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FINANCIAL REPORTS AND ACCOUNTS, AND REPORTS OF THE  
BOARD OF AUDITORS

Note by the Secretary-General

The Secretary-General transmits herewith to the General Assembly the report of the Board of Auditors on a special examination of the accounts of the United Nations International School pursuant to the provisions of resolution 34/233, section IX, of 20 December 1979.

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\* A/35/50.

REPORT OF THE BOARD OF AUDITORS TO THE GENERAL ASSEMBLY  
ON A SPECIAL EXAMINATION OF THE ACCOUNTS  
OF THE UNITED NATIONS INTERNATIONAL SCHOOL

Introduction

1. In response to a request by the General Assembly at its thirty-fourth session (34/233/Section IX), the Board of Auditors carried out an examination of the accounts of the United Nations International School (UNIS) and its accumulated deficit, bursary policies and building maintenance needs.

2. Our examination included a review of the financial statements and records of the School and interviews with members of the Board of Trustees of the Association for the United Nations International School and with the Director and senior officers of the UNIS Administration. We also reviewed the audit working papers of the United Nations Internal Audit Division which, at the request of the Board of Trustees, audits the School's accounts, and we held discussions with the Officer-in-Charge of the Division and the staff responsible for conducting the audit.

3. This report contains our observations and recommendations, and discusses existing financial management and control systems and financial reporting and audit requirements. It also addresses the reasons for the School's accumulated deficit, bursary policies and building maintenance needs.

Summary

4. During the period from 1971 to 1978, there were significant increases in salaries and maintenance costs without proportionate increases in tuition fees. This situation and the inadequate financial management and controls were the principal factors which contributed to the School's operating deficits during that period. In 1978, significant steps were taken by the Board of Trustees to reduce the operating losses and a new business manager was appointed to develop and implement improved financial management and control systems. In addition, a position to deal with building maintenance and other general service matters has recently been created.

5. Since then, some improvements have been made to the systems, most notably in the area of improved financial information and accounting records. However, much remains to be done, and these matters have been highlighted by the Internal Audit Division in their report on the School's accounts for the year ended 30 June 1979. The Board of Trustees and UNIS Administration are aware of this need and are continuing to direct their efforts to strengthening existing systems and procedures.

6. We are of the opinion, however, that the School's financial management and control systems would be further enhanced by the implementation of the following recommendations.

(a) A professionally qualified school administrator with experience and background in educational institutions should be appointed. While good interim measures in strengthening financial and operational controls have been taken, we consider that an individual with appropriate background and skills in the education field, would do much to enhance the operations of the school over a longer period of time.

(b) Independent external auditors should be appointed, and audit requirements should be clearly set forth in financial regulations and rules. The Internal Audit Division of the United Nations has been requested annually by the Board of Trustees to audit the School's accounts. We are of the opinion that the Division has carried out audits in a thorough and professional manner, and recommendations in recent reports have resulted in action being taken to improve the School's financial records and procedures. However, in view of the Division's affiliation with the United Nations, their audit relationship with the School could be viewed as lacking in independence and objectivity.

(c) Financial rules and procedures should be updated and annual financial statements should be presented in accordance with generally accepted accounting practices.

(d) More formal policies and procedures would provide better direction to the School's bursary programme. They would also permit a more accurate determination of its building maintenance needs.

#### Financial management and control

7. In recent years, the Internal Audit Division of the United Nations has been highly critical of the School's financial practices and procedures. In particular, they have commented on the lack of adequate accounting staff, inaccurate and incomplete financial records, lack of effective budget procedures, poor admission procedures, insufficient income recording and collection practices, inadequate inventory controls and the absence of cash flow forecasting procedures.

8. In 1978, the Board of Trustees took corrective action as is evidenced by the substantial reduction in the School's operating deficit for the year ended 30 June 1979. It also appointed a new business manager to deal with financial and administrative matters. Some further improvements have taken place since then. The Internal Audit Division in their latest report on the accounts of UNIS for the year ended 30 June 1979 noted that a number of improvements in the accounting areas had been made and that the computerization of the general ledger, together with the timely

preparation of monthly financial statements, should provide invaluable tools for management. However, they pointed out a number of areas where no significant action had been taken; these included admission procedures, recording and collection of accounts receivable, inventory controls, purchasing procedures, proper substantiation of travel claims, and the need to develop written policies and procedures.

9. To improve the situation further, the Board of Trustees has recently created a new administrative post to deal with general service activities, including building maintenance needs.

10. We consider good interim steps have been taken in raising the School's financial management and control systems up to an acceptable level. However, in view of the increasing size of the School's operations and the high quality of educational services it provides, we are of the opinion that serious consideration should be given by the Board of Trustees to the appointment of a professionally qualified individual with experience and background in school administration to serve in the capacity of Administrator of UNIS.

#### Financial reporting and audit requirements

11. The audited accounts of the School are included in the Board of Trustees annual report on the Association for the United Nations International School, as prescribed by section 2, article X of its constitution. Every year, since the inception of the School, the Board of Trustees has requested the Internal Audit Division of the United Nations to audit the School's records. The Division performs these services at no cost to UNIS.

12. Our review of financial reports and related procedures suggests that there is considerable room for improvement in the reporting of financial information. Our assessment is based on the following observations:

(a) There are no financial rules and procedures governing financial reports, other than the requirement for annual audited financial statements. Moreover, as reported by the Internal Audit Division, instructions on administrative and management matters are given informally, with the result that even the most routine matters are subject to individual interpretations.

(b) Annual financial statements are not certified either by the Board of Trustees or UNIS Administration before they are presented for audit.

(c) The financial statements as presented in the annual report of the Board of Trustees do not fully comply with generally accepted accounting practices. For instance, a review of the 30 June 1979 financial statements revealed that there is no summary of significant accounting

policies. Furthermore, contributions in kind, which involve substantial amounts, are not disclosed.

(d) The audit certificate on the annual accounts has not always been included with the published financial statements in the Board of Trustees Report. We consider this omission to be particularly disturbing in that for the year ended 30 June 1978, the Internal Audit Division considered the School's records to be so deficient that they issued a disclaimer of opinion on the financial statements. This disclaimer was not published with the accounts.

13. In view of the fact that UNIS depends to a considerably extent on donations from private sources and grants from state governments, serious consideration should be given by the Board of Trustees to the appointment of an independent external auditor. In doing so, we suggest that the Board take into account the accounting and audit requirements for public schools in the State of New York. While these requirements do not officially apply to private schools such as UNIS, it would be prudent to comply with these requirements wherever possible. The Internal Audit Division could continue to play a valuable role by providing internal audit coverage on behalf of the United Nations.

14. The United Nations Internal Audit Division has provided the only audit for the School. Upon the completion of each examination, it issues a report on the results of its work and provides an opinion on the financial statements. Based on our review of audit working papers and discussions with officers of the Internal Audit Division, we are of the opinion that the Division has performed the audit of the School in a thorough and professional manner.

15. External audits require that an independent relationship exists between the auditor and the auditee which ensures that the auditor's findings and reports will be influenced only by the evidence discovered and assembled in accordance with rules and principles of professional discipline. Auditors must not only be independent but must be seen to be so by all those whom their work affects. We are concerned that this independence may be called to question in the present audit relationships between the Division and the School.

#### Reasons for accumulated deficits

16. The accumulated deficit for UNIS as at 30 June 1979 was \$1,364,085. We have reviewed the financial statements and audit working papers pertaining to the period commencing from the 1970-1971 school year. The following factors appear to have been the major causes for the deficit.

(a) There were significant increases in salary costs of UNIS teachers and building maintenance costs, which together comprise over 90 per cent of total expenditures, without corresponding increases in tuition fees. In order to keep UNIS financially attractive and affordable to the United Nations community, tuition fees remained relatively constant during the period that expenditures rose substantially. Furthermore, anticipated additional income from fund raising activities was not fully realized. For example, an early budget for the 1978-1979 school year estimated income from one such activity to be \$100,000; actual income received was \$1,600.

(b) Salary increases awarded to the UNIS teachers during this period were generous in comparison with other teachers in the New York area. A recent survey by the Board of Trustees revealed that salaries of UNIS teachers exceed salaries of teachers in both New York public and private schools.

(c) UNIS Parkway Village School in Queens for primary grades operates at a loss. Although no exact figures are available, it appears that estimated annual losses since 1974 are \$75,000.

(d) Inadequate financial management practices have contributed in part to UNIS's deficit. For example, poor collection procedures resulted in the write off of accounts receivable, lack of proper inventory records resulted in equipment losses, and poor accounting records and optimistic estimates of future income prevented the preparation of realistic budgets.

(e) An unsuccessful attempt to develop a programme of studies in environment and agriculture resulted in a recorded deficit of \$90,000 for the year ended 30 June 1977.

17. During the 1979-1980 school year, significant steps have been taken by the Board of Trustees to achieve a balanced budget. Tuition fees have been increased by 10 per cent and a recent settlement with the teachers has resulted in a reasonable salary contract. Moreover, a recent study projected that the Parkway Village School could be run at a profit if an additional grade was added; the Board plans to implement this in the year 1980-1981. Finally, our review of the School's financial statements as at 30 April 1980 indicates that the Board will most probably achieve its objective of a balanced budget for the year 1979-1980.

18. The School also receives a number of gifts and contributions in kind from the United Nations, Governments, and private donors. These items are not recorded in the financial statements. The most significant item is the support services provided by the United Nations. These include the services of the Internal Audit Division and the Administrative Management Services, all costs relating to the Board of Trustees Office including secretarial assistance and office equipment, legal services, certain personnel services such as medical examinations and some general services. It is estimated that the value of such support services would be approximately \$200,000 per year.

Bursary policies

19. We reviewed the terms of reference for the Bursary Committee of the Board of Trustees, the criteria for awarding assistance, and tested awards to ensure that the criteria had been met.

20. The bursary programme provides valuable assistance to those unable to afford the full amount of school fees. However, we feel that the development of more formal policies and guidelines for the awarding of bursaries and the operation of the Bursary Committee, together with improved procedures for the determination of family needs, would provide better direction to its present programme. Our comments are based on the following observations.

(a) Guidelines have been prepared which base the value of the bursary on the net income of the applicant and grade level of the pupil. However, the desire of Committee members for non-rigidity in the determination of bursaries has permitted considerable flexibility in the final decision of the amount granted. Approximately 50 per cent of bursaries tested were for amounts outside the guidelines. Furthermore, application of the guidelines can result in differing bursaries to parents with the same income and paying the same tuition fee, if the children are in different grades. We understand that a restructuring of the guidelines is currently under way.

(b) Many instances were noted where bursary applications were not supported by the required proof of income, usually an income tax return. In other instances, where proof of income was provided, the financial information contained in the applications which are used as a basis for Bursary Committee action were not in agreement with reported income on the tax returns. Furthermore, three cases were noted where the financial need of the recipients, none of whom were affiliated with the United Nations, was questionable.

(c) Policies and procedures governing the operation of the Bursary Committee have not been formally established. Applications presented to the Committee for review are not always accompanied by sufficient documentation and are not approved in writing.

Building maintenance needs

21. Based on our review of building maintenance needs and in view of rising costs in this area, we are of the opinion that the Board of Trustees should place more emphasis on the need to develop formal plans for the determination of future maintenance and structural requirements and their related costs. Without such plans and proper estimates, an effective over-all assessment of the School's building maintenance needs cannot be made.

(a) Of the \$3,515,000 granted by the General Assembly to the School, \$200,000 was earmarked to meet the costs of restructuring the School building and \$500,000 was contributed to the Development Fund to meet the ongoing costs of routine maintenance and repair and structural maintenance. We have the following comments:

(i) The estimated cost of \$200,000 for structural changes was based on preliminary estimates provided by the School's architect. Subsequent estimates by the School's contractors, however, placed the amount substantially in excess of \$200,000. An Ad Hoc Building Committee appointed by the Board of Trustees is currently examining the situation and formulating proposals for restructuring within the \$200,000 limit.

(ii) At the time of our examination, there was no maintenance programme for the future use of income generated by the \$500,000 contribution to the Development Fund. We understand, however, that a three year programme outlining maintenance needs is currently being developed by UNIS. Without such a programme and proper cost estimates of maintenance and repairs, it cannot be anticipated whether sufficient income would be generated from the Development Fund.

(b) The Internal Audit Division in its report on the accounts of UNIS for the year ended 30 June 1979 pointed out that the school building cannot be heated or cooled in sections, which meant that for each after-school-hours function, including evening and week-end rentals, the entire building had to be serviced. In view of the fact that utility costs averaged in excess of \$1,000 per working day, we agree with their recommendation that an aggressive programme for energy conservation be pursued. Furthermore, revenue collected from the rental of UNIS facilities does not appear to be sufficient to cover operational costs; a review of present rental arrangements would be in order.

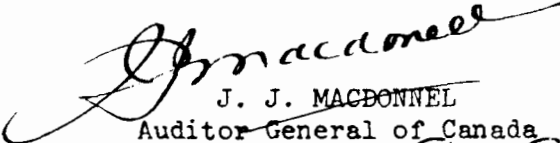
(c) In the same report, the Division also recommended that procedures for the purchase of supplies for alterations and repairs should be controlled more strictly.


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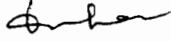


Acknowledgement

22. We wish to express our appreciation for the co-operation and assistance extended by members of the Board of Trustees, the School's Administration and the Internal Audit Division of the United Nations.

  
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