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

Report of the Advisory Committee on Administrative  
and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions met with the Board of Auditors in June 1980 and discussed with it its reports to the General Assembly on the financial reports and accounts of the United Nations for the biennium ended 31 December 1979, 1/ the United Nations Development Programme for the year ended 31 December 1979, 2/ the United Nations Children's Fund for the year ended 31 December 1979, 3/ the voluntary funds administered by the United Nations High Commissioner for Refugees for the year ended 31 December 1979, 4/ the United Nations Fund for Population Activities for the year ended 31 December 1979, 5/ the United Nations Environment Programme for the biennium ended 31 December 1979, 6/ the International Trade Centre (UNCTAD/GATT) for the biennium ended 31 December 1979, 7/ the United Nations Relief and Works Agency for Palestine Refugees in the Near East for the year ended 31 December 1979, 8/ the United Nations Institute for Training and Research for the year ended

\* A/35/150.

1/ Official Records of the General Assembly, Thirty-fifth Session, Supplement No. 5 (A/35/5), vol. I.

2/ Ibid., Supplement No. 5A (A/35/5/Add.1).

3/ Ibid., Supplement No. 5B (A/35/5/Add.2).

4/ Ibid., Supplement No. 5E (A/35/5/Add.5).

5/ Ibid., Supplement No. 5G (A/35/5/Add.7).

6/ Ibid., Supplement No. 5F (A/35/5/Add.6).

7/ Ibid., Supplement No. 5 (A/35/5), vol. III.

8/ Ibid., Supplement No. 5C (A/35/5/Add.3).

31 December 1979, 9/the United Nations University for the biennium ended 31 December 1979, 10/ and the United Nations Habitat and Human Settlements Foundation for the biennium ended 31 December 1979. 11/

A. United Nations

2. The Advisory Committee has examined the financial reports and accounts for the biennium 1978-1979 and the related report of the Board of Auditors, in respect of regular budget activities, trust funds and special accounts. 12/ This is the third time that the Board has prepared its report on a biennial basis in accordance with procedures approved by the General Assembly at its twenty-ninth session. The Board of Auditors presented an interim report for the biennium 1978-1979 to the Advisory Committee in June 1979; the Committee reported thereon to the General Assembly at its thirty-fourth session (see A/34/486).

3. The broad areas covered by the Board are indicated in paragraph 8 of its report. In keeping with the policy of using the systems-based approach to auditing which was introduced by the Board in 1976-77, the report is organized on the basis of system-wide issues.

4. In its report the Board comments on the action taken by the administration on the observations and recommendations contained in the Board's special report on the financial management and control review of the United Nations Headquarters and the Office at Geneva. 13/ The Committee notes that the Board's comments in paragraphs 17-36 on the action taken by the Administration on the special report complement the observations and recommendations made by the Board on "matters arising out of recent examinations" (paras. 37-87).

5. In paragraph 17 of its report, the Board acknowledges the positive reaction by the Administration to its previous recommendations particularly "in areas requiring the development and establishment of policies and procedures". Nevertheless, the Board believes that "it is in the area of monitoring and enforcing policies, procedures and systems that substantial improvement is necessary" (para. 18). In this connexion the Advisory Committee notes that the financial report of the Secretary-General for the biennium 1978-79 contains information on progress made by the Administration in implementing recommendations contained in the Board's special report.

6. The Committee welcomes the establishment of a Financial Management and Control

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9/ Ibid., Supplement No. 5D (A/35/5/Add.4).

10/ Ibid., Supplement No. 5 (A/35/5), vol. IV.

11/ Ibid., Supplement No. 5H (A/35/5/Add.8).

12/ Ibid., Supplement No. 5 (A/35/5), vol. II.

13/ Ibid., Thirty-third Session, Supplement No. 5 (A/33/5), vol. I, chap. IV, annex.

Systems Unit 14/ pursuant to the recommendations made by the Board 15/ and endorsed by the General Assembly in its resolutions 33/10 of 3 November 1978 and 34/233 of 20 December 1979.

7. The Committee inquired into the priority programmes assigned to the Unit and the time-table for their completion in the current biennium and beyond. The Committee has been informed by the Secretariat that the priority programmes assigned to the Unit are as follows:

(a) The development and implementation of new budgetary and financial systems for trust funds - completion expected by 1 January 1981.

(b) The design and implementation of cash forecasting and cash management information systems; the first interim stage of producing reports based on current financial systems was implemented in June 1980, the second interim stage of producing reports with modified financial systems will begin in December 1980 and the final stage of producing computer-prepared reports is expected by the end of 1982.

(c) The design and implementation of a new personnel-payroll system; significant progress is expected within the next 18 to 24 months.

(d) Revision and issuance of a financial manual.

8. As regards the question of trust funds, the Board states in paragraph 43 that its audit during 1976-1977 revealed "serious deficiencies in the financial and administrative control of trust funds". The Administration responded by issuing revised policy guidelines for the establishment and management of trust funds. 16/ But as the Board observes in its report (paras. 44-49) virtually no significant improvement has been achieved in this area.

9. The Advisory Committee is concerned at the slow progress in adopting and enforcing (particularly in offices away from Headquarters) measures for the establishment and efficient management of trust funds. Further action by the Administration is briefly described in the third report of the Advisory Committee to the General Assembly at its current session (A/35/7/Add.2, paras. 21-22). The Committee requests the Board to follow up on this question and report to the General Assembly as appropriate.

10. The Advisory Committee inquired into the progress made to develop a comprehensive financial manual. In that connexion, the Committee recalls that it informed the General Assembly at its thirty-fourth session that work on the manual had not been undertaken (A/34/486, para. 11) despite the fact that the

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14/ See para. 13 of the Board's report and para. 58 of the financial report of the Secretary-General.

15/ Official Records of the General Assembly, Thirty-third Session, Supplement No. 5 (A/33/5), vol. I, chap. IV, annex, para. 37.

16/ ST/SGB/146/Rev.1 dated 19 October 1978.

General Assembly had approved the project (General Assembly resolution 33/10 of 3 November 1978) and authorized \$50,000 for 1979 for related consultant services. <sup>17/</sup> The representatives of the Secretary-General informed the Committee that work on the financial manual began in January 1980 and that the initial phase would involve the revision of the various sections of the earlier (1951) United Nations Finance Manual and the collection of all of the administration and financial documents which have been issued by the Organization since 1946. The Committee notes the statement in paragraph 62 of the financial report of the Secretary-General that "the General Assembly will be kept informed periodically, of the status of this essential project".

11. As regards cash management the Board recalls (paras. 21-22) that its audit work during the first part of the biennium 1978-1979 included cash management activities at both Headquarters and Offices away from Headquarters and that the Board informed the Advisory Committee in June 1979 that the Board's previous recommendations relating to certain aspects of the cash management function had not been fully implemented.

12. The Advisory Committee notes the Board's statements in its present report that, while "action has been taken by the Administration to improve cash forecasting and monitoring procedures and to strengthen internal controls" (para. 23), the important recommendations pertaining to "strengthening responsibility of the Assistant Secretary-General for Financial Services for offices away from Headquarters, improving cash flow forecasting procedures, and developing reports to provide a basis to measure investment performance" have not been fully implemented (para. 24). The Committee shares the Board's view that full implementation of the Board's recommendations is essential to the development of effective cash management throughout the Organization. The Committee notes that paragraph 77 of the Secretary-General's financial report indicates some of the steps taken by the Administration. With the establishment of the Unit referred to in paragraph 6 above, it is hoped that substantial improvement will be made in this area.

13. In its discussion of budgetary control, the Board observes that "allotment control procedures did not improve significantly during the biennium" (para. 40). In paragraph 65 of his financial report the Secretary-General states that "during the current biennium a further review will be made of the limits of flexibility delegated to programme managers in redeploying resources". The Advisory Committee notes the Board's intention stated in paragraph 41 to monitor the Administration's progress in this regard. The Committee inquired into whether the introduction of new allotment policies for regular budget activities would apply to extrabudgetary activities. The representatives of the Secretary-General informed the Committee that new revised allotment policies would also be introduced to cover extrabudgetary activities as part of the new trust fund procedures which were being developed.

14. As part of its audit of payroll expenditures the Board has extended its

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<sup>17/</sup> Ibid., Thirty-third Session, Supplement No. 7 (A/33/7 and Add.1-39), document A/33/7/Add.1, para. 10.

examination to include a review of staffing table controls and of the relationship between the personnel and payroll systems (paras. 57-65). The Board has identified a number of weaknesses and has recommended that payroll and personnel systems should be evaluated. The Administration has agreed with the Board's recommendation. Upon inquiry the Committee was informed by the representatives of the Secretary-General that a task force headed by the Chief of the Financial Management and Control Systems Unit has been appointed. The task force which is composed of representatives from the Office of Personnel Services, the Budget Division and the Accounts Division would undertake the study of the payroll and personnel system. Work would begin in July 1980 and would include, inter alia, a complete analysis of how posts are authorized and appointments made.

15. The Board's observations on the use of experts and consultants can be found in paragraphs 66-69 of its report. The Committee is concerned at the weaknesses which continue to exist in this area. It notes from paragraph 69 of the Board's report, that the Under-Secretary-General for Administration, Finance and Management has appointed a special task force to examine the situation and prescribe remedies. Upon inquiry the Committee was informed that the task force in question was created late in 1979 in the form of a Steering Committee assisting the Administrative Management Service in the development of a Secretary-General's Bulletin on types of personnel services used by the Organization. The representatives of the Secretary-General indicated that the Steering Committee was not expected to issue a report per se, since the results of the work would be incorporated in the Bulletin and the Instructions to be issued. The Secretary-General expects to complete this work by the end of 1980. The Advisory Committee intends to revert to this question in the context of its examination of the Secretary-General's programme budget proposals for the biennium 1982-83.

16. The Board identifies travel as one area where procedures used by the Administration to exercise budgetary control are not effective (para. 42). In paragraphs 70-77 of its report, the Board draws attention to weaknesses in the way travel expenditures are authorized, recorded and controlled. To implement the Board's recommendations on this subject the Administration has agreed to initiate a review of all administrative instructions dealing with travel expenditures in order to revise and consolidate them (para. 76). Upon inquiry the Committee was informed that the review was expected to begin later in 1980. As regards the use of advance purchase excursion (APEX) fares, the representatives of the Secretary-General reported to the Committee that they were doubtful whether APEX fares could be used more often as suggested by the Board because of a number of practical disadvantages which this sort of travel arrangements had in meeting the needs of the Organization.

17. In its observations related to internal audit (paras. 78-85), the Board refers to the limited action taken by the Administration to improve the effectiveness of the internal audit function as recommended by the Board in its special report for the biennium 1976-1977. 18/ The Board believes that more effective and comprehensive audit coverage would be attained through changes in the Internal Audit

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18/ Ibid., Thirty-third Session, Supplement No. 5 (A/33/5), vol. I, chap. IV, annex, paras. 109-113.

Division and has made a number of recommendations in paragraphs 81-84 of its report. The Advisory Committee notes the Board's statement in paragraph 85 that the Administration has acknowledged "that further efforts are needed to improve professional skills and practices and is giving continuing priority to their development" and that "it is also reviewing the organizational structure of the Internal Audit Division with a view to improving audit coverage at offices away from Headquarters". Upon inquiry the Committee was informed that the over-all review of the organizational structure of the Division would be completed in time to be reflected in the Secretary-General's proposed programme budget for the biennium 1982-1983.

18. The Advisory Committee recalls that the Board's examination of procurement practices during the first part of the biennium 1978-1979 was directed at major procurement systems and at procedures for accounting for expendable and non-expendable property at Headquarters and offices away from Headquarters. Although the Board states that it has been encouraged by the action taken by the Administration to improve procurement systems and procedures (para. 36 of its present report) it indicates that more improvements need to be made. The representatives of the Secretary-General informed the Advisory Committee that, in a major effort to shorten time-lags between requisition and delivery of goods purchased through Headquarters, an Automated Purchase Payment System (APPS) is being implemented and will become operational by 1981.

#### B. United Nations Development Programme

19. In its report on the accounts of the United Nations Development Programme for the year ended 31 December 1979, 19/ the Board informs the General Assembly that progress has been made in designing the new financial and programme management systems being developed under the Integrated Systems Improvement Project (ISIP) and that the majority of those systems would be put into operation during 1980. The ISIP was initiated by UNDP in 1976 to design, develop, and implement an integrated financial management system, including uniform reporting practices for participating and executing agencies.

20. In paragraph 9 (a) the Board notes that "significant amounts were due from staff members who had already separated from UNDP". The Advisory Committee sought clarification of this finding from the UNDP Administration. It was informed that the amounts in question totalled \$63,863, of which \$11,487 related to 1972-1975, \$270 to 1976-1977 and \$52,106 to 1978-1979 and that they represented for the most part payments made by UNDP at various locations to shippers, insurance agents or travel agencies on behalf of staff members in respect of costs incurred in repatriation travel. The Committee was further informed that efforts were under way to clear all the outstanding amounts.

21. Paragraph 10 (a) of the Board's report deals with outstanding travel advances. In that connexion, the Board "noted many cases where advances had been outstanding

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19/ Ibid., Thirty-fifth Session, Supplement No. 5A (A/35/5/Add.1).

for extended periods, and found that further advances were made to persons who had more than two uncleared advances against them". The Advisory Committee was informed that the UNDP Administration was in the process of issuing an administrative instruction on travel advances. The Committee also understands that the Travel Section of UNDP will in future ensure prompt follow-up of all travel advances which have been outstanding for more than a reasonable length of time.

22. The Advisory Committee inquired into the statement in paragraph 11 (c) of the Board's report that "at 31 December 1979, unspent allocations amounted to over \$1 billion". The Committee was informed by the Representatives of the Administrator that the amount in question totalled \$1,171.5 million, of which \$170.5 million related to 1979 and would be rephased into 1980 and future years. The major portion of the balance related to amounts already included in project budgets for 1980 (\$606 million), for 1981 (\$302 million) and for 1982 (\$73 million).

#### C. United Nations Children's Fund

23. The Board in paragraphs 5-8 of its report 20/ makes observations on travel and points out that the UNICEF has not "communicated to staff members a comprehensive statement of its policy and procedures on matters related to travel". Weaknesses in the procurement system of UNICEF are referred to in paragraphs 9-10 of the Board's report. The Advisory Committee recommends that the Administration of UNICEF ensure that the Board's recommendations are implemented as soon as possible.

#### D. Voluntary funds administered by the United Nations High Commissioner for Refugees

24. In its report 21/ the Board has drawn attention to shortcomings with respect to the administration of contracts to provide supplies for refugees (paras. 6 and 7), the lack of co-ordination in procurement function (paras. 9 and 10), and the evaluation of business ventures (paras. 12 and 13). In its comments on project accountability of implementing agencies, the Board expresses concern over inadequate financial records (paras. 15 and 16) and delays in submission of financial and narrative reports (paras. 19 and 20). The Advisory Committee notes that the administration has concurred with the Board's recommendations on project implementation and accountability and is implementing those recommendations.

25. With regard to internal audit, the Board recalls that both the internal and external audits of UNHCR undertaken in recent years have revealed weaknesses in internal control and deficiencies in project implementation. The Board has recommended that "the Internal Audit coverage should be strengthened to enable the

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20/ Ibid., Supplement No. 5B (A/35/5/Add.3).

21/ Ibid., Supplement No. 5B (A/35/5/Add.5).

auditors to pay more visits to, and carry out more comprehensive audits of UNHCR activities" (para. 26). As stated in paragraph 27 of the Board's report the Administration of UNHCR has indicated that it will, in close consultation with the United Nations Internal Audit, take action to implement the Board's recommendations.

E. United Nations Fund for Population Activities

26. The Advisory Committee has no comments on the report of the Board of Auditors on the accounts of UNFPA for the year ended 31 December 1979. 22/

F. Fund of the United Nations Environment Programme

27. The Advisory Committee notes the observations of the Board in paragraph 21 of its report 23/ on control of expenditure related to the use of outside expertise. The Board's examination revealed that "UNEP had not adequately complied with the policies and procedures contained in the Administrative Instruction for engaging outside expertise and professional services". On the basis of its findings, the Board felt "there was no assurance that adequate control was being exercised over expenditures for consultants and experts or that UNEP was complying with the principles laid down by the General Assembly". As stated in paragraph 22 of the Board's report, the UNEP Administration has agreed with the Board's recommendation that immediate steps should be taken to enforce the policies and procedures set out in the United Nations Administrative Instruction. The Advisory Committee will follow-up this question as indicated in paragraph 15 above.

G. International Trade Centre UNCTAD/GATT

28. In its report on the accounts of the ITC 24/ the Board informs the General Assembly that the Centre has "no definite and comprehensive documentation of its administrative, budgetary and financial policies, responsibilities and procedures". To remedy this weakness the Board has recommended that a financial manual should be prepared as a matter of priority (paras. 5-6). The Administration has agreed with the Board's recommendation. The Committee is, however, concerned at the apparent lack of control by ITC of the use of consultant funds as revealed by the Board particularly in paragraph 17 of its report. The Advisory Committee will follow-up on this question when it examines the 1982-1983 budget proposals of Centre.

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22/ Ibid., Supplement No. 5G (A/35/5/Add.7).

23/ Ibid., Supplement No. 5F (A/35/5/Add.6).

24/ Ibid., Supplement No. 5 (A/35/5), vol. III.



H. United Nations Relief and Works Agency for  
Palestine Refugees (UNRWA)

I. United Nations Institute for Training and Research

J. United Nations University

29. The Advisory Committee has no comments on the Board's reports on the accounts of the above organizations. 25/

K. United Nations Habitat and Human Settlements Foundation

30. The observations and recommendations contained in the Board's report on the accounts of the United Nations Habitat and Human Settlements Foundation (UNHHSF) for the biennium ended 31 December 1979 26/ relate to: budgetary control (paras. 5-7), trust funds (paras. 8-10), appointment of travel agent (paras. 11-13) and travel control procedures (paras. 14 and 15). The Advisory Committee trusts that the Administration will take immediate action to deal with the weaknesses identified by the Board.

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25/ Ibid., Supplement No. 5C (A/35/5/Add.3), Supplement No. 5D (A/35/5/Add.4) and Supplement No. 5 (A/35/5), vol. IV, respectively.

26/ Ibid., Supplement No. 5H (A/35/5/Add.8).