

General Assembly

FORTY-SIXTH SESSION

Official Records

FIFTH COMMITTEE
7th meeting
held on
Friday, 11 October 1991
at 10 a.m.
New York

SUMMARY RECORD OF THE 7th MEETING

Chairman: Mr. MUNTASSER (Libyan Arab Jamahiriya)

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

CONTENTS

AGENDA ITEM 104: FINANCIAL REPORTS AND AUDITED FINANCIAL STATEMENTS, AND
REPORTS OF THE BOARD OF AUDITORS (continued)

This record is subject to correction.

Corrections should be sent under the signature of a member of the delegation concerned
within one week of the date of publication to the Chief of the Official Record Editing Section, Room DC-7, Secretariat
United Nations Plaza, and incorporated in a copy of the record.

Corrections will be issued after the end of the session and are published in the next issue of the Official Record.

Distr. GENERAL
A/C.5/46/SR.7
15 October 1991

ORIGINAL: ENGLISH

The meeting was called to order at 10.30 a.m.

AGENDA ITEM 104: FINANCIAL REPORTS AND AUDITED FINANCIAL STATEMENTS, AND REPORTS OF THE BOARD OF AUDITORS (continued) (A/46/5 and Add.1, Add.3-5 and Add.7; A/46/298, A/46/299, A/46/404 and A/46/510)

1. Mr. MICHALSKI (United States of America) said that the reports of the Board of Auditors were one of the few credible sources of information whereby Governments could judge whether the resources provided to international organizations were used as effectively and efficiently as possible. Unfortunately, evaluation reports from the Secretary-General and the executive heads had not served their intended purpose.
2. The Board of Auditors had done excellent work in monitoring the financial and management practices of United Nations organizations and programmes, but management had frequently been reluctant to comply fully with its recommendations, as the Board's report on the implementation of its previous recommendations (A/46/299) showed.
3. The Board had been requested to examine the effectiveness of corrective measures taken or proposed by the management of United Nations agencies and programmes. Its report on the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) (A/46/5/Add.3) included an assessment of the steps taken by the administration to resolve issues raised in the audit report for 1989. No such evaluation of the Office of the United Nations High Commissioner for Refugees (UNHCR) had been possible, however, because of the late submission of documentation. His delegation looked forward to receiving that information for UNHCR and for all other audited agencies and programmes on a regular basis.
4. The failure of the audited agencies and programmes to respond to the requests for action on various matters in General Assembly resolution 45/235, in particular paragraph 13 (b), (c) and (d) and paragraph 16, was troubling. In view of the serious problems identified in previous audits, his delegation did not accept the view that no follow-up action on those matters was required.
5. His delegation was pleased to note that the interim study by the Panel of External Auditors on the development of appropriate accounting principles and standards for consistent application in the United Nations system, requested in paragraph 5 of the same resolution, was already available and was scheduled for consideration under another agenda item. He trusted that the views of the Administrative Committee on Coordination (ACC) would be made available at an early date.
6. With regard to the Secretary-General's report on the problem of unliquidated obligations (A/46/404), his delegation shared the Canadian view that the proposed changes must not result in a loss of control over project costs and implementation.

(Mr. Michalski, United States)

7. His delegation welcomed the issuance, for the first time, of interim reports on the United Nations Development Programme (UNDP), the United Nations Population Fund (UNFPA) and the International Trade Centre (ITC), in particular, the focus on management issues. It assumed that the absence of interim reports on other agencies implied that no serious problems had been identified, but it would like an explanation as to why no interim report had been issued, for example, for UNICEF. Moreover, notwithstanding serious financial management problems identified in past audits, no interim report had been issued for United Nations accounts. Clearly, the new procedure needed to be standardized and his delegation would like to hear the Board's views as to whether interim reports should be issued for all audited organizations and programmes.

8. Turning to the report on the United Nations Institute for Training and Research (UNITAR) (A/46/5/Add.4), he said that his delegation believed that the Board's findings must be taken fully into account when the General Assembly decided on the Institute's future. Unfortunately, its financial situation had deteriorated further in 1990, suggesting a lack of confidence in its activities on the part of most Governments. His delegation was deeply concerned by the continued need for regular budget advances to UNITAR; according to the Advisory Committee, the sum advanced by the United Nations was expected to reach \$10 million in 1991. The total amount due to the United Nations General Fund appeared to exceed the total value of the UNITAR property. His delegation was strongly opposed to advancing additional funds to UNITAR and to any proposals that would keep it in operation.

9. As the largest contributor to UNRWA, the United States had paid particular attention to the findings of the 1990 audit (A/46/5/Add.3). His delegation welcomed the steps taken to resolve the serious management problems that had been identified in regard to the Area Staff Provident Fund, and assumed that the Board would examine the operation of that Fund closely in future. It agreed with the Board and the Advisory Committee on Administrative and Budgetary Questions that the separation payments made by UNRWA to a staff member were not adequately justified. It could not accept the Agency's position that information on the case should be withheld from the auditors and would appreciate a full explanation of the circumstances.

10. His delegation was pleased to note that, overall, the financial situation of UNHCR had improved significantly during 1990, according to the report of the Board of Auditors (A/46/5/Add.5). At the same time, it shared the concerns expressed by the Board and the Advisory Committee about serious lapses in financial management, incidents of fraud, waste and abuse, and problems experienced in the execution of project activities. Many of those problems had been identified in previous audits, in some cases several years earlier, but little progress had been made in addressing them. A previous Board recommendation concerning the treatment of trust fund accounts had not been fully implemented, although some improvements had been made. Further efforts should be made to define policies with respect to the management of trust fund accounts to prevent misuse of those funds in the future.

(Mr. Michalski, United States)

11. The number and seriousness of the cases of fraud identified by the Board was a matter of particular concern and he would like to know how much of the amounts embezzled had been recovered. His delegation also shared the Board's concern regarding the apparent misuse of UNHCR funds to furnish the office of an implementing partner (para. 97) and fully agreed that UNHCR should re-emphasize to all implementing partners and agencies that the utilization of donor contributions for the welfare of refugees should always override other considerations.

12. The Board's interim report on UNFPA (A/46/5/Add.7) contained a number of disturbing findings. Problems identified in previous audits had given rise to qualified opinions on the financial statements of UNFPA, in one case because of the failure of the Agency's implementing partners to provide audited financial statements in time. Apparently, the situation had not yet improved to the point where unqualified opinions could be issued.

13. Another serious management problem was excessive support-cost payments to non-governmental organizations for implementing UNFPA-financed projects. His delegation would like UNFPA to provide a list of non-governmental organizations executing UNFPA projects, with a breakdown of the amounts reimbursed for support and other administrative costs for the past three years. The information would be useful to his Government in the administration of its bilateral population programmes. The matter should be reviewed by the UNDP Governing Council in 1992 and specific limits should be set on the levels of support costs paid to non-governmental organizations. That was required under the financial regulations of UNFPA, but there was no evidence that the Governing Council had actually approved specific rates.

14. Numerous deficiencies had been observed in UNFPA internal financial controls. Measures had been proposed to strengthen the Fund's internal financial management capacity, but the Governing Council had not agreed to the proposed staffing arrangements. His delegation hoped that the Governing Council would reconsider its position in the light of the Board's findings. Without significant improvements in financial management, the resources necessary for the programme might not be forthcoming. The Governing Council should also look into the apparent lack of control over cash advances to Governments and non-governmental organizations. The Board had found numerous cases where very high advances were made but very little interest income reported.

15. The interim report on UNDP (A/46/5/Add.1) suggested that the opinion for the Programme to be issued for the biennium 1990-1991 would be a qualified one, mainly because of the failure of the UNDP executing agencies to comply with previous requests for the timely submission of audit certificates. That lack of cooperation on the part of the executing agencies reflected the larger problem of the failure of UNDP to enforce agency accountability requirements mandated by the General Assembly and the Governing Council. Appeals by the Governing Council for more detailed reporting by executing agencies had been

(Mr. Michalski, United States)

disregarded. In the absence of such information, it was not clear that the resources made available to UNDP were being utilized efficiently and effectively. Without significant improvements in the audits of the executing agencies, appeals for increased contributions to UNDP would be difficult to support.

16. The issue of agency accountability had long been of concern to the United States. Despite repeated assurances from the Administrator that substantial progress had been achieved, the report suggested that the reality was otherwise. The matter was a serious one and went far beyond the question of auditing. His delegation recommended that the General Assembly should specifically endorse the Board's opinion that agencies showing no willingness to cooperate by entering into a Standard Basic Executing Agency Agreement (SBEAA) with UNDP were failing to comply with the requirements of General Assembly resolution 2688 (XXV), which should disqualify them as executing agencies for UNDP activities (A/46/5/Add.1, para. 28).

17. The observations regarding the management of the Office of Project Services were also of concern to his delegation, which would address the specific issues involved at the next session of the UNDP Governing Council. Current budgetary arrangements already provided the Administrator with the necessary flexibility to allocate the staff needed to manage projects.

18. In conclusion, he said that, in 1990 alone, his Government had made contributions totalling more than \$250 million to three of the bodies under consideration. It would take the findings in the reports very seriously in determining future levels of contributions.

19. Mr. MENON (India) welcomed the expansion of audit reports in recent years to cover issues relating to economy and efficiency, particularly in the field of management.

20. He wished to make two general comments on the various reports submitted, which were applicable to the whole United Nations system. First, idle cash balances must be placed in interest-yielding deposits in order to optimize income. Clearly the objective of optimizing returns must be harmonized with the need for liquidity. The policies adopted by UNHCR in that regard could be emulated by other bodies such as UNRWA and even UNITAR, whose Special Purpose Grants Fund displayed high liquidity, although the specific requirements and circumstances of each organization must be taken into account. Second, the final responsibility for ensuring satisfactory utilization of resources rested with the funding agencies. Implementing agencies must be required to account fully for the funds received from those agencies and the negotiation of appropriate agreements between funding and implementing agencies should be a matter of priority.

21. With regard to the report on UNRWA (A/46/5/Add.3), his delegation could not accept the management's plea of "confidentiality" in denying the Board of

(Mr. Menon, India)

Auditors access to relevant information about termination dues paid to an employee and concurred fully with the Advisory Committee's comment in paragraph 9 of its report (A/46/510). Moreover, the UNRWA programme of self-support projects needed to be better designed. There was an apparent conflict between that programme and the agency's welfare programme. The project designs of both programmes required modification and the respective target groups needed to be clearly identified.

22. On the report on UNITAR (A/46/5/Add.4), his delegation felt that, pending any decision on the Institute's future structure, it was important to ensure that some of the critical problems facing it were addressed. His delegation noted with regret the decline in pledged contributions and the decrease from 45 to 26 in the number of countries contributing to UNITAR. Moreover, the Institute's debt to the United Nations General Fund was increasing steadily each year. Ways and means must be found to improve the liquidity position of the INITAR General Fund. Clear procedures should also be formulated by the United Nations and UNITAR for the management and utilization of the Reserve Account.

23. With regard to the report on UNHCR (A/46/5/Add.5), he noted that his delegation had consistently urged greater transparency in respect of extrabudgetary resources, particularly the so-called "other trust funds" and agreed with the Board regarding the need to disclose separately any trust fund with a balance of more than \$500,000 (para. 25). His delegation was also concerned about administrative and financial irregularities committed by individuals employed by UNHCR or agencies implementing UNHCR-funded projects. Control and monitoring procedures in the field should be strengthened in order to avoid such occurrences in the future. Operational weaknesses in project reporting and in the delivery and storage of relief goods, as well as the utilization of financial resources, also needed to be remedied. With regard to the confiscation of relief goods by a host country, described in paragraphs 87 to 92 of the report, his delegation agreed that appropriate restitution should be sought.

24. Referring to the report on the International Trade Centre (ITC), he stressed that, although the Centre was a joint subsidiary organ of both GATT and the United Nations, it was expected to act in accordance with United Nations financial and administrative regulations and rules in discharging its responsibilities in respect of trust funds. It should be possible for the Centre to incorporate amendments in its bilateral agreements with donor countries to bring them into conformity with United Nations regulations and rules. He asked whether ITC had made any attempt to do so and what specific problems had been encountered.

25. In respect of the interim report on UNDP (A/45/5/Add.1), his delegation regretted that Standard Basic Executing Agency Agreements (SBEAA) were not yet in place between UNDP and several specialized agencies and that, even where binding agreements had been concluded, full audit coverage was not ensured.

(Mr. Menon, India)

The situation should be remedied in accordance with the recommendation in paragraph 31 of the Advisory Committee's report (A/46/510). It was also a matter of concern that the Office for Project Services showed a large number of cases of project budgets with negative balances and some with large unspent balances. As stated in paragraph 39 of the interim report, that indicated a serious deficiency in project planning and/or project implementation. His delegation would not, however, rush to the conclusion that the number of new projects administered by the Office of Project Services should be controlled. It might be more appropriate to consider ways and means of increasingly delegating the authority currently vested in OPS in regard to those projects to the field offices. On the question of procurement, the rule relating to the delegation of authority for local procurement up to a limit of \$20,000 should be strictly implemented.

26. In regard to the report on unliquidated obligations (A/46/404), his delegation was not, in principle, in favour of exceptions to the financial regulations or any partial waiver of them without some overriding reason. In the case in point, his delegation would like further justification for the Secretary-General's proposal, in the light of the comments in paragraph 35.4 of the Advisory Committee's report on the proposed programme budget (A/46/7), before any decision was taken.

27. In conclusion, he stressed that effective financial management required that the lacunae and shortcomings pointed out by the Board of Auditors should be addressed by the administrations concerned with seriousness and dispatch. His delegation was glad to note, from the report on the implementation of the Board's previous recommendations (A/46/299), that they were doing so. Continued cooperation between the Board of Auditors and the various administrations would further contribute to the improvement of the financial and administrative performance of the United Nations system as a whole.

28. Mr. FAZL-I-MAHQOOD (Pakistan) said that full financial accountability not only served the purpose of reform but strengthened the confidence of Member States in United Nations operations and activities. The annual exercise of the Board of Auditors was aimed essentially at ensuring that the United Nations and its various agencies had disbursed their funds in accordance with the financial regulations and with legislative authority. The financial reports and audited financial statements made it possible to monitor the financial state of the whole system.

29. The report of the Board of Auditors on the implementation of its previous recommendations (A/46/299) was a positive step. The practice should be continued, so that Member States could be kept informed of the remedial action taken and at the same time be given an opportunity to see if further corrective measures were required.

30. The auditing of accounts, which was the first step of the audit process, remained incomplete unless the governing bodies and administrations of the

(Mr. Fazl-I-Mahmood, Pakistan)

audited organizations followed the Board's recommendations. The current reports revealed that, during 1990, the Board and the Audit Operations Committee had cooperated closely with the internal audit services of the various organizations, thus paving the way for well-coordinated activities.

31. In some organizations, however, irregularities in financial procedures persisted, possibly owing to structural difficulties. Procedures should be devised to meet financial requirements, while at the same time allowing the organizations to proceed with their programmes and activities. His delegation stressed the importance of ensuring that financial resources were effectively managed and financial regulations adhered to in all of the activities of United Nations organizations.

32. In addition to highlighting shortcomings, the Board had made constructive suggestions which merited serious consideration. His delegation endorsed the Board's view that the agencies executing UNDP programmes should be held as accountable for the use of the resources allocated to them as UNDP itself. Since the Administrator of UNDP bore primary responsibility for the funds which it received, it was important that Standard Basic Executing Agency Agreements (SBEAA), which some executing agencies had yet to conclude, should be entered into without further delay. The executing agencies should also submit audited information on programme expenditure incurred by them in a timely manner.

33. The Board's advice to UNRWA that idle cash (some \$20 million in its case) should be placed in higher-yielding time deposits should be followed, particularly in view of the current financial crisis of the United Nations. His delegation also concurred in the Board's opinion that the preparation of budget proposals should take into account the downward trend in donations.

34. He hoped that the executive heads and governing bodies of the various organs and agencies would take careful note of the reports of the Board of Auditors. He stressed once more the need for budgetary control, timely submission of programme budgets, strengthened internal audit mechanisms and improved accounting procedures. The synthesis prepared by the Board should include a review of the actions taken by the various agencies in the light of the comments and observations of the Board and the Advisory Committee.

35. In conclusion, he stressed the importance of making optimum use of the resources available to the various United Nations agencies by improving and streamlining their procedures so that they could produce the best results in the service of humanity and to realize the aims and objectives of the United Nations.

The meeting rose at 11.20 a.m.