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

Report of the Advisory Committee on Administrative
and Budgetary Questions

1. In accordance with financial regulation 12.11, the Advisory Committee on Administrative and Budgetary Questions received the reports of the Board of Auditors on the accounts of the following entities to the General Assembly for the biennium ended 31 December 1993: the United Nations, 1/ United Nations peace-keeping operations, 2/ the International Trade Centre (UNCTAD/GATT), 3/ the United Nations University (UNU), 4/ the United Nations Development Programme (UNDP), 5/ the United Nations Children's Fund (UNICEF), 6/ the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), 7/ the Fund of the United Nations Environment Programme (UNEP), 8/ the United Nations Population Fund (UNFPA), 9/ the United Nations Habitat and Human Settlements Foundation, 10/ and the Fund of the United Nations International Drug Control Programme. 11/ The above-mentioned reports were available to the Committee in draft form only. In addition, the Advisory Committee had before it, in draft form, the Board's reports on the accounts for the year ended 1993 on the voluntary funds administered by the United Nations High Commissioner for Refugees 12/ and the United Nations Institute for Training and Research (UNITAR). 13/

2. The Advisory Committee also had the note by the Secretary-General transmitting the concise summary of the principal findings, conclusions and recommendations of common interest, classified by audit area, of the Board of Auditors (A/49/214). It also took up reports of the Secretary-General on the implementation of the recommendations of the Board (A/48/516 and advance copies of A/48/516/Add.1 and Add.1/Corr.1 and A/49/348 and Add.1) as well as the report of the Secretary-General on recovery of misappropriated funds (A/48/572).

3. The Advisory Committee's observations and comments on the report of the Board of Auditors on the United Nations Joint Staff Pension Fund 14/ for the year ended 1993 will be submitted separately to the General Assembly at its forty-ninth session in a report that will include the Advisory Committee's recommendations on the report of the United Nations Joint Staff Pension Board.

4. The Advisory Committee met with the Audit Operations Committee of the Board of Auditors in September 1994 and held extensive discussions with them on the proposed allocation of audit work among members of the Board of Auditors and on the report of the Board on the implications of extending the term of office of members of the Board (A/49/368 and Corr.1).

Allocation of the Board's work

5. Financial regulation 12.12 of the United Nations states that the Board of Auditors shall, subject to the concurrence of the Advisory Committee, allocate and rotate the audit work among the members of the Board. Accordingly, the Advisory Committee considered the audit assignments of the Board and had an extensive exchange of views on the subject. The Advisory Committee was informed that in determining the assignment of audits between its members the Board takes account of the following factors:

(a) The need for broad equity in the workload falling on each member, roughly one third each;

(b) An equitable distribution of responsibility for preparation of the audit reports to the General Assembly;

(c) The need to assign related audits to a single member so that the benefits of familiarity and expertise can be maximized;

(d) Geographical and logistical factors;

(e) The balance between giving members enough time to become familiar with an organization and thus make an effective contribution, and the need to rotate assignments periodically.

6. The Advisory Committee exchanged views with the Audit Operations Committee with respect to financial and staff resources available to the Board to carry out its functions and whether the present level of resources was adequate in view of the additional audit workload brought about by the increase in peace-keeping operations. The Advisory Committee was informed that the Board arrives at its resource requirements after determining its workload for a particular biennium. Therefore, in line with the expansion of peace-keeping operations and the consequent need to increase the audit of respective operations, the total budget of the Board has increased from \$6.3 million for the biennium 1992-1993 to \$7.8 million estimated from all sources of funds for the biennium 1994-1995. Those resources do not cover the staff and secretariat services provided by the United Nations.

7. The Advisory Committee was informed that, in the main, the resources allocated to the Board of Auditors were adequate and that the Board had no

difficulty in so far as the requisite number of audit staff were concerned since, within the resources presently allocated, Board members were able to draw upon their respective national audit staffing establishments as well as to acquire the services of outside expertise where necessary.

8. On inquiry the Advisory Committee was informed that by and large the Board was able to cope with any additional audit that the General Assembly might request. In most cases the requests related to additional focus on aspects of the normal audits being carried out by the Board. However, the Board might face a problem when such additional audits were requested to be completed within a short period.

9. The Advisory Committee recalls that in its resolution 47/211 of 23 December 1992 the General Assembly by had requested the Board of Auditors to expand its audit coverage of peace-keeping operations without reducing the coverage of regular budget and extrabudgetary activities, and had decided that any additional costs would be charged to the peace-keeping budgets concerned.

10. In that connection the Advisory Committee notes that the audit costs reflected in individual peace-keeping budget documents do not indicate the total costs of audit for a particular operation but rather the costs estimated for the field audit; headquarters audit costs pertaining to the operation are not reflected in the individual peace-keeping budget documents. The Advisory Committee inquired as to the extent of the implementation by the Board of the Assembly's request and was informed that the coverage of peace-keeping operations had been expanded and the related increase in resource requirements had been reflected in the relevant budget estimates.

11. The Advisory Committee notes from the Board's report 15/ on the subject that "during the biennium 1992-1993 the Board expanded its audit coverage at both Headquarters and the field missions to reflect the greatly increased scale of peace-keeping operations". In that regard 15 missions in the field and the United Nations Supply Depot at Pisa were audited and 5 of the missions were audited twice in the biennium 1992-1993. The Advisory Committee was informed that during the biennium 1994-1995 the Board intended to increase further its audit coverage in the area of peace-keeping. For example, during the biennium 1992-1993 the United Nations Protection Force (UNPROFOR) was audited twice by the Board; it is envisaged that during the biennium 1994-1995 those audits will be doubled, with an increased number of auditors on site for a longer duration of approximately six to eight weeks. The Advisory Committee was also informed that the cost of auditing UNPROFOR during the previous biennium was approximately \$140,500 and that for the current biennium the Board estimated the cost would be \$235,000. The Advisory Committee was informed that the Board was currently reviewing the estimated audit costs of the field missions and Headquarters activities to reflect the planned expanded audit coverage for 1994-1995.

12. Although additional audit coverage does not necessarily mean more frequent reporting to the General Assembly, the Committee welcomes the fact that there will be enhanced audit coverage for peace-keeping, which currently comprises a large segment of United Nations activities. In that connection the Advisory Committee was informed that the Board of Auditors, to the maximum extent

possible, also coordinates its audits with those of the internal audit division and draws upon the latter's findings and recommendations to complement its own work.

13. With regard to the Board's report on peace-keeping operations, which has been submitted pursuant to General Assembly resolution 47/211, the Advisory Committee notes that it is the first time that the Board has issued a separate report on the subject. The present report encompasses several operations, although the Advisory Committee believes that some of the larger peace-keeping operations may have to be dealt with separately in future.

Term of office of members of the Board of Auditors

14. In its report on the proposed programme budget for the biennium 1994-1995, 16/ the Advisory Committee recalled that it had expressed its concerns to the Board of Auditors regarding the additional burden that might be imposed upon the Board's current resources, given the substantial increase in the activities of the United Nations, and in particular, the expansion and proliferation of peace-keeping operations. The Committee further requested that the Board keep under review the effect those developments might have on its role and functioning and communicate its views as appropriate to the Advisory Committee.

15. In its resolution 48/216 D of 23 December 1993, the General Assembly invited the Board of Auditors, in consultation with the Secretary-General, to report to the Assembly at its forty-ninth session, through the Advisory Committee, on the implications of extending the present three-year term of office of members of the Board to four or six years. The Board's report (A/49/368 and Corr.1, appendix) was submitted pursuant to that request.

16. As indicated in paragraph 2 of the Board of Auditor's report, under regulation 12.2 of the Financial Regulations of the United Nations - which was framed when the standard financial period of the United Nations was one year - the Board's members are elected for a three-year term of office commencing on 1 July and expiring on 30 June. The term of office of one of the members expires each year.

17. As indicated in paragraph 3 of the same report, since the United Nations has moved to a biennial budgeting cycle, under the current arrangements this means that the term of office of one of the members of the Board expires in the middle of each biennial cycle. If that member is not re-elected, the work of the Board is disrupted since the incoming member joins the team when an audit is well under way.

18. As also indicated in the report, a six-year term would follow the original pattern as set out in financial regulation 12.2, that is, that each member of the Board would cover three full financial cycles; at the end of each financial cycle of two years the term of office of one of the members would expire; and the term of office would commence on 1 July and expire on 30 June six years later.

19. On the other hand, the Board points out that, with a four-year term, each of the three members of the Board would not cover the audit of three full financial periods. As indicated in paragraph 7 of its report, the Board believes that 1 July remains the most appropriate date for incoming members to take up office. The Advisory Committee was informed that this was a particularly convenient date for the new member to start since the accounts of the United Nations and the other programmes are closed at the end of March or April and the reports on them only become available a few months later.

20. Should the General Assembly decide to change the duration of the term of office for members of the Board it will be necessary for the Assembly to make appropriate transitional arrangements.

Audit findings and recommendations of the Board of Auditors

21. Regulation 12.11 of the Financial Regulations and Rules of the United Nations states that:

"The reports of the Board of Auditors shall be transmitted to the General Assembly through the Advisory Committee, together with the audited financial statements, in accordance with any directions given by the Assembly. The Advisory Committee shall examine the financial statements and the audit reports and shall forward them to the Assembly with such comments as it deems appropriate."

22. At the time of its consideration of the reports of the Board of Auditors in late September, the Advisory Committee did not have available to it the final printed version of the reports nor did it have before it the financial reports and audited financial statements. In order for it to perform its role in accordance with financial regulation 12.11, the Committee requests that an attempt be made by the Secretary-General to provide all the necessary documentation in a timely fashion for its review.

23. The Advisory Committee notes that the Board has qualified its audit opinion on the financial statements of four organizations. In three cases (UNDP, UNFPA, and the United Nations Drug Control Programme, the Board has made what it calls "technical" qualifications, which do not imply that the funds involved have been misused. However, in the case of the United Nations peace-keeping operations, as stated in document A/49/214, annex, para. 5, the Board found "material uncertainty about the valuation placed on assessed contributions receivable". 17/

24. The Advisory Committee recalls that in its resolution 47/211 the General Assembly had endorsed the Board's intention to identify areas of horizontal study across the organizations audited and to continue that practice in future audits. In the biennium 1992-1993 the Board carried out horizontal studies in two areas: the procurement of goods and services and the implementation of the Integrated Management Information System (IMIS). The Advisory Committee will provide its comments and recommendations on IMIS in the context of its examination of the sixth progress report of the Secretary-General on the subject (A/C.5/48/12/Add.1).

25. The Board identified several shortcomings in the way in which procurement of goods and services was being handled in the United Nations itself and in several other organizations as well. Many of those shortcomings had been identified in previous bienniums by the Board. The Advisory Committee believes that the United Nations procurement system should be further developed to ensure impartiality, transparency, openness and an emphasis on competition.

26. The problem of bidding as an exception rather than the rule has been a long-standing issue; as identified by the Board, one of the main reasons for that weakness has been poor procurement planning, which often results in last-minute or immediate operational requirements being used as justification for procurement of goods and services.

27. As stated by the Board, the use of a relatively narrow range of suppliers, which, together with the limited extent of bidding, creates an environment where it is unlikely that the best value for money can be obtained. The existing rosters of suppliers are often old and outdated and are not often used anyway; there is little systematic vetting or approval of the suppliers, no effective monitoring and evaluation of suppliers' performance and no safeguards against late supply of goods and services. Moreover, the practice of using vendors or suppliers suggested by requisitioners could lead to irregularities in the process and could raise questions of conflict of interest. In that connection, the Advisory Committee also notes the Board's observation in paragraph 145 of its report on the United Nations 1/ that the Organization rarely makes use of open advertising and that advertising could "also be used as a means of achieving the United Nations wider policy goals of placing more of its procurement activity in developing countries".

28. Procurement of goods on a piecemeal basis has also been pointed out as a problem by the Board. As stated by the Board, that practice not only results in the Organization losing money on bulk discounts that could otherwise have been realized, but also causes unnecessary and additional paperwork; more importantly, the practice circumvents the bidding process and escapes consideration by the Committee on Contracts.

29. The Advisory Committee concurs with paragraph 18 of the Board's report (A/49/214, annex) in which it recommends some of the following actions to remedy the existing shortcomings in procurement procedures: regular monitoring and investigation of the number and extent of exceptions to bidding; contracting by open tender for major procurements; update and regular review of suppliers rosters to reflect performance, technical competence and financial stability; and improvement in the quality of procurement planning. In its discussions with the Advisory Committee, the Audit Operations Committee of the Board stressed that the introduction of a formal programme of training in procurement as well as recruitment of appropriate outside expertise at a senior level were essential for the effective control and management of resources and efficient procurement of goods and services.

30. The Audit Operations Committee also discussed the role and terms of reference of the Committee on Contracts. With regard to the United Nations, the Advisory Committee recalls that rule 110.17 of the Financial Regulations and Rules establishes a Committee on Contracts. The Committee on Contracts at

Headquarters consists of four members from different organizational units. There are also local committees, with three members each. The Advisory Committee understands that the members of the Committee on Contracts hold that office in addition to their normal duties.

31. The Advisory Committee notes that, at Headquarters, the Committee on Contracts receives documentation as late as on a Friday afternoon for consideration at its meeting on Tuesday of the following week, at which time bids are either accepted or rejected by the Committee; the Advisory Committee believes that this is too short a time period for the contracts to be examined thoroughly. Given the other substantive work of the members of the Committee on Contracts and the degree to which the magnitude and complexity of procurement activities in the United Nations has increased, it is unrealistic to expect the members of the Committee on Contracts to keep pace with the demand for their services for procurement activities. In its discussion with the Advisory Committee, the Audit Operations Committee indicated its view that the level of expertise available to the Committee on Contracts should be increased as well as the time available to it to consider the contracts; while the Audit Operations Committee did not believe the establishment of a full-time committee on contracts was necessary at that point, an increase in the number of its members was a possibility.

32. In that connection, as regards the United Nations, the Advisory Committee notes that measures to rectify the situation are being contemplated by the Secretary-General, as indicated in his report on the establishment of a transparent and effective system of accountability and responsibility (A/C.5/49/1). Paragraph 25 of the report states:

"The procurement process and related management issues at Headquarters, for field missions and in the field, will be reviewed in 1994 by an independent high-level group of procurement experts drawn from Member States. The group of experts will review these procurement processes and make recommendations to provide a basis for the formal adoption of a more responsive and coherent policy for peace-keeping operations and other field missions administered by the United Nations Secretariat. In view of the degree to which the magnitude of procurement activities in the United Nations has escalated, consideration will also be given to the establishment of a full-time committee on contracts. The group of experts will be guided and assisted by a steering committee chaired jointly by the Under-Secretaries-General for Administration and Management and for Peace-keeping Operations. The new policy is intended to establish the responsibility for an efficient and responsive procurement process, which ensures that goods and services are obtained, including those for field missions and in the field, in an expeditious, timely and cost-effective manner. At the same time, the policy will include revised procedures to provide for a truly competitive, fair and transparent process, including the establishment of clear lines of authority and accountability, and inherent control mechanisms."

33. The Advisory Committee trusts that appropriate measures will also be taken by other organizations and entities cited by the Board of Auditors for lax procurement practices.

34. In its resolution 47/211, the General Assembly requested the Board of Auditors to evaluate the extent of compliance with their recommendations and to report to the Assembly at its forty-ninth session through the Advisory Committee, which would recommend such measures as it deemed appropriate to ensure implementation of those recommendations and draw attention to any of the recommendations that had not yet been implemented.

35. In that connection, the Advisory Committee points out that the Board's reports include a section containing the Board's comments on action taken to implement its recommendations. The Advisory Committee finds this a very useful device. In addition, the Secretary-General issues reports on the implementation of the recommendations of the Board of Auditors (A/48/516 and Add.1 and Add.1/Corr.1, and A/49/348 and Add.1 and 2). However, the Advisory Committee points out that in order for those reports of the Secretary-General to serve their intended purpose, there has to be better coordination and timeliness with regard to their release and availability to the Advisory Committee as well as to the Board of Auditors. For example, at the time of its consideration of the Board of Auditors reports, the Advisory Committee was informed that the Audit Operations Committee had just received documents A/49/348 and Add.1 and in fact neither the Advisory Committee nor the Board of Auditors had received document A/49/348/Add.2.

36. In the opinion of the Board, with the introduction of a system of advance reporting on the remedial action taken by the administration and the time available for the Board to review it, it should be possible for the Board to report more clearly on the inadequacies and deficiencies that might persist. The Board believes that the Advisory Committee, in line with its mandate, on the basis of the follow-up reports of the Board, could review the problems with the senior managers, with a view to holding the senior managers directly accountable should the inadequacies and deficiencies in implementation of the Board's recommendations persist. The Advisory Committee intends to meet with the Board of Auditors during its spring 1995 session to review further the question of implementation of the Board's recommendations.

37. In its resolution 47/211, the General Assembly requested the Secretary-General to make proposals to it on (a) establishing legal and effective mechanisms to recover misappropriated funds, as recommended by the Advisory Committee in paragraph 53 of its report (A/47/500); and (b) seeking criminal prosecution of those who had committed fraud against the Organization. The Secretary-General's proposals were submitted in document A/48/572. The Advisory Committee notes that the Secretary-General's report outlines the current practice with regard to internal action, including recovery from accrued salary and emoluments, and the implications of the Administration's attempts to obtain direct recovery of indebtedness from the pension entitlements of staff members. The report also outlines current practice with regard to external action and contains proposals for reform.

Notes

1/ Official Records of the General Assembly, Forty-ninth Session, Supplement No. 5 (A/49/5), vol. I.

2/ Ibid., vol. II.

3/ Ibid., vol. III.

4/ Ibid., vol. IV.

5/ Ibid., Supplement No. 5A (A/49/5/Add.1).

6/ Ibid., Supplement No. 5B (A/49/5/Add.2).

7/ Ibid., Supplement No. 5C (A/49/5/Add.3).

8/ Ibid., Supplement No. 5F (A/49/5/Add.6).

9/ Ibid., Supplement No. 5G (A/49/5/Add.7).

10/ Ibid., Supplement No. 5H (A/49/5/Add.8).

11/ Ibid., Supplement No. 5I (A/49/5/Add.9).

12/ Ibid., Supplement No. 5E (A/49/5/Add.5).

13/ Ibid., Supplement No. 5D (A/49/5/Add.4).

14/ Ibid., Supplement No. 9 (A/49/9).

15/ Ibid., Supplement No. 5 (A/49/5), vol. I, para. 4.

16/ Ibid., Forty-eighth Session, Supplement No. 7 (A/48/7).

17/ See also Official Records of the General Assembly, Forty-ninth Session, Supplement No. 5 (A/49/5), vol. II, paras. 46 and 47.
