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SUMMARY RECORD OF THE 3rd MEETING

Chairman: Mr. AMNEUS (Sweden)

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

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The meeting was called to order at 10.05 a.m.

AGENDA ITEM 113: FINANCIAL REPORTS AND AUDITED FINANCIAL STATEMENTS, AND REPORTS OF THE BOARD OF AUDITORS (A/42/5/Add.1-5 and Add.7, A/42/372, 399, 437, 438 and 579)

- (a) UNITED NATIONS DEVELOPMENT PROGRAMME
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1. Mr. NELSON (Chairman of the Board of Auditors), introducing the reports of the Board of Auditors on the financial reports and audited financial statements of organizations within the United Nations system (A/42/5/Add.1-5 and Add.7), said that the Board had prepared and submitted, in accordance with General Assembly resolution 40/238, a separate document (A/42/372) summarizing its principal findings and conclusions for remedial action.

2. After reviewing the financial statements of the audited organizations, the Board had expressed an audit opinion concerning each statement. In some cases the opinion had been qualified, indicating that generally accepted accounting principles had not been observed or that uncertainties existed with regard to the financial statements; in one case the qualified opinion had taken the form of a disclaimer, the Board having been unable to collect sufficient data to form an opinion of the statement as a whole. In that instance, the Board had recommended that a specific expanded audit of the organization in question should be carried out early in 1988 so that the Board might issue an opinion on the 1986 accounts.

3. In accordance with the provisions of regulation 12.7 of the Financial Regulations, the Advisory Committee had requested the Board to conduct a special programme audit examination of the voluntary funds administered by the Office of the United Nations High Commissioner for Refugees and to conduct a specific examination of the system of allowances and entitlements in the United Nations. The Board had contracted the services of an international public accounting and consulting firm to undertake the special programme examination and had submitted its report to the Advisory Committee in June 1987. In examining the system of allowances and entitlements, the Board had reviewed the procedures and practices obtaining at United Nations Headquarters, UNDP, UNFPA, UNICEF and certain principal United Nations offices away from Headquarters. The Board's report had been submitted to the Advisory Committee in July 1987: it took into consideration relevant investigations by the Internal Audit Division of the United Nations and made a number of recommendations aimed at strengthening internal control measures

(Mr. Nelson)

that had been or were about to be instituted. The Advisory Committee had discussed the two reports with the Board in June 1987 and with the Audit Operations Committee in September 1987.

4. Throughout the year, the Audit Operations Committee had continued its dialogue with the Administrations of the bodies audited and had issued 68 management letters which constituted the substance of the Board's reports to the General Assembly. The Audit Operations Committee had also met with representatives of the various internal audit services and with some members of the Joint Inspection Unit to discuss the co-ordination of audit activities.

5. Finally, in accordance with General Assembly resolution 41/176, the Board had studied the possibility of submitting reports on a triennial basis. The Board had concluded that any change in the periodicity of audit reports would have to originate with the legislative bodies of the audited organizations. It was the Board's view that such a change might considerably delay the consideration of audit reports by the bodies concerned. If such a change should be agreed, however, the Board wished to reserve the right to submit specific annual reports to the Advisory Committee, as the situation warranted.

6. Mr. MSELLE (Chairman of the Advisory Committee on Administrative and Budgetary Questions), introducing the Advisory Committee's report (A/42/579), said that the Committee had not commented on all the Board's recommendations, as many of them had already been accepted by the organizations concerned and should be implemented promptly.

7. In the section of the report dealing with UNDP (paras. 4 to 17), the Advisory Committee noted that the Board of Auditors had issued a qualified opinion with regard to that organization's financial statements. While UNDP disagreed with many of the Board's observations, both UNDP and the Board agreed that further discussions were necessary. Accordingly, the Advisory Committee had recommended (para. 5) that the matter should be the subject of further consultations between UNDP and its executing agencies. In paragraphs 6 and 7, the Committee noted that a number of the specific problems that had contributed to the qualified audit opinion were being addressed by the UNDP Administration.

8. The Board had also raised a number of other issues, including the presentation and format of financial statements, other areas of accounting, budget implementation and control, programme and project management and electronic data processing. The Advisory Committee's recommendations regarding the first issue appeared in paragraph 9, while recommendations regarding the liquidity of UNDP and the Programme's financial reserves were contained in paragraphs 10 and 11. With regard to the UNDP budget, the Committee saw no need for any change in the appropriation resolution adopted by the Governing Council. The Board of Auditors should keep the matter under review, however, and report to the Advisory Committee and the Governing Council if the situation so warranted. The Advisory Committee's views on the Board's observations regarding UNDP budgetary trends and electronic data-processing operations could be found in paragraphs 14 and 16 of the report.

(Mr. Møllie)

The Committee welcomed the study to be submitted to the Governing Council in 1988 on the long-term financing of administrative costs, including the question of add-on funds.

9. The financial statements of UNICEF were discussed in paragraphs 18 to 37; paragraphs 18 to 27 explained why the Board of Auditors had issued a disclaimer in connection with those statements. The Advisory Committee viewed with concern the several material errors pointed out by the Board and recommended, inter alia, that the Board should undertake an expanded audit of the UNICEF accounts for 1986 and, possibly, of those for prior years (para. 28). The Committee also welcomed the decision of the UNICEF Executive Board to biennialize its financial reports (para. 29) and recommended that the new cycle should begin with the biennium 1988-1989.

10. In addition to the items which had prevented it from expressing an audit opinion on the accounts of UNICEF, the Board of Auditors had discussed a number of other matters, which the Advisory Committee considered in paragraphs 32 to 36 of its report. The Committee had requested the UNICEF Administration to provide it with a comprehensive report on the implementation of the Board's recommendations concerning those questions.

11. Paragraphs 42 to 54 dealt with UNITAR, voluntary funds administered by UNHCR, and UNFPA. The Advisory Committee noted that many of the Board's recommendations had been accepted by the organizations concerned. In view of the qualified audit opinion issued in respect of UNFPA (paras. 50 and 51), the Committee believed that UNFPA and UNDP must reach an agreement on their institutional arrangements to delineate clearly their respective responsibilities, particularly in the areas of finance and personnel administration (para. 52).

12. The second part of the Advisory Committee's report (paras. 55 to 63) contained observations on the two special reports which the Board had submitted to the Committee. The circumstances leading to the request for an audit of the voluntary funds administered by UNHCR and the manner in which that audit had been carried out were described in paragraphs 55 and 56, while an extract of the Board's report was contained in annex I. The Committee assessed the performance of UNHCR in providing assistance in paragraph 57. The Board of Auditors had informed the Committee that UNHCR was in general agreement with the findings of the special report and that a number of the Board's recommendations were currently being implemented, and the Committee had subsequently requested UNHCR to submit a comprehensive report on that implementation.

13. The system of allowances and entitlements in the United Nations was discussed in paragraphs 64 to 67 of the report, while annex II contained an extract of the Board's examination of that system. The Committee had concluded that, although the system of allowances and entitlements was basically sound, the sense of complacency which had developed over the years in its administration might lead to difficulties in the future. The Committee trusted, however, that the measures called for by the

(Mr. Mselle)

Board in its specific examination, as well as those referred to in the Secretary-General's report on the subject (A/42/437), would greatly restrict the potential for abuse.

14. The Committee's report concluded with brief comments on the reports by the Secretary-General on the Headquarters' catering and gift-shop operations (A/42/399).

15. The Committee held that, generally speaking, the recommendations of the Board of Auditors were not subject to further consultations but should be implemented. Consequently, its attitude would be considerably influenced by the extent to which the Administrations concerned were willing to co-operate with the Board. The subjects dealt with by the Board were highly technical and complex and must therefore be given careful consideration, a task which might prove difficult for many delegations. He therefore urged all delegations not to be unduly influenced by negative or distorted comments regarding any individual report or member of the Board of Auditors or of its staff.

16. Mr. NYGARD (United States of America) said that his delegation attached great importance to the external auditing process as a means of ascertaining how United Nations organizations and programmes had utilized the funds entrusted to them. Indeed, in its resolution 41/176, the General Assembly had underscored the importance of the audit mechanism and urged the management of United Nations agencies and programmes to be more responsive to ACABQ recommendations.

17. As a major contributor to both the United Nations Children's Fund (UNICEF) and the United Nations Development Programme (UNDP), the United States was concerned by financial management problems in those organizations. It was equally concerned over somewhat less serious problems in the financial management of other United Nations organizations and programmes. However, the positive response by UNDP, the United Nations High Commissioner for Refugees (UNHCR), and particularly UNICEF, to the Board's findings was encouraging.

18. The Board of Auditors' unprecedented decision to withhold an opinion on the 1986 UNICEF accounts was distressing. The Board's principal reasons for that step had been UNICEF's practices with respect to supplementary resources and the deviation from financial regulations in funding the fortieth anniversary of UNICEF.

19. Overstatement of supplementary income by \$25.4 million was a breach of sound accounting practices. The use of general resources on a temporary basis to continue projects until supplementary resources became available was equally unsound. Of all the instances of questionable budgetary and financial practices, the most serious involved expenditures for UNICEF's fortieth anniversary. The Board had found violation of financial regulation 4.3 in the funding of Sport Aid and the First Earth Run (para. 25, and document A/42/5/Add.2, para. 61). UNICEF's response - that it assumed the Executive Board had given its approval - was insufficient, for funding arrangements had not been considered in the Board's decision. Neither could the Administration's actions be justified by the substantial income generated by those two events.

(Mr. Nygard, United States)

20. The Board had also uncovered instances of cost centres exceeding authorized spending limits, and of purchase orders, intended for supplies, being used as a means of contracting for the services of individuals and institutions. UNICEF's decision to continue using purchase orders to engage institutions, but not individuals, required further clarification.

21. Findings on UNICEF House (para. 34) would indicate that the UNICEF Administration was attempting to override reductions in the UNICEF House budget ordered by the Executive Board. His delegation noted that the Administration had already undertaken measures to transfer salary, wiring and lighting charges for UNICEF House to the appropriate accounts.

22. The United States strongly supported the Advisory Committee recommendation that the Board of Auditors should undertake an expanded audit of the 1986 UNICEF accounts in order to be able to remove its disclaimer (para. 28).

23. UNDP indeed faced a difficult task in attempting to administer 4,000 projects in over 130 countries, but the Board's qualified opinion was none the less disconcerting. Where UNDP took issue with the auditors' recommendations, efforts should be made to reach mutually acceptable positions.

24. The issue of extending an external audit to executing agencies and Governments should be taken up at the thirty-fifth session of the UNDP Governing Council. The Board of Auditors had also found problems with accounts payable and accounts receivable, and with suspense and clearing accounts (para. 6). It was surprising that UNDP's existing inventory control system did not extend to non-expendable property other than land and buildings (para. 10). Indeed, there was a need for a study of inventory control procedures in the field offices, similar to the study of headquarters inventory controls. The auditors' recommendation to strengthen the certifying function and thereby avoid cost overruns in field offices also had the United States' strong support.

25. The United States shared the Board's concern over the recent trend toward higher administrative costs in UNDP (para. 14) and expected the Administrator to intensify efforts to eliminate unnecessary expenditures.

26. In view of the problems with the Programme's electronic data-processing programme (EDP) (para. 16), including technical and staffing problems, his delegation concurred with the ACABQ recommendation that future biennial budgets should provide full disclosure of the projects, programmes and funding for EDP activities. Lastly, the United States took note of the Board's view on the substantial increase in UNDP's financial reserves (document A/42/5/Add.1, paras. 59 and 60). The United States supported the Administration's efforts to increase programme delivery and expected that, in future, UNDP reserves would be maintained at a more reasonable level.

(Mr. Nygard, United States)

27. At recent sessions of the General Assembly, the United States had already called for the United Nations High Commissioner for Refugees (UNHCR) to take steps to improve budgetary controls, cash management, compliance with procurement procedures and management of programme activities. The 1986 audit showed that the implementation of recommended management reforms by UNHCR had already had a positive effect. In the current report, the Board of Audit had made a number of recommendations concerning weaknesses in the delivery and distribution of food (para. 47). It should be noted, however, that many of those problems were, in part, attributable to donor and recipient Governments.

28. The special programme audit of UNHCR-administered voluntary funds, contained in annex I, demonstrated that the High Commissioner was making an effort to improve financial and management information systems, evaluation, performance monitoring and procurement and purchasing systems. The United States supported the early implementation of the Board's recommendations for the improvement of UNHCR's working relationships with implementing partners, and of its field staff. Such recommendations fit into the overall scheme of reforming the Organization.

29. The number of cases of fraud in the system of allowance and entitlements might have been greatly understated. In fact, established disciplinary mechanisms for dealing with fraud were so overloaded that they no longer served as a deterrent. The Board's recommendations on strengthening the Administration's capacity to deal with abuses must be implemented without delay. The United States agreed with ACABQ that reform of the system for the administration of justice was essential for the effective administration of allowances and benefits. It looked forward to the Secretary-General's proposals on that question, and, in general, welcomed the Fifth Committee's renewed interest in the entire question of external audits.

AGENDA ITEM 121: SCALE OF ASSESSMENTS FOR THE APPORTIONMENT OF THE EXPENSES OF THE UNITED NATIONS: REPORT OF THE COMMITTEE ON CONTRIBUTIONS (A/42/11 and Add.1)

30. Mr. ALI (Chairman of the Committee on Contributions), introducing the item, said that in 1986 the Committee had proposed four alternatives to the present method of calculating contributions for the General Assembly's consideration, and sought guidance on how to develop them further. No one method having elicited enough interest or support to justify immediate further exploration, the Committee had concluded that its most pressing task during the past year was to review the existing methodology for establishing the scale of assessments.

31. In 1985, the Committee had reaffirmed its policy of working from a common data base; in 1986 it had decided to discontinue sending a special questionnaire to Member States for assessment purposes, and to use instead the data base of the United Nations Statistical Office. During the past year, therefore, it had reviewed the Statistical Office's data bank, as described in paragraphs 7 and 8 of its report (A/41/11). The Committee urged Member States to respond to the Statistical Office's annual questionnaire on national income and other national accounts data: it was in their interests to reply promptly to the questionnaire rather than risk having data for their national incomes computed by the Statistical

(Mr. Ali)

Office itself. Any additional data Member States wished the Committee to review should reach the Statistical Office at least two months before the Committee's next session.

32. To overcome the problem of inflated or underestimated calculations of countries' national income expressed in United States dollars, the Committee had in recent years considered a price-adjusted rate of exchange (PARE) system, comparing price changes to movements of exchange rates in individual countries. At its most recent session, the Committee had reviewed a revised PARE methodology that took account of the terms-of-trade effect and a varying base period. That study had shown that the impact of a terms-of-trade adjustment would be relatively small for most countries, and its effect on the scale of assessments insignificant.

33. The Committee had also investigated the effects on adjusted national income data of changing the base year or period: the discrepancies between adjusted and unadjusted data varied, according to the base year or period selected. The assumption that "base year/period exchange rates" were the correct conversion factors to apply to national data for the base period was a serious flaw in the PARE methodology. The Committee felt that using purchasing power parities as conversion factors would eliminate that defect. The Committee had therefore expressed continued support for work on purchasing power parities, and had renewed its appeal to Member States to support the United Nations International Comparison Project.

34. Although the Committee noted improvements in the PARE methodology, it could not agree that that methodology should be applied systematically to adjust national income data. Some members expressed reservations both to the abstract concept of co-ordinated price and exchange-rate movements over time and to the adjustments themselves, which would mean departing from the current practice of using national incomes at current prices for establishing the scale of assessment.

35. In its establishment of the scale of assessments for 1986-1988, the Committee had used an ad hoc formula based on external debt outstanding to provide relief to heavily indebted countries. At its recent session, it had looked into other sources of data on external debt, and had expressed a preference for using an external-debt-service-burden index in the establishment of future scales.

36. He went on to outline the reasons for the change from a 3-year to a 10-year base period for the calculation of assessed contributions, and the arguments now being advanced for a reduction in that base period. Having carefully weighed the arguments on both sides, including the argument formerly advanced to the effect that a long base period provided a "statistical approximation to a measure of national wealth", the Committee had tentatively decided, for the sake of stability and continuity, to retain a 10-year base for the next scale.

(Mr. Ali)

37. In reviewing the low per capita income allowance formula, the Committee had reviewed a variety of machine scales retaining all parameters of the current methodology other than the per capita income limit. It had observed that changing the limit from \$2,200 to \$2,500 produced total increases and decreases of less than 30 index points, because the scheme of limits had such a powerful restrictive effect on variations between two successive scales. It had decided to retain the per capita income limit at \$2,200 and the gradient at 85 per cent, subject to review in 1988 when more up-to-date data were available. It had also decided not to recommend any change in the scheme of limits, the floor rate or the ceiling rate.

38. When the General Assembly had originally requested the Committee to consider increasing the base period for the calculation of assessed contributions with the aim of mitigating extreme variations in assessments between successive scales, there had been no scheme of limits in force. The scheme of limits now in existence, as applied to the current scale, would be an adequate safeguard against excessive variations between successive scales if a shorter base period were to be adopted. In 1988, the Committee would review its decision on the statistical base period in the light of any additional information available, and review the per capita income limit in the context of any alteration to the base period it might decide to recommend.

39. Mr. FIGUEIRA (Brazil) said that after the adoption of General Assembly resolution 40/248, it had been hoped that the Committee on Contributions would concentrate on developing a more equitable and, if possible, simpler methodology of assessment. As the Committee's mandate allowed it technical creativity, its activities could certainly include the exploration of viable alternatives. Brazil welcomed the Committee's technical approach to problems at its forty-second session, but could not help noticing the less than candid statement that there had been no consensus in the Fifth Committee on the further exploration of alternatives (document A/42/11, para. 5). In fact, in its resolution 41/178, the General Assembly, in what was surely an expression of disapproval, had refrained from taking note of the Committee's report. That implied the strong hope that the Committee would still come forward with some valuable technical advice.

40. In the past two sessions of the General Assembly, it had been evident that many Member States, including Brazil were dissatisfied with the method of determining assessments. If the Committee on Contributions had found that capacity to pay remained the preferred criterion that should not prevent it from seeking innovative alternatives to complement the methodology in use. For example, further consideration should be given to the special status enjoyed by the permanent members of the Security Council - not only in voting, administrative and legal matters, but also in their assessed contributions for the peace-keeping forces.

41. Elimination of the special assessment questionnaire and greater reliance on the data base of the United Nations Statistical Office would improve data comparability. The decision to turn to the World Bank and the International Monetary Fund for data on Member States' external indebtedness was another step in the right direction.

(Mr. Figueira, Brazil)

42. Brazil accepted the traditional procedure of using average market rates to calculate national incomes in United States dollars. However, it was regrettable that no progress had been made in the price-adjusted rate of exchange (PARE) methodology or in the development of parities based on purchasing power. Brazil therefore agreed with the Committee that PARE methodology should not be used for the scale of assessments. However, the Committee should continue its efforts to arrive at a methodology which allowed for full comparability of statistical data and still took into account the internal and external factors affecting national economies.

43. In the absence of alternatives to paragraph 1 of General Assembly resolution 39/247 B, Brazil accepted the Committee's recommendations for a 10-year statistical base period, the use of the low per capita income allowance formula, the scheme of limits to avoid excessive variations of individual rates of assessment between successive scales, the setting of the ceiling and floor rates at their current levels, and a methodology to take into account high levels of external indebtedness. In accepting that traditional methodology, however, Brazil wished to make three observations: first, the upper limit of the low per capita income formula, set at \$US 2,200 in resolution 39/247 B, must be reviewed and updated to allow for fluctuating inflation in the United States. The level of \$US 2,500, referred to in paragraph 31 of the Committee's report, seemed arbitrary and inconsistent with the Committee's earlier findings that between 1948 and 1983 inflation in the United States had been 381 per cent. His delegation would therefore appreciate information on the basic assumptions used in recommending the \$2,500 upper limit. The Committee must clarify whether it had calculated inflation in the United States from 1948 to 1986 using the consumer price index or the gross national product deflator.

44. Second, the scheme of limits to avoid excessive variations of individual rates of assessment between successive scales must be further refined in order to condition positive or negative fluctuations resulting from the machine scale. Consideration should be given to shortening of the brackets in that scheme, as presented in paragraphs 27 and 28 of the Committee's report in document A/40/11.

45. Third, Brazil agreed in principle with the Committee on Contributions that the methodology to consider developing countries' external indebtedness could still be improved. That depended on the final decisions on data and index or indices to be used. It was to be hoped that the Committee would be able to submit a meaningful and comprehensive scheme to take into account the levels of indebtedness. Brazil expected that at the conclusion of its deliberations, the Fifth Committee would be able to approve a resolution by consensus. It was essential for the General Assembly to provide the Committee on Contributions with the necessary guidelines for the preparation of the 1989-1991 scale of assessments.

OTHER MATTERS

46. Mr. TIEWUL (Secretary of the Committee) informed the Committee that the Department of Public Information intended to produce daily press releases covering activities in the General Assembly plenary meetings, the Main Committees and the General Committee in both English and French. He reminded members that the purpose of press releases was to highlight the activities of intergovernmental bodies and the positions taken by Governments on the major issues discussed. Statements would generally be summarized in two to four paragraphs. Although pains were taken to ensure accuracy, it should be borne in mind that press releases were produced in great haste and were not subject to clearance; they were not to be regarded as a replacement for official records.

47. Mr. SEFIANI (Morocco) said he welcomed the reminder about the purposes and limitations of press releases, but would not accept it as a prior excuse for inaccurate reporting. As delegations had repeatedly said in the Fifth Committee, notably during discussion of the budget for the Department of Public Information, accuracy in the written record was of extreme importance.

48. Mr. JEMAIEL (Tunisia) asked whether press releases were really to be provided in French as well as English. If so, it would be for the first time in his experience.

49. Mr. TIEWUL (Secretary of the Committee) confirmed, from the message he had received from the Under-Secretary-General for Public Information, that press releases were to be provided in both languages.

50. The CHAIRMAN, returning to the question asked by the representative of Nigeria and others at the 2nd meeting concerning the understanding on which items 41 and 43 had been allocated to the Fifth Committee for discussion (see A/C.5/42/SR.2, paras. 23, 27 and 29), reported that he had sought clarification from the President of the General Assembly. The understanding was apparently intended to mean that the two items were to be discussed in the Fifth Committee at the current session, but might or might not be reallocated to that Committee at future sessions; it in no way limited or qualified their consideration within the Fifth Committee. The President had also made it clear that he did not exclude the possibility of the Assembly's discussing items on which Main Committees had already held discussions and submitted reports.

The meeting rose at 12.20 p.m.