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New York

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SUMMARY RECORD OF THE 4th MEETING

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

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The meeting was called to order at 3.15 p.m.

AGENDA ITEM 127: JOINT INSPECTION UNIT (A/44/34, A/44/129 and A/44/488)

1. Mr. HENNES (Chairman of the Joint Inspection Unit) said that the 14 reports and two notes issued by JIU from 1 July 1988 to 30 June 1989 were summarized in chapter IX of document A/44/34. The five reports of direct interest to the Committee had been summarized in parts B, F, I, M and N of chapter IX.
2. Paragraph 15 of the document again mentioned the problem of the Fifth Committee's overburdened agenda. None the less, he hoped that the Committee could find time to consider the five reports before it and take clear decisions on the recommendations they contained.
3. With regard to recommendation 63 of the Report of the Group of High-level Experts to Review the Efficiency of the Administrative and Financial Functioning of the United Nations (A/41/49) he pointed out that the question of a change of name for JIU was still pending. The Committee might wish to take steps to formally approve the change of name.
4. He concluded by observing that while the Inspectors were independent, they had to be answerable to some organ, in this case, the Fifth Committee; otherwise, their work would suffer. Consequently, it was very important for the Committee to help them make their work more efficient.

AGENDA ITEM 121: FINANCIAL REPORTS AND AUDITED FINANCIAL STATEMENTS AND REPORTS OF THE BOARD OF AUDITORS (A/44/5/Add.1, 3, 4, 5 and 7, A/44/356, A/44/537, A/44/541, A/44/543 and A/44/544)

5. The CHAIRMAN drew attention to an error on page 22 of the English text of document A/44/544 in the second line of paragraph 79: the document symbol A/43/5/Add.8 should read A/43/5.
6. Mr. MSELLE (Chairman of the Advisory Committee on Administrative and Budgetary Questions) said that documents A/44/541 and A/44/544 reported on the implementation of the recommendations of the Board of Auditors by the United Nations and relevant entities. The Board had referred to the progress made in that area in its reports, and the Advisory Committee had therefore made no comment in that connection.
7. Document A/44/537 examined the question of the presentation and format of financial statements and accounting policies of all audited organizations and programmes, in accordance with the request contained in General Assembly resolution 43/216. It was concluded that considerable progress had been made on that question. Tables 1 and 2A compared the presentation of financial statements and significant accounting policies of the various entities. Although it would have been glad to see a more detailed analysis of the differences which still had to be resolved, the Advisory Committee welcomed the suggestions made in the report. It took note of the statement in paragraph 9 to the effect that the

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presentation of financial reports and statements should be based on the general principles of clarity, simplicity, meaningfulness and full disclosure but believed that much remained to be done if those objectives were to be attained. For example, it would be necessary to simplify and reduce the number of financial statements and schedules in reports submitted to the Assembly.

8. The Advisory Committee recommended that the General Assembly should accept the conclusions in document A/44/537. However, to avoid confusion, there was a need to differentiate between the standardization and harmonization of financial policies, on the one hand, and the standardization and harmonization of accounting policies, on the other. That distinction was not made sufficiently clear in paragraphs 14 and 17 of the document under consideration. The Advisory Committee was of the opinion that a start could be made by considering the possibility of introducing further changes in United Nations presentation and accounting policies, with a view to making changes in other entities at a later date.

9. Mr. INOMATA (Japan) said that the Committee had received six reports from the Board of Auditors, most of them covering the organs involved in the major economic and humanitarian activities of the United Nations. At a time when United Nations organs were expected to play a greater role in multilateral co-operation to strengthen peace and security, it was of primary importance that clear and accurate accounts should be kept in order to bolster the confidence of States in the activities of the United Nations and ensure the utilization of the resources provided by the Member States as efficiently as possible and for the purposes for which they were intended.

10. The reports of the auditors provided a useful basis for strengthening and improving the efficiency of United Nations organs through the interaction between Member States and the secretariats of those organs. He therefore welcomed the reports on the implementation of the recommendations and observations of the Board and the Advisory Committee (A/44/541 and A/44/544). Although they were late in issuing them, the bodies concerned had demonstrated a sincere willingness to respond to those recommendations and observations.

11. With regard to the points raised in paragraph 4 of document A/44/541, his delegation, while acknowledging the extreme caution exercised by the Secretariat in the review of existing unliquidated obligations, felt that to record the remaining balances as accounts payable was neither a uniform treatment of the prior years' unliquidated obligations at all United Nations offices and the regional commissions nor an accepted general practice for United Nations bodies. It should only be used in exceptional cases. With regard to paragraph 9, he noted that an effort had been made to ensure an equitable distribution of programme support funds among programme and central administrative functions. The Secretariat should spell out how that effort was reflected in the budget estimates for the biennium 1990-1991. Paragraph 14 indicated that recommendation 45 of the Group of 18 should be reviewed after the retrenchment and restructuring had been completed. His delegation would like to know whether that exercise had now been completed, after three years of staff reductions.

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12. With regard to paragraph 15, it wanted to know when the retraining programme was to be established. According to paragraphs 13 and 32, there were great expectations about the contribution to be made by the Integrated Management Information System to the computerization of data on staff and he trusted that the Secretariat would implement the IMIS project expeditiously in accordance with the plan approved by the forty-third General Assembly. With regard to paragraphs 22 and 34, his delegation wished to congratulate the United Nations Interim Force in Lebanon (UNIFIL) on the promptness with which it had acted to comply with the recommendations of the Board of Auditors concerning procurement procedures and internal control over fuel items and prefabricated units, especially since UNIFIL was one of the major peace-keeping operations and should function with a high degree of efficiency and economy.

13. With regard to the note of the Secretary-General concerning the implementation of the recommendations of the Board of Auditors (A/44/544), his delegation questioned the contention, with which the Board seemed to agree, that over-expenditure of allotments (as distinguished from appropriations) did not constitute a violation of the Financial Regulations and the legislative authority of UNDP. Frequent over-expenditure of allotments would eventually erode the credibility of the certifying function of the Administration and weaken budgetary control, thus creating a pattern of expenditure deviating from the original priorities assigned to activities.

14. His delegation supported the recommendations and observations of the Chairmen of the Board of Auditors and the Advisory Committee concerning the reports of those bodies. In particular, it shared the view that all observations of the Administrations on the Board's reports should be made available to the Board prior to the session at which they were finalized.

15. His delegation fully concurred with the view of the Board that the criteria for recording unliquidated obligations should be based on the concept of the actual delivery of goods and services, including acquisitions of equipment. There should be no confusion between financial policy and accounting policy. There was no question that development projects were implemented in a difficult environment, but funds that would not materialize before a specific date should not be committed in order to retain the balance of appropriations that would otherwise be surrendered for more useful purposes. His delegation also noted the progress towards resolution of the specific grounds for the Board's qualified opinions. It was its understanding that the biennialization of the submission of audit financial statements of UNDP to the General Assembly and the Governing Council was aimed at increasing the amount of information available on audited expenditures, but did not introduce any change in accounting policy.

16. His delegation further agreed with the observation of the Board of Auditors that the Junior Professional Officers Programme of UNDP was now more a supplementary source of staff than a training programme. The response of the Administration to that observation was not satisfactory because it was proposing the establishment of 12 staff development and training posts for the biennium

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1990-1991 without clarifying their relation to the JPO training programme. Contrary to policy on JPOs, the trainees for those 12 posts would be moved to regular posts after training in New York and in the field.

17. His delegation had noted with great interest the proposals made by the Secretary-General in his report (A/44/537) on the standardization of the presentation and format of the financial statements and accounting policies of all audited organizations and programmes. Reserving the right to revert to the question at a later stage, it requested the Secretariat to provide further information on the possible elements of the general framework for financial statements it had suggested. That information was essential to any follow-up the General Assembly might undertake pursuant to paragraph 13 of Assembly resolution 43/216 of 21 December 1988.

18. Mr. BOUR (France) speaking on behalf of the twelve States members of the European Community, said that the summary of the principal findings of the Board of Auditors (A/44/356) and of the remedial action it considered necessary showed that certain general problems persisted in respect of budgetary control, which was often inadequate, and in respect of cash management. Most of the organizations whose accounts had been audited seemed to ignore certain generally accepted accounting principles and were making investments which exposed their funds to considerable exchange risks.

19. The Board had also noted that procedures for submitting financial statements were often imperfect or improperly followed and that, in some cases, an organization's financial report did not reflect the true situation of its accounts. Those deficiencies, which had caused the Board to express qualified audit opinions, must be corrected promptly.

20. The difficulties noted by the Board of Auditors in project planning and in co-ordination among bodies responsible for technical co-operation programmes and executing agencies unfortunately confirmed the findings of recent evaluations carried out in the field and demonstrated the need to improve project preparation and planning procedures.

21. The twelve States members of the European Community thanked the Board for also evaluating management which was an important aspect of its mandate, and they urged it to continue doing so; dialogue which had been initiated between the Board and the executive heads must be continued and intensified and the Board's recommendations must be taken into account not only by the General Assembly but above all by the governing bodies when they considered the proposed budgets of their programmes and relevant issues. Accordingly the Twelve were pleased to hear that a representative of the Board of Auditors had been invited to participate in the work of the Governing Council of UNDP and they hoped that UNDP would continue that practice and that the other governing bodies concerned would follow its example.

22. It was unfortunate that some documents had been submitted late. The Twelve would like the Secretariat to give reasons for the delay and to say what measures

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it planned to take to ensure that that did not happen again. They would also like to know the reasons for the late submission of the reports requested by the General Assembly in resolution 43/216 concerning measures adopted by the competent governing bodies and executive heads in response to the observations and recommendations of the Board of Auditors (paras. 5 and 6) and concerning the possibility of standardizing the presentation and format of financial statements and accounting policies of all audited organizations and programmes (para. 13).

23. Although they had had very little time, the Twelve had given careful consideration to the report of the Secretary-General on the implementation of the recommendations of the Board of Auditors and of the Advisory Committee (A/44/541). It was surprising to see that in some cases the administration had chosen not to follow the Board's recommendations, contrary to the provisions of resolution 43/216. They earnestly requested the Secretary-General to take the necessary steps to ensure that the provisions of paragraph 14 of that resolution were fully implemented and to review the positions stated in paragraphs 4, 5 and 7 of the report (A/44/541). The purpose of the report was not to give the administration's comments on the Board's recommendations but to state clearly what measures had been taken to implement those recommendations.

24. The Twelve agreed with the Secretariat that the report of the Secretary-General (A/44/537) on the presentation and format of financial statements and accounting policies of all audited organizations and programmes was only a partial response to the request of the General Assembly. They considered that it was feasible and desirable to standardize further the financial statements of agencies and programmes of the United Nations; the recommendations contained in paragraph 19 of the report were a positive contribution in that direction. They did not agree with the Secretariat that each agency or programme should determine its own accounting standards and methods independently of the other United Nations agencies (para. 16). Harmonization of accounting policies was at least as important as harmonization of the presentation of financial statements. The Board should keep the matter under review with a view to formulating specific proposals regarding standardization to the General Assembly. The Joint Inspection Unit should co-operate closely with the Board to that end.

25. Standardization of accounting policies would give all organizations clear and similar rules concerning management and auditing, which did not lend themselves to interpretation. Moreover, the smaller organizations could benefit from the experience of the larger and older ones, and that would considerably reduce irregularities.

26. As in previous years, the Board had expressed a qualified audit opinion on the financial statements of UNDP and UNEPA, because of deficiencies in the accounting, control and certification mechanisms. It was satisfying to see that those organizations had made progress in respect of the timely certification of expenditure incurred by specialized agencies, due in particular to improved collaboration between UNDP and those agencies and to the efforts of the Panel of External Auditors. At its most recent session, the Governing Council of UNDP had

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suggested that UNDP and UNFPA accounts should be audited biennially on the understanding that the Board of Auditors would continue to monitor the accounts and management of those organizations and to submit annual reports to the Fifth Committee and to the governing bodies concerned. The Twelve would like to hear the comments of the Chairman of the Board of Auditors on this proposal.

27. Problems had also been noted with respect to the accounting and auditing of expenditures of projects executed directly by Governments or by non-governmental organizations. Adequate procedures had not been worked out in all cases and the specialized unit at Headquarters was not operating as it should. That was the third year in a row that the Board had had to express a qualified audit opinion on that type of expenditure and it was unfortunate that better control of Government-executed expenditure had not yet been achieved. It would be necessary to improve the guidelines governing the execution of such projects and to improve their implementation.

28. The Board's audit opinion also contained observations concerning the validity of the financial rules and accounting practices which, although not reservations, as such, required prompt application of corrective measures.

29. It was surprising that a satisfactory answer had yet to be found to the question of the recording of unliquidated obligations. Issuing a purchase order and recording the obligation in the current year without taking into account the actual delivery gave rise to substantial distortions and might even lead to abuses. Both UNDP and UNFPA should consider the possibility of amending their financial regulations with a view to harmonizing them with Regulation 4.3 of the Financial Regulations of the United Nations, or clarify the method once and for all, bringing it into line with generally accepted accounting principles.

30. The Board had also observed that cash management in UNDP and UNFPA did not always follow : clearly defined policy and that the relevant guidelines were not spelled out with sufficient precision. Resources allocated to development activities were too scarce to expose them to exchange risks.

31. The comments concerning the recording of unliquidated obligations applied equally to UNRWA; the auditors noted shortcomings in presentation due to the use of the system of accounting by fund. The Twelve wished to know the Administration's response to those comments, as well as its position concerning the post of global custodian of the Area Staff Provident Fund.

32. With regard to UNITAR, the Twelve supported the conclusions of the the Board of Auditors, especially those in paragraphs 19 and 20 of document A/44/5/Add.4, since it had noted that expenditure had greatly exceeded the funds approved by the Board of Trustees. Such abuse was all the more deplorable when the Institute's financial situation was so serious. The Twelve shared the view of the Board of Auditors that financial rule 106.1 should also apply to special-purpose-grant projects, and they hoped that the corrective measures indicated in the report would

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be adopted as soon as possible. In addition, they urged the Executive Director of UNITAR to apply without delay the plan of action to balance the Institute's budget.

33. The management deficiencies in UNHCR and the gross irregularities in a project carried out by an implementing agency were deplorable.

34. With regard to paragraph 10 of General Assembly resolution 43/216, the Board of Auditors had recommended measures to strengthen financial and administrative control. That was a fundamental aspect of the Board's mandate and the Twelve wished to support especially the recommendations aimed at improving the definition and planning of technical co-operation projects and ensuring greater respect, during the earmarking of funds, for the priorities established by the governing bodies.

35. The Board's comments about the constant increase in programme management and support costs were a cause for concern. The Twelve supported the Board's recommendation that clear guidelines for distinguishing overhead costs should be established and applied.

36. Lastly, it was regrettable that the views expressed in the Fifth Committee concerning the presentation of the Administrations' responses to the comments and recommendations of the Board of Auditors had not always been followed. In future, their responses should appear immediately after the corresponding observations of the Board of Auditors and not in a separate document.

37. The Twelve reserved the option to make a further statement in the course of the debate in order to raise new questions, after they had listened to the representatives of the agencies concerned. They also reserved the right to state their view on document A/44/544.

38. Mr. GUPTA (India), referring to the reports of the Board of Auditors (A/44/5/Add.1, 3, 4, 5 and 7) and the corresponding report of the Advisory Committee (A/44/543), said that he agreed with the Advisory Committee that the observations of the Administrations should be made available to the Board before it finalized its reports; otherwise, the work of the Board, the Advisory Committee and the delegations was hampered.

39. With regard to the financial statements of UNDP and UNFPA, the Board had pointed out that a large number of headquarters posts in UNDP and UNFPA were being financed from project budgets instead of from management and programme support expenditure. In UNDP, the number of such posts had reached 97 in 1989, representing 9.6 per cent of UNDP headquarters staff. That practice did not contribute to the objective of checking the growth of the administrative budget and improving the organizations' efficiency. His delegation hoped that the guidelines for delineating between programme expenditures, programme support costs and operating costs would be made clearer. It also hoped that the UNFPA Administration would do likewise.



(Mr. Gupta, India)

40. The Board had stated that the accounting principles for recording unliquidated obligations being used by the Administrations of UNDP, UNFPA and UNEWA were departing from generally accepted accounting principles. As a result, savings against prior years' unliquidated obligations were considerable: for example, in the Office for Project Services, the figure had been 31 per cent in 1988 compared with 29 per cent in 1987. The Board had noted similar practices in several UNDP field offices: for example, in a number of cases, unliquidated obligations had been recorded at year-end up to the unspent balance of allotted funds, regardless of actual commitments entered into, a practice which artificially exaggerated expenditure. His delegation hoped that the abuses would be corrected and that the Board and the Advisory Committee would keep that subject under close scrutiny. In the case of UNEWA, his delegation agreed with the Board that the obligations should be specific and their validity limited to a definite period of time, certainly not exceeding one year.

41. The Board had mentioned cases where expenditure exceeded allotments in UNDP, UNFPA and UNITAR. That was an indication of a breakdown of budgetary discipline, and the Administrations concerned must address that problem.

42. Another important observation made by the Board pertained to cash management and policies regarding foreign-exchange transactions. The Board had pointed out that UNDP had suffered a loss of \$25 million in the first quarter of 1989 alone owing to currency fluctuations. His delegation agreed with the Advisory Committee's observations that, while losses due to exchange-rate fluctuations could not be eliminated, they could be minimized. His delegation would request the UNDP Administration to review the current policy guidelines on exchange transactions, in keeping with the Board's observations, with a view to revising the maximum/minimum holdings in dollar and non-dollar currencies in order to lower the exposure to exchange risks.

43. Also in connection with UNDP, the Board had noted that core budget resources had been used for extrabudgetary activities. His delegation reiterated what the UNDP Governing Council itself had stated on several occasions, namely that extrabudgetary activities must be financed from extrabudgetary resources. He hoped that the UNDP Administration would give clear instructions to field offices in that regard.

44. The Board had also made some relevant observations on personnel management in UNDP, with particular reference to interregional mobility, extended stay at headquarters, and the use of the Junior Professional Officers programme to meet regular staffing needs. The Board's report also indicated that consultants were being hired in cases where the work could be done by the regular staff, or in order to bypass staffing constraints. His delegation found totally unsatisfactory the explanation offered by the UNDP Administration that consultants were appointed to assist the staff in peak-time work. He hoped that the Board's observations would be discussed in the UNDP Governing Council with a view to its giving appropriate instructions to the Administration.

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45. His delegation agreed with the observations of the Board and the Advisory Committee that the activities of the United Nations Development Fund for Women (UNIFEM) and the UNDP Division of Women in Development should be carefully planned and better co-ordinated to avoid duplication.

46. In the case of UNFPA, the Board had pointed out that the expenditure incurred directly by UNFPA in respect of part execution of government-executed projects was not reported in the status-of-funds report submitted by Governments. His delegation was happy to note that the UNFPA Administration had agreed to amend its guidelines on the subject.

47. Programme support costs charged by certain non-governmental organizations had been as high as 103 per cent of programme costs. His delegation agreed with the Board that a reasonable ceiling should be imposed in that regard. It also agreed with the Board that trust funds should be accepted only on a fully funded basis and that trust funds in deficit should not be allowed to operate.

48. He was happy to note that the ratio of operating to programme costs in the case of UNFPA had decreased from 31.3 per cent in 1987 to 28.9 per cent in 1988 as a result of an increase in programme delivery.

49. The Board had observed some weaknesses in project management using the electronic data-processing system and the long-term plans for office automation. The Administration must take the Board's observations into account. At the same time, he was happy to note that the UNFPA Administration had agreed to take corrective measures with regard to the weaknesses pointed out by the Board in the agreement between UNFPA and UNDP on the provision of financial services.

50. The Board had identified cases of disregard for UNFPA financial rules in the award of contracts. Such situations must not be allowed to recur.

51. The Board had made a number of observations in its report on UNFPA's relationship with executing agencies, which involved a number of questionable practices. Those observations were pertinent and must be discussed in the UNDP Governing Council with a view to taking corrective action.

52. The Board had also pointed to certain weaknesses in the accounting policies of UNRWA, one glaring case of mismanagement being the Area Staff Provident Fund. Between 1985 and 1988, there had been a 161 per cent increase in the fees paid to the Fund's investment managers and custodian, while investments had increased by 55 per cent over the same period. Both the Board and the Advisory Committee had questioned the need for such staff; his delegation concurred with their view and hoped that the UNRWA Administration would act to rectify the situation.

53. With regard to the UNITAR accounts, the Board had observed that pledges to the Institute were decreasing at an alarming rate, creating a massive deficit in the General Fund. UNITAR's debt to the United Nations had increased from \$1.61 million to \$2.55 million between 1985 and 1988 - a rate of 59 per cent. The Advisory

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Committee had suggested that new activities should begin only if funds were available. The Board had also disclosed the case of an individual who had received a \$30,000 grant from a private foundation, using the name of UNITAR to partly finance his work which was actually a UNITAR project. His delegation agreed with the Board and the Advisory Committee that the UNITAR Administration should take corrective action.

54. With regard to the financial report of the Office of the United Nations High Commissioner for Refugees (UNHCR), the Board had made a number of relevant and useful observations on different aspects of financial management. The UNHCR Administration should examine those observations.

55. Sound financial management of an organisation required a co-operative relationship between its administration, its auditors and its governing council. He hoped that the administrations of the organisations concerned would take the Board's observations in a constructive spirit.

56. His delegation reserved the right to comment further on the item at a later stage.

57. Mr. OLDFELT (Sweden), speaking on behalf of the five Nordic countries, said that the Board of Auditors provided member countries with certification that their contributions had been used in accordance with the intentions stated in plans and budgets. The Board also verified organisations' managerial performance. The Board had succeeded in separating those two aspects of its work and had provided a concise summary of findings of common interest in document A/44/356. The Nordic delegations endorsed the Board's general findings and recommendations and, although in some instances they recognised the merits of opposing arguments put forward by organisations, found the arguments of the Board of Auditors convincing.

58. The Nordic countries noted with satisfaction that unqualified audit opinions had been given in the cases of UNRWA and UNHCR. They would like to know whether so-called unearmarked funds had been included in the auditors' review of UNHCR, however. They also noted that, despite the unqualified opinions, there were some more or less serious shortcomings in some areas. It was essential that the administrations concerned take a serious and positive attitude to the recommendations of the Board of Auditors and take remedial action without delay. Member States also had a responsibility to participate actively in the process through their representatives in the respective bodies.

59. The Nordic delegations noted with concern that the Board of Auditors had again felt compelled to issue qualified audit opinions concerning UNDP and UNFPA, even though, in paragraph 2 of its resolution 43/216, the General Assembly had requested UNDP and UNFPA to take immediate steps to correct the situations or conditions that had given rise to the qualification of audit opinions. At the same time, they noted with satisfaction that some improvements had been made and called on UNDP and executing agencies to work together to implement further improvements in the accounts for 1989.

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(Ms. Oldfelt, Sweden)

60. The Nordic delegations were also concerned at some issues related to UNDP and UNFPA accounting policies and their implementation in those organisations. Compliance with generally accepted accounting principles, based on the delivery of goods and services, was the best approach. The Nordic countries would like to see a paragraph to that effect in the draft resolution on the item.

61. The Nordic countries were especially concerned about the Board's observations regarding UNDP. They agreed with the Board on the need for better budgetary discipline in UNDP. There was a need to devise and implement more efficient methods for programme management and for monitoring projects once they were under way. The Nordic delegations looked forward to discussion of that matter in the UNDP Governing Council.

62. Shortcomings in project management, including delays in project delivery, had contributed to a further increase in UNDP's reserves in 1988. The Governing Council should give the highest priority to initiating substantial improvements in the planning and implementation of projects tailored to the great needs of many developing countries.

63. The debate on the reports of the Board of Auditors often tended to give a negative impression of the work of the audited organisations. The Nordic delegations wished to assure the staff of those organisations that they highly appreciated their work and their dedication.

64. Mr. VAHER (Canada) said that consideration of the various financial statements and audit reports in the Fifth Committee played a key role in promoting sound financial management and effective programme delivery. That, coupled with consideration of the audit reports in the governing bodies of the organisations concerned, helped to ensure optimum use of resources and increased confidence in the operations of the United Nations and, thus, increased support for the Organization. His delegation was gratified therefore by the general trend of governing bodies to spend more time discussing audit reports. It was particularly encouraged by the manner in which UNDP had acted on those reports. There was scope for even more detailed discussion by governing bodies of the issues raised by the audit reports, however, and his delegation wished to know which governing bodies had invited a representative of the Board of Auditors to be present at their meetings.

65. His delegation was pleased that the Board had that year included separate sections on financial statements and management issues in its reports and had indicated the relative priority of its recommendations. The discussion of management issues covered a wider range than in previous years and showed a noticeable trend towards greater clarity of exposition. Those improvements would contribute to a better understanding of the issues raised and therefore increase the usefulness of the reports. In its previous year's resolution, the Committee had asked the Board to study the desirability and feasibility of conducting its reviews in a more comprehensive manner. His delegation would appreciate hearing the Board's views on more comprehensive auditing and the directions it might take.

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(Mr. Vaher, Canada)

66. In 1988, the Committee had again asked organizations which had received qualified audit opinions to correct deficiencies. Although at least three of the six organisations under consideration in 1989 had received qualified opinions, considerable progress had been made. The efforts of UNDP in particular were to be commended. It was also encouraging that UNRWA, which had had a qualified opinion in 1988, had received an unqualified opinion in 1989.

67. Weaknesses had been noted in the system of allotment control in nearly all agencies, and the matter was dealt with explicitly in the reports on UNDP, UNFPA, UNITAR and UNHCR. In the case of UNITAR, expenditures exceeded allotments in five out of seven budget chapters of the General Fund. In UNDP, 35 out of 114 field offices had exceeded their allotments at year-end, compared with 30 in 1986 and 23 in 1987. Although the administrations argued that the situation was not as bad as the Board suggested, those deficiencies, and the often negative responses to the findings and recommendations of the Board of Auditors were dismaying. The issue of unliquidated obligations again appeared in the reports on UNDP, UNFPA and UNRWA. His delegation concurred with the view of the Board of Auditors that the criteria for recording unliquidated obligations departed from generally accepted accounting principles, allowed too much flexibility and created uncertainty as to the accuracy of reported expenditure, and endorsed the recommendation that the relevant accounting policies should be clarified in order to prevent the possibility of abuse. His delegation looked forward to the continued examination of the issue by the Board, as requested by the Advisory Board, and its report on the subject to the Fifth Committee.

68. It was important to standardize both financial statements and accounting policies. In that regard, the report of the Secretary-General on the subject (A/44/537) was useful. Although there were no international standards for financial statements in Government entities, the United Nations system should use as a framework the international standards issued by the International Accounting Standards Committee. His delegation would invite the Board of Auditors to keep under review the stated accounting policies of each entity in relation to the others and to draw the attention of the Fifth Committee to any specific areas in which it considered a comparative review of those policies to be required.

69. It would be useful for the audit opinions expressed in the reports of the Board and the reports themselves to be dated, so that the exact period to which they referred could be known.

70. The Board of Auditors' reports on UNDP and UNFPA were of particular concern to his delegation because they once again represented qualified opinions. Despite the notable improvements made in 1988, the proportions of unaudited programme expenditure remained too high. A fundamental change was required in the accounting and auditing relationships, particularly as regarded Government-executed projects. His delegation appreciated the efforts made by the UNDP Governing Council to address the issue, most particularly through its decision 89/61. It saw potential merit in the proposal for a limited review during the mid-biennium year. However, before pronouncing a definitive view, it would wish to know from the Board what was

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(Mr. Vaher, Canada)

the difference between an audit and a limited review and whether the proposed review would finally enable the Board to issue a clean opinion on projects carried out by executing agencies. The biennial submission of audited financial statements represented a compromise solution, since financial statements were useful when they were available on a timely basis. The UNDP Administration was to be commended for preparing and circulating appropriate guidelines including further recommendations made by the Board of Auditors and for having established a small, specialized unit in the Division for Audit and Management Review to implement those measures.

71. The existence in both UNDP and UNFPA of a lack of delineation between programme, programme support and operating expenditure had once again been identified. That practice had led to a distortion of a key indicator of programme delivery performance. The UNDP Administrator's reply lacked the precision to be expected. For that reason, his delegation supported the ACABQ recommendation that the Administration of UNDP, in consultation with the Board of Auditors, carry out a review in order to establish clear guidelines.

72. In many cases the UNDP Administration, in replying to the Board's findings, had stated that particular practices and procedures had been approved by the Governing Council and that it did not propose to make any changes. In that and other ways, the report reflected a certain tension and resistance between the auditors and the Administration. In 1989 the observations of the Administration were for the first time contained in a separate section because they had been received too late to be incorporated into the text of the Board's report. He urged closer co-operation between the parties involved in the audit to achieve the common objectives of ensuring financial and managerial integrity, and concurred with the view of ACABQ that the observations of the administrations must be available to the Board prior to the finalizing of its report.

73. In connection with the Board's comments on the recording of unliquidated obligations by UNDP and UNFPA, his delegation hoped that the UNDP Administration would provide information on where the review by the Panel of External Auditors currently stood. The Administration had an obligation to demonstrate that its current policies and procedures were in accordance with generally accepted accounting principles.

74. His delegation concurred with the objectives of UNDP for the placement of funds and currency management and the observation that exchange risks could not be avoided. It was generally pleased with the investment strategy in recent years.

75. His delegation continued to be concerned with the liquidity position of UNDP. Despite favourable developments on global delivery, the liquidity position had increased from \$1,096.7 million in 1987 to \$1,166.3 million in 1988. That represented the fifth year in succession that it had been necessary to mention that point. It was difficult to accept that steady accumulation of resources intended for programme delivery during a time of critical need for developing countries. His delegation would ask the Administration of UNDP to provide the Committee with a forecast of liquidity position for the rest of the current cycle.

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(Mr. Vaher, Canada)

76. His delegation shared the concerns expressed by the Board of Auditors on programme budgeting and implementation, which were identified by ACABQ as a central issue for UNDP operations. It also looked forward to receiving the report called for in UNDP decision 89/61, paragraph 10.

77. With regard to UNITAR, he noted that expenditures over allotments amounted to 19 per cent and that some projects had incurred expenditures even though no allotments had been issued. His delegation supported the Board's recommendation that expenditures should not be allowed to exceed allotments and that no expenditures should be incurred for special purpose projects unless allotments had been issued for the purpose. Member States needed to have confidence that expenditures would take place in accordance with the programmatic and financial proposals contained in the budget. In conclusion, he said that his delegation supported the views and recommendations of the Board of Auditors and the ACABQ on the reports of UNHCR and UNRWA.

78. Mr. MOHIUDDIN (Bangladesh) said that the reports of the Board of Auditors showed that weaknesses continued to exist in the areas of budgetary control, financial statements and project activities of UNDP, UNFPA, UNITAR, UNRWA and the voluntary funds administered by the United Nations High Commissioner for Refugees. It was to be hoped that the recommendations made in that connection by the Board of Auditors and the Advisory Committee would be taken into account and carried out.

79. In connection with document A/44/5/Add.1, he noted with satisfaction that the Administration of UNDP had resolved six out of nine grounds for the qualifications made by the Auditors in the 1987 audit reports. On the other hand, it had been disappointed that it was the Board's conclusion that a substantial portion of administrative and programme support costs had been misclassified as programme expenditure and that no action had been taken to correct that situation. The importance of delineation between administrative, programme support and programme costs could not be overemphasized, and his delegation therefore supported the recommendations made by the Board in paragraph 6 (c), chapter II of its report (A/44/5/Add.1).

80. The Board of Auditors had observed that notwithstanding its catalytic role, the impact of the implementation of small projects was often marginal, although it had not given its reasons for that conclusion. UNDP resources were allocated through the process of country programming, in accordance with the priorities and development objectives of the recipient countries, a process that had proved satisfactory up to the present. No single solution could be applied to the diversity of socio-economic situations of the developing countries and for that reason his delegation could not agree with the Board's observation.

81. One problem that persisted was that the United Nations executing agencies did not submit their audited statements prior to the closing of the UNDP accounts or before the External Auditors had issued their audit opinion of UNDP accounts. Consequently, the Board had had to issue several qualified opinions. The basic reason for that situation was that the executing agencies were audited on a

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biennial basis. The audit report had also been critical about the audit of government-executed programme expenditures. His delegation hoped that both problems could be resolved by the implementation of UNDP Governing Council decision 89/61 and that the situation would also be improved by the new procedures introduced with effect on 1 January 1989. In addition, deficiencies had been pointed out in recording unliquidated obligations at year-end and in cash management, exposing the organization to exchange risks.

82. Budgetary discipline in the field offices was far from satisfactory: out of a total of 114 field offices, 35 had exceeded their allotments at year-end. A number of weaknesses in UNDP personnel policies had also been found and his delegation was concerned that the recruitment of consultants, and in particular the absence of any evaluation of the consultants' work, were not in compliance with the relevant policy guidelines.

83. In its report, the Board of Auditors had drawn attention to wide variation in the staffing of field offices, which was not justified by the work-load, and had said that the ratio between the indicative planning figure (IPF) and staff ranged from one to four. He therefore agreed with the Board that quantitative indicators should be used in any comprehensive review of that situation. In that connection, it was relevant to mention the critical situation of the Regional Bureau for Asia and the Pacific, which had experienced several years of zero growth and staff reductions. At the same time, the Bureau had seen a significant increase in its IPF expenditure. Another example of inappropriate personnel policy was that among the 112 UNDP Resident Representatives around the world, only three were from the Asia-Pacific region. His delegation hoped that the necessary corrective measures would be taken and urged the Board of Auditors to look into those two aspects and to submit their findings in the next report.

84. With respect to the report contained in document A/44/5/Add.7, his delegation was pleased that the administration of the United Nations Fund for Population Activities (UNFPA) had in most cases taken note of and had welcomed the observations of the Board of Auditors. It was to be hoped that it would take the necessary steps for the early implementation of those observations. His delegation's comments about UNDP also applied to UNFPA in so far as they touched on the distinction between programme and administration expenditures, exchange risks, programme expenditures incurred by United Nations executing agencies and programme expenditures incurred by Governments.

85. Commenting on document A/44/5/Add.3, he said that his delegation was concerned about the high fees commanded by the four investment managers of the Area Staff Provident Fund and by the fact that one of those managers had unilaterally increased his fee from 0.75 per thousand to 1.25 per thousand. It was also disturbing to find that while the investment had increased by only 55 per cent, the total fees paid to the investment managers and custodian had increased by 161 per cent from 1985 to 1988. His delegation therefore urged the administration

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of the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) to review that unsatisfactory situation and to take immediate remedial action.

86. Mr. GROSSMAN (United States of America) emphasized the importance of a discussion of the financial statements and the reports of the Board of Auditors. It was to be hoped that delegations would devote sufficient time to preparing a draft resolution on the item; resolutions from previous years had been instrumental in improving the oversight role of Member States in the audit process.

87. It was important for the Member States to be assured that the resources provided to international organizations were used in the most effective and efficient manner. Yet, the auditors had all too often disclosed instances of waste or inefficiency. Agencies must take concerted action to eliminate overlap and duplication of activities and to maintain accountability for the use of all funds. The transparency of an organization was enhanced when the auditors were satisfied that expenditures were accurately recorded in financial statements. Member States for their part should carefully examine the auditors' reports and ensure that the organizations remedied the deficiencies cited.

88. It was a matter for concern that qualified audit opinions had been issued for the United Nations Development Programme (UNDP) and the United Nations Population Fund (UNFPA). While significant progress had been made towards resolving many of the problems which had elicited previous qualifications, other problems persisted. Although the auditors had issued unqualified opinions for other audited agencies, the financial management of UNRWA and UNHCR presented problems.

89. With respect to UNDP, it was encouraging that, owing to the combined efforts of the Administrator and his staff and the Governing Council, six of the nine specific grounds for the qualification in 1987 had been resolved. The absence of audited expenditure data for programmes executed by some agencies and Governments was the main reason for the expression of a qualified opinion in 1988. To resolve that problem, the UNDP Governing Council had recommended that the audit cycle should be changed to a biennial basis, thus allowing UNDP to receive audit certificates from all executing agencies. The General Assembly should endorse the recommendation of the Governing Council, since it did not reduce oversight by Member States. Under the new system, the Board of Auditors would issue a report on substantive matters, including management issues, covering the first year of each biennium.

90. The same approach could be applied to UNICEF, which had recently adopted a biennial audit system. In 1986, the UNICEF Executive Board had decided, without consulting the General Assembly, to modify its audit process. As a result, the Board was not able to issue a report on the first year of each biennium; yet such a report was essential for proper management of UNICEF. The General Assembly should request the Board of Auditors to prepare a report similar to the report to be prepared on UNDP, beginning in 1990.

(Mr. Grossman, United States)

91. In spite of the additional resources approved by the UNDP Governing Council to improve the audit process of financial statements from projects executed by Governments, little progress appeared to have been made in that area. The Council had given priority to increasing the share of UNDP projects executed by Governments. However, the continuing failure of many Governments to comply with the requests of the Council and the Administrator were of serious concern. The General Assembly should urge the Council to consider freezing the award of new projects to those Governments which had been unwilling to provide audit certificates.

92. His delegation had taken note of the observations of the Board of Auditors concerning the accuracy of project budgeting. At the 36th UNDP Governing Council, his delegation had proposed the study of current project budgeting procedures, and the proposal had been endorsed in Governing Council decision 89/61. Given the substantial proportion of resources devoted to projects, a review of the project budgeting procedure should be an urgent task for the auditors.

93. The auditors had noted a duplication and overlap in the public information activities of UNDP. Substantial savings could be achieved through a complete restructuring of those programmes, and the Governing Council should be urged to undertake such a review as a matter of priority.

94. The audit findings on the United Nations Development Fund for Women (UNIFEM) confirmed the views expressed by a number of delegations in the Governing Council regarding the duplication in activities carried out by the Fund and the Division for Women in Development. His delegation hoped that the Administration and the Governing Council would carry out a comprehensive review of that matter. In addition, it hoped that the new Director of UNIFEM would take seriously the observations of the Board of Auditors concerning the high level of administrative costs. In the revised 1990-1991 budget estimates to be submitted to the Council in 1990 those costs should be reduced.

95. The Board had issued a qualified opinion on the UNFPA accounts because the discrepancy between the UNFPA one-year budget cycle and the biennial cycle of the executing agencies meant that audit certificates could not be produced, and also because the distinction between programme and administrative and programme-support expenditure was not clear. The General Assembly should endorse the UNDP Governing Council recommendation that the UNFPA audit cycle should match the organizations' budget period, thus eliminating the problem of missing audit certificates. The distinction between programme expenditure and administrative and programme-support expenditure had been extensively discussed in the Governing Council, resulting in Council decision 89/49. He noted with interest that UNFPA agreed on the need for further clarification in that area.

96. The Board referred in its report to exchange gains and losses and pointed out that, for example, adjustments arising from the lack of revision to United Nations operational exchange rates at year end had amounted to over \$5.2 million. The Board recommended that exchange-rate fluctuations which occurred during the last

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month of the financial year and substantially affected asset values should be reviewed, and the necessary adjustments made. UNFPA and UNDP should hold their proposed discussions on that subject with the Controller as soon as possible.

97. His delegation shared the Board's concern that Governments and non-governmental organizations were not crediting UNFPA accounts with the interest earned on sizeable cash advances. It was also troubling that only one executing agency had paid such interest to UNFPA. Steps needed to be taken.

98. The Board referred to one contract awarded by UNFPA without proper bidding procedures or scrutiny by the Contracts Committee. UNFPA needed to establish an overall policy on contracts and not resort again to special procedures.

99. The Board and the Advisory Committee had referred to the lack of information on project-funded services at Headquarters. His delegation shared the Advisory Committee's view that Governing Council decision 86/35 on such services should be strictly applied.

100. He expressed concern at the comments made on the UNRWA Area Staff Provident Fund. The fees paid to the Fund's investment managers had increased by 161 per cent between 1985 and 1988, while the resources of the Fund had increased by just 55 per cent. The administration's reply on the matter was incomplete. It was to be hoped that the Agency would act on the recommendations of the Board and the Advisory Committee without delay.

101. Regarding the report on the Office of the United Nations High Commissioner for Refugees (UNHCR), his delegation supported the auditors' recommendation that greater efforts should be made to raise funds from non-governmental sources.

102. In resolution 43/216, paragraph 7, the General Assembly requested the Secretary-General and the executive heads of United Nations organizations and programmes to report through the Board of Auditors on any action they had taken pursuant to the Board's recommendations. Given the late submission of those reports to the General Assembly, he wondered whether the Board had had a chance to review them and examine the efficiency of the corrective measures taken. Perhaps the Chairman of the Board could provide the Committee with the Board's views. The conclusions of document A/44/541 should be transmitted to the relevant governing bodies for more detailed review.

103. The report of the Secretary-General on the presentation and format of financial statements and accounting policies of all audited organizations and programmes (A/44/537) mentioned that in the late 1970s the Administrative Committee on Co-ordination had laid down that reports and financial statements should follow the broad principles of clarity, simplicity, meaningfulness and full disclosure. Those were laudable objectives, but far from being attained. In his delegation's view, the General Assembly should endorse the objectives of ACC and the conclusions of the Secretary-General's report.

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(Mr. Grossman, United States)

104. Finally, his delegation expressed its strong support for the views of the Advisory Committee in document A/44/543 concerning the delay by some organizations in replying to the comments of the Board of Auditors.

105. Mr. KULIK (Ukrainian Soviet Socialist Republic) said that his delegation attached great importance to the work of the Board of Auditors, especially since the financial reports and the Board's conclusions gave a fairly accurate picture of how efficiently the resources provided by Member States were being used.

106. His delegation supported an expansion of the Board's functions, in order to tighten financial discipline and expose and correct breaches of the standards established for the use of financial resources.

107. The report of the Advisory Committee, providing a detailed analysis of the matters discussed by the Board, was a very useful tool in discussing the audited financial statements.

108. Unfortunately, close reading of the documents showed that many audits had revealed breaches of the rules governing the submission of supporting documents.

109. Discussion of the financial reports and audited financial statements must not be confined to the Fifth Committee: the competent governing bodies should take any action required to put the conclusions and recommendations of the Board into effect. In that respect he agreed with the Canadian representative, and welcomed the fact that the 1988 agendas of the UNICEF Executive Board and the UNDP Governing Council had included consideration of the reports of the Board of Auditors. Unfortunately, experience showed that the Board's comments, conclusions and recommendations were not being given due attention.

110. Action must be taken on the Board's recommendations, and the Fifth Committee and the Board must be duly informed. Only thus could the efficiency, efficacy, authority and responsibility of the Board be enhanced.

111. In connection with the separation of programme, programme-support and administrative spending, he cited the examples of UNDP and UNFPA. The topic had already been the subject of comments and recommendations by the Board of Auditors, but as the Board pointed out, the action taken had been both inadequate and piecemeal.

112. The desire to complete projects in the field as quickly as possible was understandable, but financial discipline must not be forgotten. Spending must be kept within the funds provided in order to be sure that the resources to carry projects out would be there. A number of trust funds were in deficit because that requirement had not been observed.

113. Many organizations objected to the Board's conclusions and recommendations. In several cases the real problem very likely amounted to no more than variations in the presentation of financial statements. Thus he applauded the decision by the

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United Nations Secretariat, as presented in document A/44/537, to continue to work towards a standardized format for financial statements, making the stated basic accounting standards general and uniform.

114. The notion of personal liability in the event of breaches of the financial rules should not be abandoned. If compliance existed only on paper, the way would be open for breaches of financial discipline to become more of a chronic problem.

115. In addition to supporting an expansion of the Board's functions, he hoped that, given the continuing financial difficulties which the United Nations faced and the need for a policy of strict economy, the Board would redouble its efforts to bring order to the finances of the Organization and rigorously monitor compliance with basic financial standards and rules.

The meeting rose at 6.10 p.m.