically adjusted for variances.</p> <p>Greeting Card Operation's inventory of raw materials: valued at standard cost adjusted periodically for variances.</p> <p>Goods-in-transit: reflected as inventory.</p> <p>Contractual obligations: those contingent upon delivery are recorded as memo entries and disclosed as footnotes to the statements.</p>
