



General Assembly

Distr.
GENERALA/45/570
4 October 1990

ORIGINAL: ENGLISH

Forty-fifth session
Agenda item 116FINANCIAL REPORTS AND AUDITED FINANCIAL STATEMENTS
AND REPORTS OF THE BOARD OF AUDITORSReport of the Advisory Committee on Administrative
and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions met with the Board of Auditors as well as with the Audit Operations Committee in September 1990 and discussed with them the Board's reports to the General Assembly on the financial accounts of the United Nations, 1/ including the International Trade Centre, 2/ and the United Nations University, 3/ for the biennium ended 31 December 1989; the United Nations Children's Fund (UNICEF), 4/ the United Nations Development Programme (UNDP), 5/ the United Nations Population Fund (UNFPA), 6/ the voluntary funds administered by the United Nations High Commissioner for Refugees (UNHCR), 7/ the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), 8/ the United Nations Institute for Training and Research (UNITAR), 9/ all for the year ended 31 December 1989; as well as the United Nations Environment Programme (UNEP), 10/ and the United Nations Habitat and Human Settlements Foundation 11/ for the biennium ended 31 December 1989. The Advisory Committee's observations and comments on the report of the Board of Auditors on the accounts of the United Nations Joint Staff Pension Fund 12/ for the year ended 31 December 1989 will be submitted separately to the General Assembly at its forty-fifth session in a report that will also include the Committee's recommendations on the report of the United Nations Joint Staff Pension Board. 12/

2. The Advisory Committee also had before it a note by the Secretary-General (A/45/457), transmitting the summary of principal findings and conclusions for remedial action contained in the reports of the Board of Auditors, which was prepared by the Board in accordance with General Assembly resolution 44/183 of 19 December 1989. For its part, in making its comments and recommendations, the Advisory Committee relied upon the main reports of the Board of Auditors.

H.P.

3. The Committee also took note of reports by the Secretary-General, the Administrator of UNDP and the Executive Director of UNICEF on the implementation of the recommendations of the Board of Auditors, (A/45/509; DP/1990/76; and E/ICEF/1990/AB/L.14).

The Panel of External Auditors

4. Prior to its consideration of the reports of the Board of Auditors, the Advisory Committee met with representatives of the Panel of External Auditors to discuss issues which, in the opinion of the Panel, should be brought to the attention of the Advisory Committee.

5. The topics discussed at the meeting were:

(a) Development of generally accepted accounting principles to be applied by United Nations organizations;

(b) Development of a fraud awareness programme;

(c) Security of computer systems;

(d) Full disclosure, by reserve or by note in financial statements of United Nations organizations, of the liability existing in connection with termination benefits;

(e) Arrears of assessments of Member States.

6. The Committee noted the concerns of the Panel with regard to the development of a fraud awareness programme and security of computer systems; it intends to remain seized of these questions and will follow up on them as necessary. With regard to the other three topics, the comments of the Committee are presented in the paragraphs below.

7. With regard to generally accepted accounting principles, the Committee was informed by representatives of the Panel that there is a need to develop appropriate accounting principles and standards for consistent application in the United Nations system. According to the Panel, recognition would be given to any significant differences in the circumstances of the individual organizations concerned.

8. The Committee was informed that there are many reasons why standards developed specifically for businesses and commercial accounting cannot be applied directly in the different circumstances of the United Nations. The existing commercial standards are based on a fundamental principle of full accrual accounting, whereas United Nations accounting is a mixture of receipts and payments and income and expenditure and covers significantly different types of activities. More generally, the aims and objectives of the United Nations, the appropriate disclosure requirements, and the interests and needs of the organization preparing the financial statements and of the various users of the final accounts are in many respects significantly different from those of commercial bodies.

9. The Advisory Committee shares the concern of the Panel in this subject. The Committee recommends that the General Assembly request the Panel of External Auditors to commission a study, perhaps utilizing the services of the International Accounting Standards Committee. Results of the study should be submitted to the Advisory Committee.

10. In the opinion of the Advisory Committee, the subjects of arrears of assessments of Member States and of full disclosure of termination benefits as a contingent liability are closely related to the question of formulating generally accepted accounting principles in the United Nations system. What constitutes a contingent liability and how it should be disclosed and the treatment of arrears of assessments are issues that must take into account the special legal status and requirements of individual international organizations. Furthermore, the question of arrears will have to be viewed in the context of the provisions of the relevant financial regulations and statutes of the organizations concerned. The Committee trusts that these issues will be addressed in the special study recommended above.

United Nations

11. Various aspects of budgetary control are discussed by the Board of Auditors in paragraphs 45 to 70 of its report. 1/ In paragraphs 47 to 52, the Board considers the question of expenditures exceeding appropriations and observes that it had become customary for the Administration to seek transfers between sections. The Board's observations are indicative of the need to improve the control procedures. As pointed out by the Board, the transfers between sections of the 1988-1989 budget were approved by the Advisory Committee. However, the Administration needs to explain much more clearly the reasons for the excesses and transfers between the different items of expenditure; moreover, those factors which contributed to the increases or decreases in the various sections of the budget, should be borne in mind by the Administration when it formulates future budgets.

12. The Advisory Committee notes the Board's views regarding expenditures in excess of allotments, excessive obligation of allotments and unrecorded allotment advices (paras. 54 to 62). The Advisory Committee recalls the comments it made to the General Assembly that "widespread exceeding of the allotments could point to the need for correction, either in the size of the allotments themselves or in procedures for authorizing commitments" (A/44/543, para. 16).

13. Financial regulation 4.4 provides that obligations of prior periods which remain valid but which cannot be liquidated within the one year extension period should be transferred as a charge against current appropriations. The implementation of this regulation is commented on in paragraphs 63 to 67 and the Administration's response is in paragraph 65 of the Board's report. The Advisory Committee believes that a solution to the problem created by the new budgetary process would be for the Administration to submit to the General Assembly an appropriate amendment to financial regulation 4.4.

14. The Advisory Committee observes that there are serious lapses reported by the Board regarding the administration and management of personnel. Not only have

serious flaws been pointed out with respect to the interpretation of policies and procedures but also with regard to the enforcement of regulations and rules.

15. In paragraphs 100 to 106 of its report, the Board cites the example of a staff member who was promoted with the intention of establishing a basis for an early retirement. The Board believes that the action taken was not appropriate nor does it see an advantage in using the agreed termination procedure in this case. It also believes that such actions could be detrimental to the morale of other staff members. The Advisory Committee agrees with the views of the Board; such abuses should not be repeated in future.

16. As indicated in paragraphs 111 to 119 of the Board's report, the practice of overtime payments in the Security and Safety Service resulted in an additional cash outlay of \$10,212 for a period of three months. In this connection, the Advisory Committee draws attention to the comments and recommendations that it made in its report on section 28D of the proposed programme budget for the biennium 1990-1991. 12/ The Board's examination reveals that when a security officer's regular day off falls on a United Nations holiday, a claim for overtime payment is made for reporting for scheduled work one or two days immediately following the holiday. The Advisory Committee recommends that this practice be discontinued immediately and requests that the Board of Auditors follow up the implementation of this recommendation.

17. The Advisory Committee notes from paragraph 121 of the Board's report that the Administration was committed to implementing software improvements that would reduce the problem of excessive overtime in the Telex Unit of the United Nations Office at Vienna. The Committee welcomes the Board's intention to follow up on the matter. The Committee intends to follow up this question in the context of the 1992-1993 programme budget.

18. A number of weaknesses are revealed in the Board's report with regard to procurement of supplies and non-expendable property (paras. 140 to 149). For example, it appears that bidding for procurement of goods has become the exception rather than the rule. The Advisory Committee agrees with the recommendation of the Board that the Financial Rules in this respect be adhered to. However, the Committee also notes that the Administration is "exploring the possibility of issuing bids through a computerized system, thereby enabling formal bidding to be used in a great number of cases without requiring additional resources" (para. 147).

19. Programme planning and monitoring are issues dealt with by the Board in paragraphs 150 to 161. The Advisory Committee notes the statement of the Administration that it is not always possible to define output accurately, nor can certain activities be easily translated into quantifiable output in the programme performance report. The Committee further notes that, in the view of the Administration, the costing of output involves a number of technical problems. The Advisory Committee agrees with the Administration and believes that the costing of output should be seen as the ultimate goal once technical and other problems have been resolved. The Committee trusts that adequate account of these factors will be taken by the Auditors in their examination of the application of the regulations

and rules governing programme aspects of the budget, the monitoring of implementation and the methods of evaluation.

20. Technical co-operation and project activities are discussed in paragraphs 162 to 170 of the Auditor's report. The Advisory Committee shares the Board's views regarding timely and effective implementation of technical projects. The Committee notes the views of the Administration that effective delivery of projects "can only be successfully carried out if there is full co-operation from the recipient Government in responding to executing agencies' requests for approval of the various procurement and appointment actions in order to ensure delivery within the time-frames envisaged in a project document" (para. 166).

21. With regard to paragraphs 178 and 179, the Advisory Committee agrees with the Board's observation that all regional commissions should be asked to undertake a revision of rental and operating costs charged to the specialized agencies and other entities.

22. For reasons given in paragraph 191 of its report, the Board believes that the cost-sharing ratios for common services should be reassessed. The Board was informed that the United Nations Office at Geneva is prepared to propose a review in pending negotiations among that Office, the United Nations Industrial Development Organization and the International Atomic Energy Agency. The Advisory Committee welcomes the comments of the Board in this regard; for its part, it intends to follow up this issue in the context of the Committee's examination of the 1992-1993 programme budget.

23. The Advisory Committee emphasizes the need for a speedy and substantial strengthening of administrative and budgetary functions and structures of the United Nations Office at Vienna, especially in view of the expressed wish of the General Assembly for an overall strengthening of that Office. The Committee therefore recommends that specific proposals on the most immediate measures in this regard that would, in particular, allow an expeditious in-depth review of common services, including conference services, at the Vienna International Centre, be prepared by the Secretary-General and presented to the General Assembly at its forty-fifth session. The overall proposals of the Secretary-General on how to strengthen the United Nations Office at Vienna would be considered by the General Assembly in the context of the proposed programme budget for 1992-1993.

24. In response to General Assembly resolution 44/183, information on the liquidity position of the United Nations is provided in paragraph 193 of the Auditor's report. Liquidity information on the other agencies and programmes is provided in each of the Board's reports. The Advisory Committee observes that the information in each of the audited reports is presented in a different format and, in many cases, does not reflect the actual liquidity position. The Committee requests that, in future reports, the Board of Auditors provide this information in a standardized format for all audited United Nations entities.

25. In this connection, the Advisory Committee has been informed that the table provided in paragraph 193 of the Board's report has been amended and that the relevant information has been issued in a corrigendum to the Board's report. The

Committee considers the table contained in the corrigendum to be an improvement. Nevertheless, problems persist. For example, the amended table still does not adequately reflect that, in the United Nations, all fund accounts have to be viewed separately; a surplus in one fund account is not available to offset a deficit in another.

26. Under the general title of "cases of fraud and presumptive fraud in 1988-1989" the Board examines cases pertaining to tax reimbursements made to United Nations staff members during 1983-1984 (paras. 200-202). The Committee notes from the Board's report that, of a total of 139 cases, there was a satisfactory explanation for 23; for 55 others, the amounts involved were fully recovered, while 61 cases were under review. Those 61 cases involved a total amount of \$130,675 of which \$87,901 had been recovered. The Committee trusts that the Administration will take the necessary action for recovery of the balance [amount].

United Nations Development Programme

27. The Advisory Committee notes that, as indicated in paragraph 65 of its report on UNDP, 5/ the Board of Auditors has withdrawn its qualification on the 1988 financial statements relating to accounting for cash-counterpart contributions. Nevertheless, the Committee notes with concern that, in paragraphs 58 and 59 of its report on the question of programme expenditure incurred by United Nations executing agencies, the Board was unable to express an unqualified opinion, as the required information was not made available on time. The Advisory Committee recalls that the Board has qualified its opinion in this regard since 1986. The Committee trusts that the new procedure of biennial auditing will address and rectify this situation.

28. The audit of government-executed programme expenditure is discussed by the Board in paragraph 60 of its report. The Advisory Committee recalls that this matter has also been the subject of discussion for a number of years and notes that, although some efforts were made, timely receipt of information on government-executed projects was available for only 161 projects, relating to expenditure of \$22.8 million, as compared to a total of \$100.1 million. The Advisory Committee agrees with the Board's view that, although this represents a major improvement as compared to prior years, "the coverage of approximately 23 per cent of expenditure still presents a limitation for the expression of an unqualified opinion". The Committee considers this to be serious weakness that the Administration should address vigorously, in particular, because of the trend for greater involvement by Governments in project execution.

29. The Advisory Committee welcomes the fact that new procedures on accounting for government-executed programme expenditure were introduced by UNDP in 1989 (para. 61). However, the Committee agrees with the Board's opinion that, although "substantial progress was made in 1989 on the return of the Governments' disbursement reports, further improvement is still needed in the timely reporting by Governments to assess finally the outstanding balance of advances to Governments" (para. 64).

30. In paragraphs 75 and 76 of its report, the Board discusses the question of operating funds provided to Governments and the deficiencies in the process with regard to Governments providing UNDP with the relevant documentation on time. The Advisory Committee is of the opinion that many of the problems related to the question of advances and operating funds provided to Governments and the executing and accounting of projects against such funds will have to be actively pursued by the Administrations of UNDP, UNFPA and UNICEF (see paras. 43 and 46 below).

31. A number of issues regarding generally accepted accounting principles are discussed by the Board in its report, including assets and investments (paras. 66 to 72), cash and investment management (para. 117), and contingent liability (para. 97). The Advisory Committee's comments on generally accepted accounting principles are reflected in paragraphs 4 to 10 above. Issues related to generally accepted accounting principles are also discussed with regard to a number of other reports of the Board (see para. 42 below).

32. The Advisory Committee recalls that it had requested the Board of Auditors to examine the nature and extent of possible abuses in the recording of unliquidated obligations (A/44/543, para. 11) and notes the Board's findings (paras. 85 to 94). The Committee also notes that, following the Board's previous observations and in line with the policy of increased decentralization, the Administration has issued stricter guidelines on the recording of obligations with the purpose of minimizing the problems and ensuring compliance with UNDP Financial Rules (para. 92).

33. The Board of Auditors was requested by the Governing Council of UNDP, in decision 89/61, to review the newly implemented procedure with regard to the concept of a two-year project cycle introduced by UNDP in July 1987. The Advisory Committee notes that, although the Board has reviewed the issue (paras. 109 to 113), it is perhaps too early to draw any firm conclusions from the experiment and requests the Board to keep the matter under review.

34. From paragraph 53 of the Board's report the Advisory Committee notes the Board's continuing concern regarding project-funded posts at UNDP headquarters. The Committee shares the Board's concern in this regard and recalls that this matter has been the subject of previous discussion and recommendations by the Board. The Committee reiterates its view that project-funded posts at headquarters should be kept to a minimum, if not altogether eliminated. In this connection, the Committee refers to paragraphs 5 and 39 of its own report (A/44/543), wherein the Committee recommended strict compliance with UNDP Governing Council decision 86/35 which required full disclosure in the budget document of all project posts at headquarters. The Advisory Committee intends to pursue this issue in the context of its examination of the UNDP budget.

35. The Advisory Committee is in agreement with the Board's view that, "by charging costs for temporary assistance to the budget line for established posts, these costs are not revealed to the extent that they are actually incurred" and that "the Administration is therefore in a position to allocate more resources to temporary assistance than is allowed for in the approved budget" (para. 116). The Committee endorses the Board's recommendation that temporary assistance costs should be represented as such in the budget as well as in the financial statements.

36. In paragraphs 164 to 174 of its report, the Board discusses the use of Special Service Agreements and the hiring of consultants. In the opinion of the Advisory Committee, the Board's comments reveal a practice of issuing Special Service Agreements in a manner that is tantamount to evading prescribed procedures. The Committee believes that, in this case, consultants are used to provide added staff services rather than special expertise. The Committee notes the Board's observation that "only a small part (about 5 per cent of all temporary staff is hired as recognized experts providing advice and opinion, whereas about the same percentage will provide professional services such as project implementation and internal assistance of some kind, thereby carrying out tasks of staff members" (para. 173). The Committee is not satisfied with the Administration's reply contained in paragraph 172 of the report.

37. In paragraphs 120 to 132 of its report, the Board deals with trust funds and sub-trust funds. The Advisory Committee note that UNDP manages a total of 62 trust funds and 51 sub-trust funds of which, in 1989 alone, 19 were established in the former category and 9 in the latter. Such an increase implies an increase in administrative work-load. The Advisory Committee recommends that a mechanism be established to ensure that administration and management of trust funds does not become too complex and costly; moreover, an appropriate reimbursement should be made from these funds to cover the increase in administrative work-load, i.e. all the funds should be charged a fair share of the cost of administration and management.

38. The question of personal responsibility and financial liability of UNDP officials is discussed in paragraphs 137 to 152 of the report. In this connection, the Board is of the opinion that it is important to address all staff members, illustrating to them the practical demands and repercussions of financial rule 103.2 (which corresponds to financial rule 114.1 of the United Nations) in a clearer manner. Simply to repeat the provisions in another circular is not deemed sufficient by the Board. The Advisory Committee agrees with the Board.

39. In paragraphs 153 to 157 of the report, the Board of Auditors comments on a number of flaws in the functional title system within UNDP. The Board points out that there are more than 1,300 functional titles for Professional and L-level staff and that titles no longer bear a direct relation to grades. In addition, the Board observes that for various reasons the number of titles for General Service staff has also been unnecessarily inflated. The Advisory Committee notes that for both categories of staff the Administration has agreed with the findings and will be reviewing the situation. The Committee would like to be kept abreast of developments in this regard.

United Nations Population Fund

40. In paragraphs 41 to 49 of its report on UNFPA, 6/ the Board discusses the question of programme expenditure. As in the case of UNDP, the Board continues to qualify its audit opinion on programme expenditure incurred by agencies because, at the time of audit, "less than 30 per cent of the expenditure incurred by United Nations executing agencies are adequately supported by audited documentation"

(para. 45). The Committee trusts that the Administration will expedite corrective action, as indicated in paragraph 49 of the Board's report.

41. A serious problem has also been revealed with respect to accounting, auditing and reporting requirements and procedures regarding programme expenditure executed by intergovernmental institutions and other agencies (paras. 50 to 54). The Advisory Committee agrees with the observations of the Board that, until new guidelines are drafted for such institutions, existing policies have to be strictly followed.

42. A number of issues related to generally accepted accounting principles are discussed by the Board in its report including exchange gains and losses (paras. 35 to 39), unliquidated obligations of executing agencies (paras. 72 and 73), contingent liabilities (paras. 74 and 75) and cash and investment management (paras. 87 to 89). The Advisory Committee's views on these issues are contained in paragraphs 4 to 10 above.

43. Operating funds provided to Governments are discussed in paragraphs 59 to 65 of the Board's report. The Board indicates that, although advances amounting to \$13.25 million had been made by UNFPA for about 200 projects during 1989, details of expenditure covering that period had been submitted for only a few of the 200 projects. The Board recommends in paragraph 64 (a) of its report that "advances may be withheld from the project if satisfactory documentation of the expenditure incurred and status of funds reports are not received at the required dates". The Advisory Committee endorses that recommendation. However, the Committee does not agree with the Board's recommendation, contained in paragraph 64 (b), that interest should be paid by Governments on that portion of the funds advanced which has not been used as programme expenditure.

44. In paragraphs 76 and 77 of its report, the Board cites financial regulation 5.2, which provides that trust funds shall be accepted only on a fully funded basis. However, the financial statements of UNFPA show a debit balance of \$235,088 at the end of 1988 in this respect. The Advisory Committee endorses the Board's view that no expenditure should be incurred or committed until funds to cover that expenditure have been received.

45. In paragraphs 108 to 123, the Board reports on two UNFPA meetings that were charged as "projects". In addition, the audit revealed a number of inconsistencies, including the fact that most of the travel expenses for the meetings were charged to project expenditure. The Advisory Committee agrees with the Board that, by calling the two meetings "projects", the definition of "project" has been stretched too far. In the opinion of the Advisory Committee the cost of the meetings is the type of expenditure that should be included in the administrative and programme support services (APSS) budget.

United Nations Children's Fund

46. The Advisory Committee notes with concern the situation regarding the liquidation of cash advances to Governments (paras. 28 to 31 of the Auditor's report 4/). The Board of Auditors reports that in 1989 about 35 per cent of the

returns were not submitted by field offices to UNICEF headquarters. Furthermore, the Board's audit revealed that UNICEF continued to release funds to Governments in cases where previous advances had not been accounted for, whereas the UNICEF policies and procedures manual requires that advances to Governments should be liquidated within a period of six months. In addition, in UNICEF Financial Circular No. 15 it is stated that no further transfer of funds to Governments may be made if a certificate of use of prior financing is outstanding for more than six months. The Advisory Committee recommends that the provisions of Financial Circular No. 15 be adhered to without exception.

47. In paragraphs 37 to 40 of its report, the Board discusses the liquidity position of UNICEF, in particular the question of excess liquidity. The Administration's response (para. 41) is not fully satisfactory to the Advisory Committee; too high a liquidity ratio may call into question the agency's efficiency in programme delivery.

48. Programme delivery is discussed in paragraphs 52 to 56 of the report. The Advisory Committee considers the Administration's response to be inadequate and believes that the Administration should increase efforts to correct the situation regarding programme delivery, in particular, to low income countries.

49. Paragraph 59 deals with expenditures in excess of commitments on supplementary-funded projects. The Advisory Committee notes that the position of the Administration as described in paragraph 59 is not realistic. The Committee agrees with the view of the Board that "the planning and implementation of programme activity need further improvement so that over-expenditures, which will necessarily have to be absorbed by general resources in the absence of supplementary funding, could either be eliminated or kept to a minimum" (para. 60).

50. In paragraphs 68 to 70 of its report, the Board reveals that there was inadequate information on paid contributions and that there was an increasing number of unidentified funds. The Advisory Committee believes that proper mechanisms should be devised and implemented to ascertain the magnitude and nature of funds received.

51. In paragraphs 77 to 80 of its report, the Board reports on the question of utilization of experts and consultants and contracting for services that could be performed by regular staff. The Advisory Committee's views on the subject are contained in paragraph 36 above.

52. The Advisory Committee notes the Board's observation that, "outside the original plan of operations, UNICEF expended an amount of \$1.3 million on a construction project, including housing for the project staff of a national Government" (para. 97). The Board is of the view that the mandate of UNICEF binds it to assist in programmes that would directly benefit children and women" and that "UNICEF [should] refrain from contracting huge projects that might overburden its financial resources where counterpart contributions might not be forthcoming" (para. 98). The Advisory Committee agrees and recommends that UNICEF try to obtain recovery of costs incurred for the buildings.

United Nations High Commissioner for Refugees

53. The Advisory Committee notes from schedule 1 of the UNHCR financial statements for the year ended 31 December 1989 [7] that an amount of \$108,699,071 has been listed as "other trust funds". The Committee was informed by the representatives of the High Commissioner that those funds are not trust funds in the traditional sense of the word as used in the United Nations but, rather, are special programme funds. As such, the Committee recommends that, in future, UNHCR use other terminology to describe those resources.

54. As indicated in paragraph 24 of its report, the Board's examination revealed that, of the total year-end paid cash contributions, approximately 30 per cent represented cash channelled through UNHCR to refugee programmes carried out by third parties and governed only by an exchange of letters between donor and UNHCR. The Committee recommends that, in future, such funds given to the organization be clearly identified and the purposes thereof be stated. The Advisory Committee agrees with the Board's view that, not only should the purposes for transfer of the funds between donor and recipient through UNHCR be clearly reflected in the financial documentation, but that UNHCR should also ascertain that the purposes for which these transfers are made are consistent with the policies and objectives of UNHCR.

55. The Advisory Committee notes that the Board has called for a review of the policy governing the rotation of staff (para. 47). In view of the current difficult financial position of the organization, the Advisory Committee endorses the Board's recommendations on the subject. The Committee has also commented on this matter in the context of its report on the proposed programmes and budget of UNHCR for 1990.

56. In paragraphs 49 to 52 of its report, the Board discusses the problem of executing agencies' incurring expenditures in excess of funds. The Advisory Committee believes the recommendations of the Board of Auditors to be timely in this regard, particularly in view of the financial position of UNHCR and the overall budgetary control that needs to be exercised. The Committee endorses the Board's view that established procedures, as contained in the UNHCR manual and implementing instructions, be followed in order to ensure that UNHCR funds are disbursed in accordance with its rules and regulations.

57. In paragraphs 53 to 57 of its report, the Board discusses the question of pledges and contributions. The Advisory Committee endorses the Board's recommendation that the reporting and payment procedures be streamlined in order to obtain expeditious reimbursement from donors for food purchases and related costs (para. 56).

58. Under a memorandum of understanding between the World Food Programme (WFP) and UNHCR, when WFP provides food aid through UNHCR, the latter may claim internal transportation, storage and handling costs incurred. The Advisory Committee notes from paragraphs 58 and 59 of the Board's report that, owing to cumbersome procedures and lack of budgetary controls, there is no adequate co-ordinated internal transportation, storage and handling information on outstanding claims.

As such, the Advisory Committee believes that the recommendations of the Board contained in paragraph 60 are both timely and appropriate.

59. The Committee notes the Board's observation (para. 64) that "agreements entered into with implementing agencies did not always include a provision for the submission of certified audited accounts, nor was the provision adequately enforced". The Advisory Committee recommends that appropriate steps be taken to rectify the situation.

60. The Board reports that failure by field offices to report missing property items promptly to Headquarters persisted (para. 73). The total value of the missing items, which included three vehicles, has been reported as \$61,627. The Advisory Committee shares the Board's concern in this regard, particularly in view of the Administration's response that, in relation to the total value of UNHCR property items (approximately \$27 million), the loss of a vehicle was not significant (para. 76).

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

61. The Advisory Committee notes from paragraph 28 of the Auditors' report on UNRWA, 8/ that, with regard to the question of unliquidated obligations, UNRWA introduced a new system in 1989, in line with the Board's previous recommendations. In the Board's view, as reflected in paragraph 29, "the Agency's operations, its funding and purpose differ from those of commercial enterprises" and, therefore "specific requirements arising from the Agency's operations might justify a modification of those principles which were established for commercial enterprises". The Advisory Committee agrees with the Board. (See also paras. 4 to 10 above).

62. The results of an in-depth examination of the Area Staff Provident Fund are contained in paragraphs 93 to 138 of the Board's report. The Advisory Committee recalls that certain weaknesses in the Fund's management were revealed in previous audit reports by the Board and, in its report to the General Assembly (A/44/543) the Advisory Committee called for quick and immediate remedial action to correct this situation.

63. The Committee understands that the present mechanism for the management of the Fund was established when the Fund was much smaller. Even in the relatively short period since 1986, the Fund's assets have grown from \$341 million to \$500 million in 1989 and are estimated at approximately \$550 million in 1990. As such, with the substantial increases in its assets, the operation of the Fund needs to be considered with a view to maximizing returns on its investments as well as ensuring the most efficient management.

64. The Advisory Committee had the opportunity of meeting with the representatives of the Commissioner-General of UNRWA and held extensive discussions on various issues with regard to UNRWA, in particular, the Area Staff Provident Fund. During the course of those discussions, the Advisory Committee was informed that steps had

been taken to rectify some of the problems that had been pointed out in earlier audits. In this regard, the Committee was informed that UNRWA had established a small unit with the objective of consolidating all the administrative needs of the Fund and thereby curtailing administrative costs. The Committee believes that the administration and management of the Fund should be separate from that of UNRWA and trusts that the newly created unit will be adequately staffed with qualified personnel. The Advisory Committee also believes that the administrative costs reflected in paragraph 96 of the Board's report are high and that every effort should be made by the Administration to lower them.

65. The Advisory Committee agrees with the Board's view, contained in paragraph 120 of its report, that "the Provident Fund Advisory Committee's advice cannot compensate for the lack of expert consultation", especially when making "recommendations on highly specialized issues that require expertise". The Committee also agrees with the Board's view that preservation of capital is of primary importance (para. 121). In this connection, the Committee notes with concern that the Provident Fund Advisory Committee does not have the necessary expertise and on occasion has made decisions, such as disallowing investment, in equities while allowing investment in highly speculative ventures, such as futures, warrants and options.

66. Under the circumstances, the Committee believes that the establishment of an investment advisory committee with the necessary expertise is essential. Moreover, the Advisory Committee recommends that the investment advisory committee should make recommendations directly to the Commissioner-General. In this connection, the Committee is of the view that the doctrine of acquired rights should not be invoked in this instance.

United Nations Institute for Training and Research

67. In view of the precarious financial situation of the Institute, the Advisory Committee agrees with the Board's observation contained in paragraph 19 of its report, 2/ that the UNITAR Administration should take all necessary measures to ensure that its expenditures are within the approved budget and allotment. The Advisory Committee also agrees with the Board's observation (para. 39) that the UNITAR Administration should make an entry in their accounts for 1989 for the liability of \$73,138.69 relating to rent owed to the United Nations for the UNITAR Geneva office.

68. The Advisory Committee has no comments on the reports of the Board of Auditors on the accounts of the International Trade Centre, the United Nations University, UNEP and the United Nations Habitat and Human Settlements Foundation.

Notes

- 1/ Official Records of the General Assembly, Forty-fifth Session, Supplement No. 5 (A/45/5), vol. I, and Corr.1.
- 2/ Ibid., vol. II.
- 3/ Ibid., vol. III.
- 4/ Ibid., Supplement No. 5B (A/45/5/Add.2) and Corr.1.
- 5/ Ibid., Supplement No. 5A (A/45/5/Add.1).
- 6/ Ibid., Supplement No. 5G (A/45/5/Add.7).
- 7/ Ibid., Supplement No. 5E (A/45/5/Add.5).
- 8/ Ibid., Supplement No. 5C (A/45/5/Add.3).
- 9/ Ibid., Supplement No. 5D (A/45/5/Add.4).
- 10/ Ibid., Supplement No. 5F (A/45/5/Add.6) and Corr.1.
- 11/ Ibid., Supplement No. 5H (A/45/5/Add.8) and Corr.1.
- 12/ Ibid., Supplement No. 9 (A/45/9).
- 13/ Ibid., Forty-fourth Session, Supplement No. 7 (A/44/7 and Corr.1 and 2).
