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

Note by the Secretary-General

The Secretary-General has the honour to transmit to the members of the General Assembly the summary of the principal findings and conclusions for remedial action of the Board of Auditors contained in its reports to the General Assembly on the audit of the accounts for the financial period ended 31 December 1986, prepared by the Board of Auditors in accordance with General Assembly resolution 41/176 of 5 December 1986.

* A/42/50.

LETTER OF TRANSMITTAL

22 June 1987

Sir,

I have the honour to transmit to you in accordance with the request by the General Assembly in resolution 41/176, the summary of the principal findings and conclusions for remedial action of the Board of Auditors contained in its reports to the General Assembly on the audit of the accounts for the financial period ended 31 December 1986.

Accept, Sir, the assurances of my highest consideration.

(Signed) R. T. NELSON
Auditor General of Ghana
and Chairman
United Nations Board of Auditors

The Secretary-General of the United Nations
New York, N.Y.

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Summary of the principal findings and conclusions for remedial action of the Board of Auditors contained in its reports to the General Assembly on the audit of the accounts for the financial period ended 31 December 1986

1. In paragraph 8 (b) of its resolution 41/176 of 5 December 1986, the General Assembly requested the Board of Auditors to submit to it a concise document summarizing the Board's principal findings and drawing conclusions for remedial action in connection with the audit of the accounts for the financial period ended 31 December 1986.

2. The findings and conclusions that follow are contained in the reports of the following organizations for which the Board of Auditors has audit responsibilities and whose financial period ended on 31 December 1986:

United Nations Development Programme (UNDP)

United Nations Children's Fund (UNICEF)

Voluntary funds administered by the United Nations High Commissioner for Refugees

United Nations Fund for Population Activities (UNFPA)

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

United Nations Institute for Training and Research (UNITAR)

3. In addition, the Board examined the accounts of the United Nations Joint Staff Pension Fund, and the audit report thereon will be included in the annual report of the United Nations Joint Staff Pension Board.

United Nations Development Programme

4. Statements I and II were not entirely accurate with respect to transactions with executing agencies and with Governments in their capacity as executing agencies. Unliquidated obligations, programme support costs and operating funds were cases in point. Also, regarding accounts receivable and payable with executing agencies, significant differences that appeared in reciprocal balances between UNDP accounts and the agencies' statements had not been sufficiently investigated and supported by proper accounting reconciliation. More generally, accounts receivable and accounts payable included a large number of suspense and clearing accounts that were not cleared at year-end. Travel accounts were a major case in point. It appeared that stated accounting principles should be qualified regarding non-expendable property and the basis for recording income and expenditure. Finally, the extensive use of net balances instead of gross balances and the charging of contested amounts to indicative planning figures (IPFs) before a legal decision had been made were objectionable. The Board recommended that UNDP

should review its accounting policies, procedures and controls to correct the weaknesses noted above along the lines detailed in its report to the General Assembly in order to improve the accuracy and the informative value of the financial statements.

5. The Governing Council of UNDP is currently reviewing the biennial budget, more particularly "core activities", with a pattern of appropriation lines that, in the Board's opinion, is too highly aggregated to be meaningful. In addition, budgetary discipline is not strict enough and expenditures above allotted amounts are frequent, even after these amounts have been revised upwards during the year. The ratio of administrative costs to total resources is increasing. This results in part from a budgetary policy that may be considered too lax and in part from a number of mechanisms that have been put in place over time to supplement the administrative budget with funds derived from "programme resources". The Board has recommended that "core activities" should be broken down according to a more detailed pattern of appropriation lines in the biennial budget submitted to the Governing Council for approval and that stricter budgetary discipline should be enforced.

6. Concerning programme management, it appeared that the difficulties encountered by a number of countries in generating a stream of projects sufficient to absorb the indicative planning figures remained a basic problem. In this context, the Board expressed concern that increased delivery might be achieved at the expense of the quality or viability of the projects concerned. Many instances of recurring shortcomings affecting the design, formulation, implementation and monitoring of projects were found. The Board noted the steps taken by the Administration to address these shortcomings. Nevertheless, it recommended that UNDP should issue and/or update precise guidelines for project preparation, implementation and monitoring and should enforce strict compliance by executing bodies and UNDP field offices.

7. Over the past two years, the share of the budget allotted to electronic data processing and management information systems has increased dramatically. However, this policy has been conducted without a clearly defined strategic view of the place and role of electronic data processing within UNDP in the future. As a result, priorities are not firmly established; projects are not adequately costed; proper implementation plans are not in place; and technical and staffing problems have arisen. The Board has recommended that the responsibility for overall guidance should be vested in a strong executive group, some of whose members should be end-users, charged with preparing a strategic plan and effectively advising on priorities, costing of projects and allocation of resources among them.

United Nations Children's Fund

8. Because of the material errors in the accounts, especially those relating to supplementary resources, the Board recommended that there should be a review of the practices regarding programmes funded from supplementary resources, particularly the temporary allocations from general resources, the timing of income recognition, the incurrence of expenditures in excess of commitments and the

disposition of contributions in excess of expenditures; that these practices should be tested for consistency with policies approved by the Executive Board of UNICEF, other stated policies of the Fund and agreements with donors; that unsound practices should be discontinued and/or policies should be reformulated to make them more responsive to the requirements of an effective programme delivery system; and that this revised set of policies should be submitted to the Executive Board. It was also recommended that the policies, instructions and practices regarding financial reporting should be reviewed and appropriately revised in order to enhance the transparency of the financial results of operations and the financial position of the Fund, particularly with respect to programme funding and implementation.

9. The Board recommended the discontinuance of accounting and budgetary practices that were not in accordance with the Financial Regulations and Rules, such as the following:

(a) Expenditures in 1986 and 1985 for the celebration of the fortieth anniversary of UNICEF, including two special events (Sport Aid and First Earth Run), charged against the administrative budget, that the Board has been able to identify amount to \$3,410,678.05; although the plans for the commemoration were discussed and noted at the April 1985 session of the Executive Board, the issue of funding was not raised at that session nor in the 1986 and 1987 sessions; on 31 December 1985, an obligating document was raised for \$2,325,000 to fund the commemoration, contrary to the provisions of financial regulation 4.3;

(b) The establishment of two reserve or special accounts - the reserve for reimbursable procurement and the revolving fund for special events - was not reported to the Advisory Committee on Administrative and Budgetary Questions, as required by financial regulation 6.6;

(c) Purchase orders rather than special service agreements were utilized in 1985 and 1986 for contracting outside consulting and expert services;

(d) The salaries and allowances of the project manager, consultant and secretary for the UNICEF House project were not charged against the budget that had been approved specifically for the purpose, but were taken up as charges against the regular administrative budget;

(e) Unliquidated obligations were not cancelled and the corresponding credits were not reverted to general resources, as required by financial regulation 4.3, but were utilized to absorb over-expenditures in other unliquidated obligations.

10. There were a number of material errors in the accounts of the UNICEF Packing and Assembly Center (UNIPAC) at Copenhagen that had an impact on the 1986 inventory, accounts payable, programme expenditures and income accounts of UNICEF. The Board recommended that UNICEF should address and remedy the continuing problem created by the incompatible accounting systems at UNIPAC and UNICEF in order to reduce to an acceptable level the errors in the accounts.

11. In the preparation of the income statement of the Greeting Card Operation (GCO) for the year ended 30 April 1986, there were significant reclassifications of expenses that resulted in a presentation materially different from that followed in previous years. A number of errors were noted in the 31 December 1986 closure procedures of GCO that had an effect on the 1986 accounts of UNICEF. The Board recommended that the accounts of UNICEF and GCO should be separated and that this method of financial reporting should be provided for in the financial rules currently being drafted.

12. The review of the computerized basic assistance list monitoring system that was carried out at the start of 1987 revealed errors in the update procedures. An indication of the deficiencies in the computer programmes was the \$24,583,687.32 balance in the suspense account summary as at 20 April 1987.

13. In view of the materiality of the audit findings on the 1986 accounts, the Board recommended that, in close co-operation with UNICEF, it should expand the scope of audit of the 1986 accounts in order to arrive at mutually acceptable account balances and remove the disclaimer on the 1986 financial statements.

Voluntary funds administered by the United Nations
High Commissioner for Refugees

14. The Board noted with appreciation that the Administration had begun restructuring the Office of the United Nations High Commissioner for Refugees (UNHCR) to make it more responsive to its tasks. However, the Board recommended that certain aspects of the reforms and measures should also be addressed. These included priority attention to programme/project evaluation, implementation priorities of the measures, and funding sources for future aspects of reforms and measures.

15. The examination of project activities disclosed problems relating to the provision and co-ordination of the delivery and distribution of food aid items, the lack of timely submission by some field offices of reports on the survey and distribution of food, and delays in the reporting of losses of food to the local property survey board.

16. In view of the current increasing need for evaluation of programmes, the Office's present system would not adequately meet the task.

17. Submission of the inventory of projects equipment by implementing agencies to UNHCR was incomplete, and there were significant delays by those agencies, at some field offices, in submitting self-evaluation reports and financial statements to the branch offices concerned.

18. The Board recommended that the following matters should be considered in the delivery and distribution of food aid items:

- (a) Means and channels of delivery and distribution of these items;

- (b) Security in the country of delivery;
- (c) Conformity with trade and customs regulations of the country of delivery of relief items;
- (d) Appropriate and requisite inland transport facilities;
- (e) Shipping documents on goods, including certificates on the condition of consignments;
- (f) The reporting to headquarters of distribution of food aid, inter alia, to enable it to obtain reimbursement for the costs of distribution of food;
- (g) The reporting of losses of these items to the local property survey board on a timely basis to facilitate appropriate follow-up action.

19. The Board also recommended increased liaison by the field offices with implementing agencies for more timely and complete submission of project inventories reports further to improve UNHCR monitoring of project equipment and other items. Similarly, the submission of self-evaluation reports and financial statements by implementing agencies at two field offices was delayed. The strengthening of the Evaluation Unit, particularly the staffing aspect, to enable it to meet the increasing need for evaluation of programmes was also recommended.

20. With regard to cash management, the Board noted the lack of adequate accounting of transactions by a branch office to UNHCR headquarters and ineffective custodial control over and security arrangements for cash and value forms. As a result, the Board recommended that complete accounting records should be submitted regularly for control review purposes, and that custodial control over and security for cash and value forms should be strengthened.

21. The audit of the procurement system indicated that reporting to the Contracts Committee of UNHCR on direct purchasing of vehicles from manufacturers was delayed. There were a number of vehicle accidents; physical inventories of equipment at UNHCR headquarters were not taken; and property items were not properly recorded. The Board recommended that the Administration should ensure that procedures established by the Contracts Committee of UNHCR for direct purchasing of vehicles from manufacturers are followed, and that physical inventories should be taken of equipment and other property items at UNHCR headquarters.

United Nations Fund for Population Activities

22. The Board expressed concern that the division of responsibilities between UNFPA and UNDP was not clearly spelled out in written agreements and was still, to a large extent, based on understandings between the two organizations. The Board recommended that the two organizations should reach an agreement on their institutional arrangements to delineate clearly their respective responsibilities, particularly in the areas of finance and personnel administration.

23. In the area of financial reporting, the Board found that UNFPA should monitor its accounts more closely in order to improve the accuracy of its financial statements. The layout of statement I should be modified to facilitate reconciliation of that statement with the presentation of estimates, particularly on the expenditure side. Information regarding the nature of the "allocations" shown in schedule 8 should be clarified.

24. The Board also found that the procedures for the allocation of funds to projects should be clarified to make them consistent with the Financial Regulations and Rules and that the concepts of "administrative costs" and "operational costs" should also be clarified.

25. As the Board was not in a position to check the accuracy of the records of non-expendable equipment located at headquarters, it was recommended that the availability of such records should be improved and that the value of non-expendable property of UNFPA, both at headquarters and in the field, should be reported in an appropriate additional financial statement or in a schedule to the financial statements.

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

26. The audit revealed that school contributions and proceeds from the rental of canteens were not incorporated in the Agency's resources and consequently did not appear in its accounts. The Board recommended that specific financial and technical instructions regarding these sources of income should be issued to ensure their proper accountability and reporting.

27. The Board found that the supply accounting policy was highly questionable and resulted in inaccuracies in reporting contributions in kind and stocks. It recommended that the policies and procedures relating to supply accounting should be reviewed to ensure accurate reporting.

28. The control of imprest funds appeared to be too lax, and the Board recommended that controls in this area should be tightened.

United Nations Institute for Training and Research

29. In the area of project activities, the Board found that the existing agreement for the funding of UNDP projects executed by UNITAR was not financially favourable to the Institute. Furthermore, the relevant provisions of the UNITAR Policies and Procedures Manual that required expenditures to be incurred on the basis of the receipt of grants from the donors had again not been followed in all cases and, as a result, deficit expenditures had been incurred on a number of project accounts. The Board recommended that:

(a) The existing form of agreement on the funding of UNDP projects executed by the Institute should be altered to make it more favourable to UNITAR;

(b) The Administration of UNITAR should endeavour, in particular, to apply the provisions of the UNITAR Policies and Procedures Manual that require expenditures to be incurred on the basis of the receipt of grants from the donors.

30. The audit of payroll and personnel systems showed that as a result of inadequate consultations between UNITAR and the respective servicing offices at United Nations Headquarters, appointment actions in respect of a few staff members had been delayed. The Board recommended that prior consultations should be held between UNITAR and responsible servicing offices of United Nations Headquarters regarding the processing of personnel actions to ensure that they were completed on a timely basis.

31. The Board noted that follow-up action on a reconciling item in a bank reconciliation statement had not been taken promptly and recommended that prompt action should be taken on reconciling items.

32. Contrary to the requirements of article VIII, paragraph 6, of the statute of UNITAR and United Nations financial rule 111.4, the final financial statements for the financial period ended 31 December 1986 were submitted about two months after the stipulated deadline. The Board recommended that steps should be taken to ensure that the final financial statements were submitted to the Board within the period stipulated in the Financial Regulations and Rules.
