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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 financial statements of the following entities to the General Assembly for the biennium ended 31 December 1995: United Nations, 1/ United Nations peacekeeping operations, 2/ the International Trade Centre (ITC), 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 (UNHHSF), 10/ and the Fund of the United Nations International Drug Control Programme (UNDCP). 11/ In addition, the Advisory Committee had before it the Board's reports on the accounts for the year ended 1995 on the voluntary funds administered by the United Nations High Commissioner for Refugees, 12/ the United Nations Institute for Training and Research (UNITAR) 13/ and the United Nations Office for Project Services (UNOPS). 14/

2. The Advisory Committee's observations and comments on the report of the Board of Auditors on the United Nations Joint Staff Pension Fund 15/ for the financial period ended 31 December 1995 will be submitted separately to the General Assembly at its fifty-first session in a report that will include the Advisory Committee's recommendations on the report of the United Nations Joint Staff Pension Board.

3. The Advisory Committee also had an advance copy of the concise summary of the principal findings, conclusions and recommendations of common interest, classified by audit area, of the Board of Auditors (A/51/283).

4. The Advisory Committee met with the Audit Operations Committee of the Board of Auditors from 1 to 10 October 1996 to discuss the reports submitted by the Board.

5. After it completed its consideration of the reports of the Board of Auditors, the Advisory Committee received an advance copy of the report of the Secretary-General on accounting standards. Its comments and observations are contained in paragraphs 129 to 134 below.

Timeliness of documentation

6. All of the above-mentioned documents were available to the Advisory Committee in draft form only. In this connection, the Committee draws attention to financial regulation 12.11 of the Financial Regulations and Rules of the United Nations, which states:

> "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."

7. At the time of its consideration of the reports of the Board of Auditors, in early October 1996, 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 the Committee to perform its role in accordance with financial regulation 12.11, it requests that a serious attempt be made by the Secretary-General to provide all the necessary documentation in a timely fashion for its review. The Advisory Committee points out that it has faced similar delays in the receipt of documentation in the past; as recently as 1994, it commented on this issue in its report to the General Assembly at its forty-ninth session (A/49/547).

8. In this connection, the Advisory Committee notes with concern the Secretary-General’s comment in his report on the programme budget for the biennium 1996-1997 (A/C.5/50/57/Add.1), that owing to the reductions proposed by him "there will be delays in the completion of summary records of the meetings of the Panel of External Auditors and the special session of the Board", and the reduction "will also impact on the timeliness of transmission of the Board’s report to the General Assembly".

9. In its meeting with the Audit Operations Committee of the Board of Auditors in October 1996, the Advisory Committee inquired as to the Board’s own schedule and preparation and completion of its reports. The Advisory Committee was informed that the process depended largely on the timing of submission of the financial statements to the Board. The Advisory Committee was informed that the financial statements for the period ending 31 December of any given biennium are usually made available to the Board in mid-April of the following year, after which the Board is able to complete its own reports and submits them for editing and printing by the end of June. However, in 1996, owing to the difficulties related to release III of the Integrated Management Information System (IMIS)

and the late submission of field accounts, the Board received the final financial statements in June and submitted its own reports for printing in July. The Advisory Committee requests that the Board and the Administration review the situation with a view to speeding up the production and publication of the audit reports and the audited financial statements. The Committee further recommends that once the financial statements have been signed and submitted to the Board, they should also be transmitted to the Advisory Committee to be available to it when it meets with the Audit Operations Committee of the Board.

Implementation of the Board’s recommendations

10. The Advisory Committee commends the Board for the quality of the reports and the information contained in them. The Advisory Committee exchanged views with the Audit Operations Committee of the Board on the format of the reports and trusts that the views of the Advisory Committee will be taken into account in preparing future reports. In particular, the Advisory Committee requests that in future the Board indicate more clearly those recommendations that have not been implemented and point out with greater precision recurring malpractices and violations of rules and regulations. In addition, the recommendations should be less general and more precise and focused so that there is no ambiguity of interpretation and their full implementation or non-implementation can be adequately verified by the Board and the General Assembly through the Advisory Committee.

11. With regard to the implementation of the recommendations of the Board, the Advisory Committee recalls the procedures outlined by the Board, as reproduced in paragraph 36 of the Advisory Committee’s previous report (A/49/547):

> "... 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 ... persist".

12. In order for the Advisory Committee to implement the procedure as outlined above, it is essential for the Committee to have adequate time to review reports on the measures taken in response to the Board’s recommendations. The Advisory Committee regrets that the reports of the Secretary-General and of the executive heads of other funds and programmes on the measures taken or to be taken in response to the recommendations of the Board of Auditors were not readily available to the Advisory Committee; at the time of the Committee’s meeting with the Audit Operations Committee of the Board, the Advisory Committee had before it only an advance copy of the response of the Office of the United Nations High Commissioner for Refugees (A/AC.96/869/Add.1) and a published version of the response of UNICEF (E/ICEF/1996/AB/L.14). The Committee also met with representatives of UNDP, UNFPA and UNICEF to discuss measures for the implementation of the Board’s recommendations.

13. The Advisory Committee believes that the current situation is highly unsatisfactory and that timely reporting and submission of documentation is essential to comply with the General Assembly's request for action-oriented reports "outlining steps to be taken in response to the recommendations of the Board, including timetables for their implementation", as indicated in paragraph 10 of its resolution 47/211 of 23 December 1992 and reiterated in resolutions 48/216 of 23 December 1993 and 50/204 of 23 December 1995.

14. The Advisory Committee exchanged views with members of the Audit Operations Committee who agreed that there should be in place adequate procedures for follow-up on the implementation of the Board's recommendations. Information given orally to the Advisory Committee by the representatives of the Secretary-General indicates that in the United Nations Secretariat there is a compelling need to improve significantly the procedures for the handling of the Board's recommendations; similar improvements may need to be effected in the funds and programmes being audited. The Advisory Committee believes that not only is there a lack of adequate responsiveness in the implementation of the Board's recommendations, but that there is also a broad lacuna in the coordination and timeliness of the submission of reports to the relevant legislative bodies.

15. The Advisory Committee is concerned about the adequacy of the support provided by the Financial Management Office in the Office of the Under-Secretary-General for Administration and Management for coordination and submission of the responses of the United Nations Secretariat to the Board of Auditors' recommendations. From the oral information provided to it, the Committee is further concerned that the Accounts Division is under-staffed as a result of the reductions in the regular budget as well as support account posts from peacekeeping and other extrabudgetary resources. The Advisory Committee requests that the situation be reviewed urgently, with a view to enhancing the capacity of delivery in these areas to comply with the requests of the General Assembly, especially as indicated in resolutions 47/211, 48/216 and 50/204.

16. With regard to the reporting cycle for audits of peacekeeping operations, the Advisory Committee recalls that in resolution 49/233 of 23 December 1994, the General Assembly decided that "the financial period for each peacekeeping operation shall be from 1 July to 30 June", and requested the Secretary-General to submit the necessary draft amendments to the Financial Regulations for approval by the General Assembly at its resumed forty-ninth session.

17. The Advisory Committee inquired about the Board's time frame for reporting on peacekeeping operations. The Advisory Committee was informed that it was envisaged that the relevant financial statements and accounts would be submitted to the Board no later than 30 September (three months after the end of the financial period). Based on this, the audits could be conducted in October and November and the Board's draft report could be ready in January for consideration by the members of the Board and then be submitted to the Advisory Committee each year no later than February. Thus, the submission of these reports will be harmonized with the new timetable for the formulation and review of peacekeeping budgets by the Advisory Committee (February/March) and the General Assembly (May/June) during each cycle.

General issues

18. The Advisory Committee was informed that during the biennium 1994-1995 the Board conducted "horizontal" audits in several areas, including procurement practices and internal audit, as well as budget estimates, assumptions and performance. The Advisory Committee notes with concern that the Board has qualified its audit opinion on the financial statements of six organizations (UNDP, UNFPA, UNDCP, UNEP, UNHHSF and the United Nations in connection with peacekeeping operations). However, the Board confirmed that organizations have generally complied with the common accounting standards in presenting the financial statements for the biennium 1994-1995, although further work needs to be done in the biennium 1996-1997 to bring the financial statements fully in line with these standards. Areas such as disclosure of valuation of property, cash held in non-convertible currencies and calculation and disclosure of end-of-service liability for termination benefits need to be given further attention. The Advisory Committee notes with concern that in many cases the deficiencies and problems that have been identified by the Board in the audits of previous bienniums have persisted.

Internal audit

19. As mentioned above, pursuant to General Assembly resolution 50/204, the Board carried out a horizontal review of internal audit services in a number of organizations. The Advisory Committee welcomes the information on the Board's assessment of internal audit. From the information provided to the Advisory Committee by the Audit Operations Committee of the Board, the Advisory Committee concludes that there has been some improvement in internal audit functions and structures in the United Nations, including the level of professional expertise. However, the Advisory Committee was informed that the Board found that the internal audit services in some funds and programmes continued to have deficiencies such as inadequate coverage of activities (sometimes owing to lack of sufficient staff resources) and delays in the implementation of internal audit recommendations. The Advisory Committee believes that the audit function in funds and programmes needs to be given greater attention and that necessary staff resources should be provided. In addition, as indicated in the reports of the Board, there is a need to increase audit planning as well as to develop an adequate mechanism to follow the implementation of recommendations of internal audit.

Procurement

20. The Advisory Committee recalls that procurement was the subject of a horizontal audit by the Board in its reports for the biennium ended 1993 pursuant to paragraph 16 of General Assembly resolution 47/211. In paragraph 3 of its resolution 49/216 C of 23 December 1994, the General Assembly requested the Secretary-General to submit a report on proposals for procurement reform in the United Nations Secretariat and to include, inter alia, any necessary amendments to the Financial Regulations and Rules and to the Staff Regulations and Rules required to address issues of conflicts of interest. The Secretary-General submitted his proposals on procurement reform in his reports to the General Assembly at its forty-ninth and fiftieth sessions (A/C.5/49/67 and A/C.5/50/13/Rev.1); the latter report contained recommendations made by the

High-level Group of Experts on Procurement drawn from Member States. In its decision 50/479 of 11 April 1996, the General Assembly, having recalled its resolution 49/216 C, inter alia, requested the Secretary-General to submit to the General Assembly at its fifty-first session a comprehensive report on the implementation of procurement reform in the United Nations Secretariat as defined in paragraph 5 of the report of the Advisory Committee (A/50/7/Add.13).

21. The Advisory Committee notes that many of the fundamental weaknesses and irregularities identified by the Board in its previous audit reports on the United Nations and its funds and programmes remain to be addressed. Of particular concern to the Advisory Committee is the persistent problem of lack of effective procurement planning. This situation leads to unnecessary recourse to exceptions to competitive bidding, to resort to such procedures as immediate operational requirements, and to many instances of ex post facto approval of awards of contracts and, in peacekeeping operations, to extensive resort to letters of assist with Governments. Considering the large amounts of resources expended for procurement and the irregularities uncovered, the Advisory Committee is of the opinion that procurement reform should be given top priority in the United Nations and its funds and programmes.

Budget estimates, assumptions and performance

22. Each report of the Board contains a section on this subject including currency assumptions and inflation. Members of the Audit Operations Committee of the Board informed the Advisory Committee that, although this is not a traditional area of concern of the Board, the exercise enabled the Board to confirm that the budget preparation systems of the United Nations and its funds and programmes were quite advanced and sophisticated. The Advisory Committee recommends that the Secretariat and the funds and programmes include, in their next submissions on the budget, indications on how the recommendations of the Board could be taken into account in preparing their respective budgets. Finally, the Advisory Committee points out that budget preparation and the related procedures, including budget assumptions, are often matters on which legislative bodies have taken decisions. There may, therefore, be a need to bring to the attention of the legislative bodies concerned that implementation of a particular recommendation of the Board in this area would require a change in specific policy decisions previously taken by such legislative bodies.

Implementing and executing agencies

23. Implementing and executing agencies are responsible for the bulk of the resources of the United Nations and its funds and programmes, and as this area expands, problems of control and monitoring, management and accountability, reporting and auditing of resources and performance also increase. This has led the Board to qualify its opinion in four cases (UNDP, UNFPA, UNDCP and UNEP). The findings of the Board are serious and the reasons for its qualified opinion need to be addressed urgently by these funds and programmes.

24. The Advisory Committee believes that the executive heads of the funds and programmes should meet and exchange views, preferably in the context of the Administrative Committee on Coordination (ACC), on the experience gained and

lessons learned in this connection and plan a coordinated strategy to address the shortcomings identified by the Board.

25. The Advisory Committee is of the view that agreements with implementing and executing agencies should be quite specific as to the role of the agencies themselves and that of the United Nations funding entities. Furthermore, the agreements should be strictly enforced. The Advisory Committee recommends that the current process for selecting implementing and executing partners, whether non-governmental organizations or government agencies, should be improved considerably. The capacity to implement United Nations projects should be ascertained by pre-established performance standards which could be verified before implementing and executing agents are selected.

26. The funds and programmes should reform and simplify their reporting procedures by, for example, computerizing repetitive actions. Immediate steps should be taken at their headquarters investigate and correct irregularities detected during the course of project implementation. When, for instance, the project monitoring reports are not submitted on time, the administrations should immediately inquire as to the cause of the delay and take immediate corrective action. The Board has identified several instances where this has not been done and irregularities have been allowed to continue over long periods of time while additional resources have continued to be released to the agency concerned. In this connection, the Advisory Committee reiterates its comments made previously that it is essential to have in field offices staff who are competent and knowledgeable in United Nations financial regulations, rules and procedures.

27. The Board’s findings also indicate that, in many of the funds and programmes of the United Nations, resources for internal audit, especially relating to audits of implementing and executing partners, should be increased considerably. The frequency of audits should be enhanced and funds and programmes that are not doing so should offer audit and other support assistance, where appropriate, to implementing and executing agencies with weak capacity to implement or execute projects. The training of personnel of implementing and executing partners would also increase the capacity for execution, implementation and supervision and, together with audit assistance, could form part of the assistance being provided to executing and implementing partners. The scope and level of such assistance should be agreed upon first, in the context of completing project implementation and execution agreements.

28. In its report on the audit of the United Nations, under the heading of national execution (paras. 232-237), the Board has also commented on this issue. The Advisory Committee reiterates its view, indicated in paragraph 25 above, that United Nations entities should establish standards as to what national Governments should have in terms of capacity, and then assign projects to national executing agencies, on the basis of an assessment of the availability of those standards.

Accountability

29. The General Assembly, in its resolution 48/218 of 23 December 1993, has called for personal accountability of staff in the performance of their duties. It is the view of the Advisory Committee that while cases of fraud and

embezzlement are often dealt with relatively quickly and adequately, as can be seen from the Board's reports from time to time, when it comes to losses related to mismanagement and to programme performance, the administrations have yet to devise satisfactory procedures for remedies. The Board has identified several instances in the current reports where rules governing procurement, procedures for hiring and management of consultancies and the management and control of trust funds are ignored and the administrations concerned have done very little to hold the staff involved personally accountable. The Advisory Committee considers this to be regrettable. If this situation is not addressed in a satisfactory manner, the administrations risk having the involvement of the legislative bodies concerned in taking decisions on disciplinary actions, actions which, in the opinion of the Advisory Committee, are and should be the prerogatives of the Secretary-General and of the executive heads of the funds and programmes.

Management of trust funds

30. The management and control of trust funds and other extrabudgetary resources should be enhanced, especially at a time of diminishing income. The Board has cited several instances of misuse of trust funds, such as funding of projects and posts prior to the receipt of the funds and, as indicated in the audit of ITC, funding of extrabudgetary posts from the regular budget. The Advisory Committee has repeatedly recommended that expenditure should not be incurred without assured and attainable income, nor should it be incurred on the basis of reimbursement to the regular budget or the extrabudgetary account concerned. This practice, which is contrary to the Financial Regulations and Rules of the Organization, should be stopped immediately. The Board has also identified instances where there is no adequate provision for termination indemnities in trust funds; this situation should be rectified.

Consultants

31. The Board has identified serious irregularities and malpractices in the identification, recruitment, reimbursement rates and management of consultancies. A number of findings warrant further investigation with a view to taking appropriate action against personnel responsible for these malpractices. The Advisory Committee points out that these irregularities have persisted over the years in spite of recommendations by the Board of Auditors and the comments of the Advisory Committee. Immediate remedial action should now be taken.

United Nations

32. As indicated in paragraphs 11 to 15 above, the documents containing the responses to the measures taken to comply with the Board's recommendations were not received by the Advisory Committee in a timely manner. Draft copies of replies to the Board's recommendations in volumes I and II were made available to the Advisory Committee on 11 and 15 October 1996, respectively. The Committee did not have adequate time to examine these replies. The Advisory Committee trusts that the Secretary-General will take the necessary action to rectify this situation.

33. The question of trust funds is discussed in paragraphs 57 and 58 of the Board's report. The Advisory Committee notes that in its report for the biennium ended 31 December 1991, the Board had also drawn attention to the lack of effective budgetary control with regard to trust funds; the Advisory Committee had commented extensively on the subject in its related report (A/47/500). However, it appears that serious shortcomings in the management of trust funds persist. The Advisory Committee discussed this issue in its meeting with the representatives of the Secretary-General on 11 October 1996 but was not satisfied with their response. The Advisory Committee believes that there should be stricter control and more effective management of trust funds and any misuse of these funds or infraction of management and control procedures should be dealt with and disciplinary action taken, if necessary.

34. Various aspects of procurement of goods in the United Nations is dealt with in paragraphs 79 to 106 of the Board's report. The Advisory Committee trusts that when the Secretary-General submits to the General Assembly at its fifty-first session a comprehensive report on the implementation of procurement reform in the United Nations Secretariat he will also indicate how he intends to implement the recommendations of the Board of Auditors on the subject (see A/50/7/Add.13, para. 5). Furthermore, regardless of the complexity of the task, the Advisory Committee trusts that the work on the procurement manual will be completed before the end of the year, as indicated in paragraph 84 of the Board's report.

35. The Advisory Committee notes the Board's comment in paragraph 93 of its report that 48 per cent of the suppliers belonged to one Member State and a further 13 per cent belonged to a second Member State. While endorsing the Board's comment that suppliers from a wider geographical base should be registered on the vendor roster, the Advisory Committee notes the Administration's efforts to expand the roster and trusts that the efforts will be intensified to achieve a satisfactory geographical balance.

36. Paragraphs 95 to 97 of the Board's report relate to the Headquarters Committee on Contracts. The Board has identified, in paragraph 96, that 23 per cent of the contracts approved by the Headquarters Committee on Contracts for United Nations Headquarters during the period 1 July 1995 to 30 April 1996 were on an *ex post facto* basis. Of the 477 contracts reviewed by the Committee for the Department of Peacekeeping Operations, approval for 57 per cent was given on an *ex post facto* basis (see, also, para. 53 below). As indicated in paragraph 97 of the Board's report, the Administration's response was a memorandum to reduce or limit *ex post facto* submissions to the Headquarters Committee on Contracts and it has initiated a review of the terms of reference of that Committee. The Advisory Committee is of the view that the practice of submitting contracts to the Headquarters Committee on Contracts on an *ex post facto* basis should be strictly limited; procedures for the submission of contracts to the Headquarters Committee on Contracts should be reviewed accordingly and the Advisory Committee informed of the measures to ensure that *ex post facto* recourse will be sought only under the most exceptional circumstances.

37. Paragraphs 107 to 123 of the Board's report deal with budget preparation, assumptions and performance reports. The General Assembly, in its resolution

48/228 of 23 December 1993, had requested the Board to review the development of assumptions used by the United Nations in the presentation of the programme budget and performance reports, with a view to suggesting possible improvements. The Board's views on the subject, as expressed to the Advisory Committee, have been indicated in paragraph 22 above.

38. The Advisory Committee recalls that the United Nations budgetary process has evolved over a number of years and changes from time to time as necessary. Assumptions for the preparation of the budget change every year, often as a result of intergovernmental decisions. For example document A/34/6 of 21 December 1979 contains the methodology for budget preparation for the biennium 1980-1981. The methodology has been further refined since then. General Assembly resolution 41/213 of 19 December 1986 sets out the main parameters of the United Nations budgetary process, while by resolution 49/233, the General Assembly, on the recommendation of the Advisory Committee, changed the budgetary and financial cycle of peacekeeping operations. Accordingly, in implementing the recommendations of the Board, account should be taken of the observations of the Committee in paragraphs 16 and 17 above.

39. The question of rates of inflation is discussed in paragraphs 111 to 113 of the Board's report. As indicated in paragraph 112, these rates are revised every year in the context of performance reports and there is no evidence that over-budgeting for inflation has occurred. The Advisory Committee points out that care should be taken to avoid the introduction of costly procedures of limited benefit.

40. With regard to the assumptions relating to delayed recruitment as discussed in paragraphs 114 to 116 of the Board's report, the Advisory Committee points out that these are changed on a case-by-case basis when the Committee examines the proposals of the Secretary-General.

41. Budget performance reports are discussed in paragraphs 117 to 123 of the Board's report. The Committee believes that considerable work needs to be done by the Secretariat to improve performance reporting. The report of the Office of Internal Oversight Services (A/51/432) explains the problems in this area. The Advisory Committee agrees with the Board's recommendation in paragraph 123 that the Administration should keep the matter under review and consider improving the formats of the budget performance reports further, in the context of the implementation of release 3 of IMIS, by providing information relating to actual expenditure figures.

42. The findings of the Board on the management of conference services (paras. 148-150) corroborate the observations made by the Advisory Committee on a regular basis when it examines the budget proposals of the Secretary-General. The Advisory Committee therefore endorses the Board's view that an in-depth review of the costs of conference services by a specialist/consultant would be advisable (para. 150).

43. The Advisory Committee is concerned about the Board's observations in paragraphs 155 to 189 of its report regarding consultancies. As indicated in paragraph 156, for the biennium 1994-1995 the United Nations hired consultants at a cost of approximately $25 million. The Board has brought this issue

forward on several occasions in the past and the Advisory Committee has endorsed the Board’s views (see, for example, A/47/500, paras. 29 and 86 to 88). As mentioned in paragraph 31 above, the Board’s report indicates that there are very serious irregularities concerning the identification, terms of reference, engagement and related remuneration, management control and evaluation of consultants.

44. The persistent recurrence of the practices identified by the Board (selection on a single candidate basis and through personal contacts) in paragraphs 162 and 163 of its report, leads to a general lack of confidence in the procedure for the selection and retention of consultants. With respect to geographical balance, as indicated by the Board, nearly 80 per cent of the consultants engaged by United Nations Headquarters in 1994-1995 were from 12 developed countries. The Advisory Committee does not accept the view of the Administration that the nature and complexity of the services to be provided by the consultants and the degree of expertise required to accomplish the tasks prompted the United Nations to engage consultants from a narrow geographical base (para. 173). The Advisory Committee believes that many of the shortcomings could be eliminated through proper planning and by following existing rules and regulations. The Committee recommends that the Secretariat resume the past practice of submitting on a biennial basis and in conjunction with the report the Committee has requested on the hiring of retired staff (A/51/475) a report on the engagement and use of consultants. This report should follow the format of past reports on the subject.

45. Medical and dental insurance arrangements of the United Nations are discussed in paragraphs 193 to 197 of the Board’s report. As indicated in paragraph 195 of the report, the Board recommended and the Administration agreed that a system of periodic claims audit at the offices of the insurance companies be established so that the Administration has some reassurance that the claims are correct and representative of the actual charges for medical care. The Advisory Committee endorses the recommendation of the Board and requests that it be implemented without delay.

46. The Advisory Committee welcomes the Board’s comments and findings on programme planning, monitoring and evaluation as indicated in paragraphs 244 to 285 of its report. In this connection the Committee draws attention to the report of the Office of Internal Oversight Services (A/51/432).

47. The Advisory Committee recalls that, pursuant to General Assembly decision 48/492 of 14 July 1994, the Board carried out a special audit of the IMIS project. The results of that audit were transmitted to the General Assembly in document A/49/680. The Advisory Committee notes that in paragraphs 27 to 31 of the annex to the Board’s current report (vol. I), the Board, pursuant to General Assembly resolution 49/216 A (para. 5), has reported on the actions taken in respect of its findings and recommendations pertaining to information technology systems in the United Nations (recommendation 9 (i)). With the recent introduction of release III of IMIS in the United Nations, the Advisory Committee is requesting (by a letter to the Board) that an updated special audit of the entire project, including cumulative and projected costs, long-term maintenance and client support, be conducted by the Board, with a view to reporting its findings to the General Assembly at its fifty-second session.

United Nations peacekeeping operations

48. As can be seen from the financial report for the biennium ended 31 December 1995, volume II, the total expenditure for the United Nations peacekeeping operations amounted to $5,807.5 million, outstanding contributions as at the end of 1995 totalled $1,930.1 million and unliquidated obligations amounted to $1,866.1 million.

49. The scale of peacekeeping funding is more dramatic if analysed in the context of overall United Nations financing; as can be seen from statement I of volume I of the financial report, while the total 1994-1995 income from all funds amounted to $9,874.1 million, income for peacekeeping operations was $6,424.0 million (i.e., 65 per cent of total income); the total expenditure from all funds amounted to $9,439.6 million, of which nearly 57 per cent relate to peacekeeping activities (see vol. I, para. 9, table). The Advisory Committee points out that these amounts do not include all extrabudgetary resources. The expenditure for peacekeeping operations in the biennium 1996-1997 is expected to be less than in the previous biennium. Nevertheless, it is the opinion of the Committee that in view of the magnitude of the expenditure on peace-keeping and other non-regular budget activities, it is essential to ensure that these funds are charged a fair share of the related support activities.

50. The extraordinary expansion of peacekeeping operations has put considerable strain on the United Nations, exacerbated by persistent irregular income from assessed contributions. The dramatic growth in this area led the Advisory Committee to recommend the submission of separate audit reports (A/47/500, para. 49), which was endorsed by the General Assembly in its resolution 47/211. The first such report was submitted for the biennium ended 31 December 1993 and was welcomed by the General Assembly in its resolution 49/216 B. Since then, the Advisory Committee has submitted a number of recommendations to address numerous administrative and financial aspects of peacekeeping operations. These recommendations include those related to reimbursement for contingent-owned equipment, the change of the United Nations financial and budgeting cycle for peacekeeping and new budget and performance reporting. Other changes approved by the General Assembly include the establishment of the United Nations Peacekeeping Reserve Fund, the authority granted to the Advisory Committee and the Secretary-General to enter into commitments not to exceed $50 million, and the start-up kit concept. The Committee trusts that the measures taken by the General Assembly and the lessons learned during the past six years will lay the foundation for a stable and effective response to future peacekeeping operations.

51. The Advisory Committee notes from paragraph 4 of the concise summary of the Board's principal findings, conclusions and recommendations (A/51/283) that one of the Board's qualifications on its audit opinion involved the need for the United Nations Administration to seek an appropriate solution to the valuation placed on outstanding assessed contributions receivable in respect of peacekeeping operations. In this connection, the Advisory Committee sought further clarification on the question of $175.5 million, referred to in paragraphs 9 and 58 of the report of the Board of Auditors as "a doubtful receivable". The auditors clarified that the qualified opinion and recommendation in paragraph 59 did not mean that the arrears should be

cancelled. The auditors added that some States have indicated that they would not pay their dues, which, accordingly, remained uncollected for a period of up to 20 years and even more. In the opinion of the Advisory Committee, assessed contributions are collectable until the General Assembly decides otherwise (see para. 133 below).

52. In paragraphs 74 to 143 of its report, the Board deals with the issues of procurement, accommodations and letters of assist (LOA). As indicated in paragraph 21 above, the Advisory Committee is of the view that reform of the procurement function should be given top priority. The Committee trusts that serious irregularities concerning the awarding, administering and managing of LOAs should be significantly reduced following the introduction of the new system of reimbursement for contingent-owned equipment and consumables approved by the General Assembly in its resolution 50/222 of 10 May 1996.

53. The Committee views as matters of serious irregularity the many instances where the Board was unable to obtain documentary evidence to substantiate payment and claims (see vol. II, paras. 111-116), many LOAs were approved on an ex post facto basis (see vol. II, paras. 119-122), payment of claims were made without LOAs, and for LOAs with a minimum value of $500,000 each, a total of $52.5 million, lacked the details of the originating requisitions (see vol. II, para. 108). The finding of the Board would imply that payments may have been made in excess of what should have been paid; in such cases, recovery should be sought.

54. From the above, it appears that contract administration and management in the Secretariat needs considerable improvement. For example, the auditors informed the Committee that, in a period of less than two years, the contractor for the Somalia logistics contract (with whom there is a dispute concerning hours worked and claimed) was awarded contracts for delivery of services for the United Nations Operation in Somalia (UNOSOM), with a total value of $128.8 million; although an amendment to one of the contract segments reduced the value of the contract by $4.2 million, that amount was nevertheless obligated in the accounts. Furthermore, a duplication in budget requests by the Secretariat accounted for another $8.2 million that had also been obligated at the time of the audit. The Advisory Committee requested, but did not receive, adequate explanation from the United Nations Administration. An additional $33 million contract was awarded to the same contractor for the period beginning October 1993 for the United Nations Assistance Mission for Rwanda (UNAMIR) and another $19 million was awarded for the United Nations Mission in Haiti (UNMIH). Under the circumstances, the Committee, pursuant to financial regulation 12.7 has requested the Board to conduct a follow-up audit of its finding on LOAs in conjunction with the next audit.

55. The Advisory Committee shares the view of the Board, reflected in paragraph 82, of its report, that financial rule 110.19 allows too much flexibility, giving rise to the widespread use of the immediate operational requirement (IOR) procedure. The Committee recalls, in this connection, that the Board had addressed this question in its previous report 16/ and had recommended that (a) exigency should be defined through a listing of situations that may be considered as such; and (b) as in rule 110.19 (h), the nature of the exigency should be documented to provide sufficient evidence to support the

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decision and to serve as a trail for verification and review; these recommendations were strongly supported by the Administration.

56. The Committee notes from annex 2 which deals with follow-up actions taken to implement the recommendations of the Board of Auditors for the biennium ended 31 December 1993, that according to the Administration, the compilation of a list of situations justifying the use of an exigency exception proved to be impractical (see annex 2, para. 2). In this connection, the Committee questions the value of the Adminstration's earlier acceptance of the Board's recommendation and expresses its disagreement with the position of the Administration. Having exchanged views with representatives of the Secretary-General on the matter, the Committee requests that the Administration comply with the Board's recommendation.

57. In the view of the Advisory Committee, inventory management remains a serious problem not only in peacekeeping operations but throughout the Organization. The Advisory Committee recalls, in this connection, that in paragraph 2 of his report on the management of peacekeeping assets (A/50/965), the Secretary-General stated that the Secretariat is developing, through practice, an assets management system that is intended to balance the requirements of preparedness with cost-effectiveness and of flexibility with full accountability. The Committee requests that steps be taken to speed up the establishment of such a system. The observations and recommendations with regard to this question, as reflected in the Committee's report (A/50/985), especially those relating to the United Nations Common Coding System and the North Atlantic Treaty Organization (NATO) Codification System (paras. 27-33), should be taken fully into account.

58. The Committee is particularly concerned about the tendency to transfer items to missions inventories that have little or marginal value, thus incurring unnecessary expenses for transportation, storage and processing. The purchase of very old vehicles, ranging in age between 15 and 42 years (see vol. II, paras. 253-255), led to excessive expenditure on spare parts; this calls into serious question the United Nations vehicle-replacement policy.

59. The Committee notes the Board's observations, in paragraphs 123 to 128 of its report, that charges for certain purchases, particularly electronic equipment, are made against the funds of missions that are not the intended beneficiaries of the items and that no effective procedure has been put in place for the necessary reversal adjustments to be made in the accounts when funds are subsequently made available to the receiving missions. The question of transfer of assets between missions has been handled in the report of the Secretary-General (A/50/965) and the related report of the Committee (A/50/985). However, the Board clarified that what is referred to in paragraphs 123 to 128 is the use of funds in an existing mission as a source of start-up funds for the purchase of assets for new missions. This procedure occurs when there is no ready cash available. Accordingly, the Advisory Committee agrees with the Board's recommendation in paragraph 128 and requests that it be implemented by the Administration.

60. The Advisory Committee is concerned about the payments the Organization had to make under protest. For example, the United Nations Protection Force

(UNPROFOR) has paid, under protest, $37 million of excise duty on its purchases of petroleum, oil and lubricants for the period from 1 October 1993 to 31 March 1996 (see vol. II, paras. 129-132). Furthermore, the Committee notes from paragraphs 140 and 141 of the Board's report that in a number of missions the Governments do not provide accommodations and facilities, as a result of which the United Nations had to incur unnecessary expenses. For example, the Board of Auditors identified payments by the United Nations Peace Forces (UNPF) in excess of $2.3 million for rental of Split port, which should have been provided by the host Government (see vol. II, para. 140); in the United Nations Observer Mission in El Salvador (ONUSAL), the Mission paid $1.9 million for the rental of premises for its headquarters, since the Government did not provide premises free of charge (see para. 141). Since these matters are governed by the Status of Forces Agreement, the Committee has recommended that the United Nations compile information on all payments made in peacekeeping operations that should have been otherwise paid by the host Governments under the Status of Forces Agreement (A/51/491, para. 11).

61. The Advisory Committee had earlier pointed out, and in paragraph 139 the Board has confirmed, that the United Nations has been too eager to accept exorbitant rents. The Committee is of the view that the United Nations should coordinate better with other United Nations agencies and programmes in the area of peacekeeping operations with a view to renting premises, accommodations and facilities at the most favourable rate to the United Nations.

62. The outstanding unliquidated obligations for United Nations peacekeeping operations totalled, as mentioned in paragraph 48 above, $1,866.1 million as of 31 December 1995. The bulk of these relate to reimbursement to troop-contributing countries and for contingent-owned equipment and consumables. It is the experience of the Advisory Committee that of the total of $1,866.1 million, a considerable amount is an estimate rather than a valid obligation. In this connection, the Committee notes from paragraph 153 of the Board's report that, following a major review early in 1996, UNPF cancelled about $54.9 million (i.e., 36.3 per cent) of unliquidated obligations relating to the biennium 1994-1995.

63. The Committee also notes that it is invariably the practice of the Secretariat to obligate total amounts appropriated for contingent-owned equipment. The Board's findings in paragraphs 263 to 265 raise serious questions regarding the validity of some obligations for contingent-owned equipment, since some equipment may never have been brought to theatre or requested by the United Nations. The Committee recommends that all future budget submissions for United Nations peacekeeping operations contain information on the amounts obligated for contingent-owned equipment from the inception of the operation to the time of the reporting, broken down by budget line item, category of equipment, country and/or other claimant. In the meantime, the Secretariat should speed up the verification of all obligations with a view to cancelling unjustified obligated amounts.

International Trade Centre

64. The members of the Audit Operations Committee informed the Advisory Committee, and it was also indicated in paragraphs 19 and 53 to 56 of the Board's report, that there is a steady trend in reduction of income for the International Trade Centre noticeable for the past five years. In the opinion of the Advisory Committee, this situation requires an urgent assessment of the long-term financial viability of the Centre. In the meantime, the Executive Director is requested to redouble his efforts for fund-raising and to ensure strict budgetary control and financial prudence in the operations of the Centre. In this connection, the Advisory Committee welcomes the measures already taken by the Administration, including the establishment of a global trust fund (paras. 55-56).

65. The Advisory Committee notes that the establishment of the World Trade Organization (WTO) has introduced a new element in the environment governing the operations of ITC. In this connection, the Committee requests all parties concerned, including the Secretary-General of the United Nations, to address, as a matter of urgency, the uncertainties concerning ITC, as described in paragraph 33 of the Board's report.

66. The Advisory Committee recommends that, to enhance financial control, the practice of making allotments to certain trust funds prior to receipt of income from donors should stop immediately, as this is in violation of procedures established by the Secretary-General. 17/ The statement of ITC as summarized in paragraph 36 of the Board's report cannot be a justification of this practice and the Advisory Committee endorses the Board's view that ITC should adhere strictly to the present administrative instructions. Furthermore, the Committee is concerned about the irregularities revealed in the audit concerning the use of regular budget resources for extrabudgetary activities, the use of support cost funds to finance interregional and technical advisers (paras. 45-46) and about the entire question of recruitment and management of consultants. The Advisory Committee notes that these have been recurring issues and requests that the recommendations of the Board be implemented by ITC on a priority basis.

United Nations University

67. Paragraphs 54 to 57 of the Board's report cover publications. The Advisory Committee endorses the suggestions of the Board that the print requirements should be periodically reviewed, taking into account the potential readership and the cost involved in stocking the unsold copies (para. 54).

68. The Advisory Committee notes from paragraph 65 of the Board's report that about 750 square metres of accommodation in the UNU headquarters building, including 660 square metres on the ground floor, were yet to be utilized. The Committee endorses the recommendation of the Board that possibilities of renting the vacant space on the ground floor should be explored.

United Nations Development Programme

69. In paragraphs 9 to 61 of the report, the Board summarizes its main recommendations and findings on the financial statements of the United Nations Development Programme.

70. The Advisory Committee regrets that once again the Board has qualified its opinion on UNDP accounts because of the late receipt or non-receipt of audit certificates in respect of funds for national execution. As indicated in paragraphs 64 to 68 of the Board's report, an amount of $1,135 million, or 56 per cent of the total UNDP programme expenditure for the biennium, was incurred in 1994-1995 on nationally executed projects. However, UNDP did not receive independent audit certificates in respect of $366 million, or 32 per cent of the nationally executed project expenditure.

71. The Advisory Committee recalls that this is a long-standing issue on which the Board has commented and made recommendations on a regular basis. The Advisory Committee further recalls that in its report to the General Assembly at its forty-fifth session on the audited accounts of UNDP for the year ended 1989, it urged the Administration to address the matter vigorously, in particular because of the trend for greater involvement by Governments in project execution (A/45/570 and Corr.1, para. 28).

72. In paragraph 70 of its report, the Board recommends that UNDP should supplement its existing approach by ensuring that all projects with significant expenditure are audited. In the opinion of the Board, UNDP should analyse national execution projects by number and value and select for audit all high-value projects. The Committee notes from paragraph 71 that the Administration agreed to review the audit strategy. While the Advisory Committee does not object to this selective approach in audit review, it notes that it may be at odds with what has been stated by the Board elsewhere, for example with regard to the Office of the United Nations High Commissioner for Refugees (UNHCR) (para. 120 below). The Advisory Committee requests the Board to clarify its position on selective audit.

73. In paragraphs 110 to 159, the Board comments extensively on issues related to national execution. The Advisory Committee again welcomes the Board's findings and recommendations in this regard. In particular, it stresses the Board's recommendations in paragraph 142 on the need for UNDP to assess government capacity to undertake national execution. The Board recommended that UNDP develop capacity assessment guidelines (incorporating standards of Governments' capacity to undertake national execution projects) and provide training to country offices and Governments, to help them carry out strategic capacity assessments. The Committee agrees with the view of UNDP, as indicated in paragraph 143 of the Board's report, that a low capacity assessment was not regarded as a reason for not undertaking a project, but on the contrary, as one of the objectives of support. The Committee notes that UNDP intends to revise its guidelines to reflect this matter more clearly.

74. In paragraphs 74 to 106 of its report, the Board submits its findings on the audit of the reserve for field accommodation. The situation described in the Board's report is an example of a significant break in the management and

financial control of the UNDP Reserve account. As indicated in paragraph 77 of the Board's report, cumulative disbursements charged to the Reserve for Field Accommodation reached $54.8 million gross by the end of 1995, or $46.8 million net, after deducting the operating surplus of $8 million earned on rented housing. This represented an over-expenditure of $29.8 million gross ($21.8 million net) against the authorized limit of $25 million, excluding $5.6 million for invoices received but not paid at 31 December 1995 (see para. 77, table 2).

75. The Advisory Committee notes that the Administrator of UNDP submitted an update of the activities of the Reserve (DP/1996/28/Add.3) following the issuance of a three-year plan in November 1994 (DP/1995/10/Add.1). In his report, the Administrator reviews some of the causes that led to the breakdown in managerial and financial controls and explains the corrective actions taken and under way. The Committee further notes that, in paragraphs 12 and 29 of his report (DP/1996/28/Add.3), the Administrator proposes that the level of the Reserve be set at $62.8 million in gross terms by the end of 1996 and that contributions from United Nations organizations members of the Joint Consultative Group on Policy (JCGP) be rescheduled to 1997.

76. The Advisory Committee notes from paragraph 79 that the Board has welcomed a number of actions taken by UNDP to strengthen financial and management control of the Reserve. The Committee exchanged views with the representatives of the UNDP Administrator who informed the Committee that an investigation by the UNDP internal audit was still being carried out. As indicated in paragraph 19 of the report of the Administrator (DP/1996/28/Add.3), the investigation includes a review of the actions taken by staff as well as by contracted parties. The review is expected to continue into the last quarter of 1996. The Advisory Committee expects the UNDP Administrator to report to the General Assembly, through the Advisory Committee, on the results of the investigation and actions taken, including disciplinary actions, in accordance with the relevant provisions of the financial and staff regulations governing the operations of the Programme.

77. In paragraphs 206 to 239 of its report, the Board comments on the internal audit function in UNDP. The Advisory Committee exchanged views with the representatives of the Administrator of UNDP, including the Director of the Division for Audit and Management Review, on some of the issues raised by the Board in those paragraphs. The Committee notes with concern the findings of the Board, as indicated in paragraph 214, that the audit function remained understaffed during 1994-1995 and that the Division was substantially unable to complete its planned programme of work in 1994-1995.

78. The Committee is aware that the Division is also responsible for the audit of the United Nations Population Fund and the United Nations Office for Project Services. Moreover, the Committee notes that the Division continues to be responsible for non-audit functions, such as updating procedure manuals, as indicated by the Board in paragraph 212 of its report. The Committee recalls that the Board had previously recommended to the UNDP Administrator that audit and operational functions be strictly kept separate in order to ensure the independence of the auditor and avoid any potential conflict of interest (A/47/500, para. 102). The Committee trusts that the Administrator will comply

with the earlier recommendations of the Board, as well as those in paragraph 212.

79. As indicated in paragraphs 215 to 218, in order to improve the audit coverage of its field operations, UNDP has contracted out the audit of 68 UNDP country offices in the Africa and Asia and the Pacific regions to international firms of accountants. The Committee notes that this has resulted in additional demands on the staff of the Division for Audit and Management Review responsible for reviewing the audit reports prepared by international firms of accountants. The Committee was informed by representatives of the UNDP Administrator that, as the firms learned from experience about UNDP systems and procedures, the quality of work had improved and the compliance with audit reports was satisfactory. The Committee notes that the Board accepted that the role of overseeing national execution audits should remain within the Division (para. 212).

80. The Advisory Committee notes from paragraphs 219 to 222 that, other than the internal audit coverage of some field offices, there were significant shortfalls in internal audit coverage elsewhere in 1994-1995. The Committee notes with concern that only one internal management audit at headquarters was carried out in 1995 out of seven audits planned, and that over the past six years, the Division has examined only four other funds and trust funds administered by UNDP.

81. The Committee notes from paragraphs 173 to 203 that the Board focused its review on six of the largest funds and trust funds administered by UNDP (whose combined income and expenditure constituted 58 per cent and 65 per cent, respectively, of the funds’ total income and expenditure in 1994-1995). The Board identified many weaknesses in the control and management of these funds. The Committee welcomes the steps taken so far by UNDP to rationalize financial control of all funds and to assign the oversight of the programme finance function to the Division of Finance. The Committee further notes that UNDP intends to finalize the funds’ reporting and accountability arrangements at headquarters and at country offices by December 1996 (para. 193).

82. The Committee notes from paragraph 224 that the UNDP Internal Audit Section has planned to audit every UNDP headquarters unit and country office at least once in a seven-year cycle. The Committee was informed by the Director of the Programme’s internal audit that, with the current resources, the Division for Audit and Management Review may not be able to meet the expected targets. The Division has been constrained for lack of resources to conduct management audits of headquarters units for a number of years; however, the Board pointed out, in paragraph 225 that the Division had not recorded the estimate of the level of resources required to achieve the plan, including staff resources required to manage and review the work of contractors. The Committee considers the situation serious. The Committee recommends that the UNDP Administrator assess without delay the likely resources needed to carry out the Division’s work programme and, as recommended by the Board, identify the consequences of any shortfall.

United Nations Children's Fund

83. The Advisory Committee notes from statement I of the Board's report that UNICEF income in the biennium 1994-1995 totalled $2,016,487,000 compared to expenditures of $2,002,790,000, showing an excess of income over expenditure of $13,697,000; however, after write-offs of $18,033,193, UNICEF reported a shortfall of income over expenditure of $5,402,000.

84. The Advisory Committee shares the concern of the Board that given the emerging trend of declining liquidity, UNICEF should re-examine its strategy for fund-raising and establish expenditure levels strictly within realizable income. The Committee notes from paragraph 35 of the Board's report that a total of $14.1 million (out of contributions receivable of $195.2 million as at 31 December 1995) remained unpaid for 5 to 10 years. The Committee agrees with the Board's recommendation that UNICEF should establish a reserve for its doubtful receivables to ensure an accurate disclosure of its realizable assets.

85. With regard to the Board's observations, in paragraphs 38 to 44 of its report, on the management, accounting and audit of cash assistance to Governments, the Advisory Committee notes that this is a long-standing issue which, regrettably, remains unresolved in spite of repeated assurances by the Administration that steps have been taken to improve financial control and accountability over the cash advances to Governments. Unliquidated advances to Governments increased from $92.1 million at 31 December 1993 to $120.7 million or 31 per cent at the close of the biennium 1994-1995.

86. The Advisory Committee recalls that in paragraph 132 of its report (A/47/500) it had expressed concern about the liquidation of cash advances to Governments and had recommended that UNICEF adhere to its own financial and accounting guidelines. Relevant provisions of UNICEF Financial Circular No. 15 required that, without exception, no further transfer of funds to Governments may be made if a certificate of use of prior financing is outstanding for more than six months.

87. The Advisory Committee notes the response of the Administration in paragraph 6 of document E/ICEF/1996/AB/L.14. The Committee stresses the need for UNICEF to comply fully with the recommendations of the Board in its present report. The Committee endorses the view of the Board that UNICEF should enforce the audit clause in the Basic Cooperation Agreement signed by the countries with whom UNICEF cooperates.

88. On the subject of providing assistance to Governments to enhance their capacity to comply with the financial reporting and audit guidelines of UNICEF, the Advisory Committee was informed by representatives of the Executive Director that, to remedy the situation and address the concerns of the Board, UNICEF would consider providing financial assistance to the countries concerned. In the view of the Committee, UNICEF should identify those countries that would warrant such assistance and provide it, should that be considered necessary (see para. 73 above).

89. In paragraphs 97 to 103, the Board addresses the issue of adequacy of internal audit. The Advisory Committee is concerned about the inadequate

priority that UNICEF appears to accord to the internal audit process and to the implementation of internal audit findings and recommendations. As indicated in paragraph 100 of its report, the Board found that internal audit lacked sufficient resources to meet its three-year rolling work plan. In paragraph 101, the Board indicates that the Office of Internal Audit has expressed dissatisfaction with the implementation of its recommendations and the lack of commitment by the Administration to hold individuals accountable for their actions.

90. Reports of the Office of Internal Audit estimated that UNICEF lost more than $1 million through fraud perpetrated by staff members and an alleged gross mismanagement of resources involving some $9 million, which is under investigation. The Committee believes that the fraud perpetrated at the Kenya country office could have been contained had UNICEF headquarters exercised greater oversight responsibility. As pointed out by the Board in paragraphs 69 to 72, earlier recommendations for improving internal controls made by the internal auditors in 1993 were not implemented. The situation occurred because of inadequate segregation of duties, collusion and improper delegation of authority, as well as serious negligence and lack of integrity of the UNICEF representative and key staff members. Moreover, the overall oversight role by UNICEF headquarters was ineffective. Obvious indicators of irregularities were ignored or not effectively followed up by UNICEF headquarters.

91. The Advisory Committee notes the response of the Administration as contained in paragraphs 11 to 14 of document E/ICEF/1996/AB/L.14. The representatives of the Executive Director further informed the Advisory Committee that UNICEF gives serious consideration to the recommendations of the internal auditors and that, in the biennium 1996-1997, internal audit has been given additional resources.

92. The Committee requests UNICEF to address the findings of the Board as a matter of priority. In this connection, the Committee recalls that the General Assembly, in its resolution 47/211, requested the Secretary-General and the executive heads of United Nations organizations and programmes to ensure that all existing financial and staff regulations and rules are strictly complied with, including those relating to internal control over expenditure and those that assign staff members personal responsibility and accountability in their performance. The Administration is requested to explain to the General Assembly what steps it has taken in this regard.

93. In paragraphs 74 to 93 of its report, the Board comments on budgetary assumptions. The Committee notes the response of the Administration in paragraphs 23 to 26 of document E/ICEF/1996/AB/L.14. It recommends that UNICEF indicate comprehensively in its next budget submission, the extent to which the Board’s recommendations can be taken into account in the UNICEF budgetary process.

94. On the question of common premises liability, discussed in paragraphs 48 and 49 of the Board’s report, the Advisory Committee notes from statement VIII on the Capital Assets Fund that the total assets of the Capital Assets Fund amount to $26,572,149. The Committee also notes that the Administration has not implemented a previous recommendation of the Board on the matter (see para. 4 of

the annex to the report of the Board). In view of this and of the Board's findings concerning the UNDP Reserve account (see para. 74 above), the Advisory Committee is requesting that the Board carry out a special audit of the Capital Assets Fund of UNICEF and report its findings in the context of the next audit of UNICEF operations.

95. In paragraphs 53 to 64, the Board comments on shortcomings in programme implementation and related issues. As pointed out by the Board, the level of implementation of supplementary funded programmes has been particularly low owing to a shortfall in receipts of promised income. The Advisory Committee stresses the need to ensure strict budgetary control and carefully planned programmes for supplementary funding, taking into account the uncertainties inherent in this funding concept.

96. The Advisory Committee notes from paragraph 57 of the Board's report that a number of UNICEF field offices continued to pay for services that were clearly identified as the responsibility of the assisted countries in the Basic Cooperation Agreement, namely, clearing, warehousing, transportation and distribution of supplies and equipment. The Committee is of the view that the Basic Cooperation Agreement should be specific on the duties and obligations of the parties concerned and should be enforced as such.

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

97. The Advisory Committee has no special comments to make thereon.

United Nations Environment Programme

98. The audit opinion on the financial statements of UNEP was qualified by the Board, owing to non-receipt of audit certificates from several executing agencies in respect of expenditures totalling $12.2 million out of $26.9 million in programme expenditure, as indicated in paragraphs 31 to 33 of the Board's report.

99. The Committee notes, from paragraph 33 of the report, that UNEP has not only decided to withhold future cash advances from those organizations that have not provided audit certificates, it has also decided not to enter into new contractual arrangements with supporting organizations that have not provided audit certificates. However, members of the Audit Operations Committee indicated during the hearings that those measures were decided upon after the Board had raised questions with regard to the delays in the submission of those audit certificates.

100. The Advisory Committee welcomes those measures. However, the Committee believes that a mere withholding of cash advances may not always be effective, in particular where the capacity to produce those certificates is lacking. It will therefore be necessary for UNEP to ascertain whether some of the supporting organizations warrant assistance in the production of certificates (see para. 73 above).

101. The Advisory Committee requests that the Board’s observations on consultants, in paragraphs 81 to 85 of its report, be addressed as a matter of urgency. In this connection, the Advisory Committee recalls decision 18/49 of 25 May 1995 of the Governing Council of UNEP, in which, after noting with concern the findings of the Board in its report for the biennium ended 31 December 1993, the Governing Council requested the Administration to implement the provisions of that decision, which addressed a number of issues, some of which have been repeated in the current report of the Board of Auditors.

102. The Advisory Committee endorses the observations and recommendations made by the Board, in paragraphs 69 to 71 of its report, regarding UNEP’s lack of advance planning which leads to piecemeal procurement of goods and shortcomings in competitive bidding.

United Nations Population Fund

103. In paragraphs 11 to 45, the Board summarizes its main recommendations and findings on UNFPA activities in 1994-1995. On financial matters of trust funds, the Board once again recommends adherence to the requirements of the UNFPA Financial Regulations and Rules, which require that all trust fund activities be initiated only on a fully funded basis. The Board’s recommendations on management issues relate to weaknesses identified in the management of national project executions, in the arrangements for technical support services, in the management of interregional projects and in the selection and use of consultants. The Advisory Committee endorses these recommendations.

104. The Advisory Committee notes that the Board once again issued a qualified audit opinion on UNFPA financial statements for similar reasons as those indicated in paragraph 70 above for UNDP. As indicated in paragraph 48 of the Board’s report, at the date of finalization of the Board’s report, audit certificates had not been received from Governments and non-governmental organizations in respect of programme expenditure totalling $84.1 million, or 30.5 per cent of the programme expenditure of $276 million in 1994-1995.

105. In paragraphs 57 to 82, the Board comments on the management of national project execution. The Advisory Committee welcomes the Board’s recommendation that UNFPA develop detailed guidelines on how to assess and enhance national capacity. The Committee notes from paragraph 65 of the Board’s report that the Executive Director has accepted the Board recommendations. The Committee shares the view of the Board that such guidelines should establish clear procedures for assessing, globally, what needs to be done to help Governments and national institutions achieve self-sufficiency.

106. The Advisory Committee notes from paragraph 77 of the Board’s report that in some field offices UNFPA had advanced funds to national agencies before either a project document or letter of understanding had been signed. The Committee considers as irregular this break in the financial control of projects. The Committee requests UNFPA to discontinue this practice.

107. The Advisory Committee notes from paragraph 80 that, although there was an extensive review and assessment of the accumulated experience in the population

field in 1989, there has been no subsequent evaluation of national execution nor has there been a detailed assessment of nationally executed projects or whether national capacity has been enhanced. The Committee believes that an assessment of the above areas should now be undertaken.

United Nations Habitat and Human Settlements Foundation

108. The Committee notes that, owing to errors in accounting for income in the financial statements of the Foundation and the United Nations Conference on Human Settlements (Habitat II), as well as the negligence of UNHHSF to maintain the transactions of Habitat II under separate trust fund accounts, as mandated by the General Assembly, the Board has qualified its opinion on those financial statements. The Committee requests the Administration to rectify the situation in order to avoid another qualification during the next audit.

109. The Board’s comments on the use of the Foundation’s funds for Habitat II are contained in paragraphs 39 to 41 of its report. In this regard, the Committee notes that total requirements for Habitat II amounted to $1,967,555 and that $900,000 were borrowed from the Foundation’s funds during the period audited to help fund the Conference and other activities. The Committee was informed during its hearings that the Committee of Permanent Representatives has decided not to pursue the matter.

110. Regardless of the meritorious purposes for which the funds were used, the Committee does not agree with the interpretation given to rule 303.1 (b) of the special annex for the Foundation to the Financial Regulations and Rules of the United Nations. Accordingly, the Committee endorses the recommendation of the Board made in paragraph 41 of its report, that is, to give priority to raising adequate non-earmarked voluntary contributions for Habitat II in order to reimburse the Foundation for the funds borrowed from it.

111. The action taken by the administration of the Foundation to incur $186,538 in excess of income received for a special purpose project is questionable, and steps should be taken to obtain additional income to cover the expenditure. Furthermore, the Advisory Committee is concerned about liability to the Central Emergency Revolving Fund indicated by the Board in paragraphs 44 to 46. To preserve the financial viability of the Central Emergency Revolving Fund, the Department of Humanitarian Affairs should always ensure that steps are taken to reimburse fully amounts advanced by the Fund.

112. The Advisory Committee considers the Board’s findings in paragraphs 79 to 86 a very serious disregard of United Nations procedures. As indicated therein, a fund-raising contract was awarded to a private agency in connection with Habitat II resulting in an unwarranted expenditure of $278,698. However, the efforts of the agency and the media consultant resulted in securing only $30,000. The Committee points out that fund-raising is the responsibility of the Executive Director of the United Nations Centre for Human Settlements (Habitat). Furthermore, the Committee does not accept the explanation of the Administration summarized in paragraphs 81 and 82.

113. In addition, paragraphs 84 to 86 of the Board's report indicate that the same media consultant mentioned above, a retired staff member in receipt of a United Nations pension, was hired again in 1995 as a media consultant and paid $120,000, at a rate of $12,000 a month. The applicable amount should have been a flat rate of $12,000 in any calendar year. The Advisory Committee, therefore, cannot accept the comments of the Administration as summarized in paragraph 85.

114. The Committee recommends a special investigation into the circumstances leading to these actions and payments, including the actions of the certifying and approving officers in this matter. The Administration should explain why disciplinary action should not be instituted in accordance with the Financial Regulations and Staff Regulations of the United Nations.

115. The Board's findings on programme management are contained in paragraphs 54 to 72 of the report. The Committee endorses the Board's recommendations, which should assist the Administration in addressing those weaknesses and deficiencies in programme planning, project design, implementation and evaluation of projects.

United Nations International Drug Control Programme

116. The Advisory Committee notes that the opinion of the Board for the United Nations International Drug Control Programme has been qualified. With respect to the existence of outstanding audited expenditure statements from executing agencies, the Advisory Committee notes that the concerns of the Board are similar to those expressed with regard to UNDP, UNICEF and UNHCR and the Executive Director should take immediate steps to address them.

United Nations High Commissioner for Refugees

117. The Advisory Committee welcomes the clear indication, with cross-referencing, at the beginning of the Board's report (para. 9) of the recommendations that are outstanding and have not been implemented by UNHCR. The Committee requests that this format be followed in future in all of the Board's reports.

118. Issues relating to implementing partners are covered in paragraphs 34 to 36 and 85 to 121 of the Board's report. The Committee recalls that the Board had identified several serious shortcomings in this regard in its audit report on UNHCR for the year ended 31 December 1994. 18/ In its related report (A/50/560), the Advisory Committee had commented extensively on the Board's findings. In the context of its review of UNHCR budget proposals for 1996 and 1997, the Advisory Committee discussed the issue with representatives of UNHCR, especially the measures taken by UNHCR to address some of the recommendations of the Board, as well as those of the Advisory Committee.

119. The Advisory Committee notes that, in 1995, UNHCR had 649 implementing partners that handled 1,408 projects at a cost of $486 million, or 42.5 per cent of the total 1995 UNHCR expenditure of $1,143 million (see policy paper EC/46/SC/CRP.45). UNHCR has prepared this policy paper, which addresses some of

the weaknesses identified by the Board, in particular the requirement for audit certification. UNHCR is proposing steps to improve procedures for the selection of implementing partners. In brief, UNHCR is proposing two distinct types of audit requirements: (a) audited accounts as a pre-qualification and an integral part of pre-selection as an implementing partner for UNHCR projects; and (b) audit certification for selected projects, either as a sample check or in response to specific concerns (see annex below).

120. The Advisory Committee welcomes these measures. The Committee discussed them with the UNHCR administration, as well as with members of the Audit Operations Committee of the Board. It notes from the UNHCR response to the Board's recommendations that the new approach will focus on those implementing partners where risk and exposure are highest and that the audit emphasis will move from the previous post facto checking to preventive action. 19/ In this connection, the Advisory Committee concurs with the observations of the Audit Operations Committee that audit certification should not be limited to a pre-determined number (10-15 per cent) of specific projects and that this might require the Board to qualify its future opinion on the financial statements. The Advisory Committee has requested UNHCR to review the adequacy of this proposal (see para. 72 above on UNDP). It stresses the statement of the auditors that it is the basic responsibility of every implementing partner to have its accounts (relating to UNHCR funds) duly audited and to submit audited accounts and audit certificates for scrutiny by UNHCR and the Board. 20/ It is the view of the Advisory Committee that in the case of the need for assistance to the implementing partner, this should be handled in the manner indicated in paragraphs 25 and 73 above.

121. The Advisory Committee points out that the situation concerning the performance and accountability of implementing partners has not improved and the comments of the Advisory Committee in its report (A/50/560, paras. 7-10) remain valid. It is essential that the Administration exercise greater oversight and control over implementing partners. The serious deficiencies and irregularities identified by the Board in paragraphs 66 to 100 of its report require urgent attention. Some of the findings of the Board regarding deficiencies in project implementation, in particular those identified in paragraph 93, require vigorous investigation and recovery of misused funds. In addition, the Committee has requested the Executive Committee to establish a mechanism whereby representatives of non-governmental organizations and, as appropriate, of other implementing partners, can be available when questions of their accountability and performance are being discussed by the Executive Committee or its subsidiary bodies in the context, for example, of the review of reports such as those of the Board of Auditors and the Advisory Committee and inspection and evaluation reports.

122. With regard to the question of UNHCR paying the salaries and other charges for staff of implementing partners, the Advisory Committee recalls its observations in its report (A/50/560, para. 11) that it did not believe that such payments, especially those relating to separation indemnities, should be chargeable to UNHCR. In this connection, the Advisory Committee notes that the Executive Committee of UNHCR has authorized payment of an 8 per cent overhead charge to implementing partners. 21/ The Advisory Committee requests a clarification as to what this charge is expected to cover.

123. The Advisory Committee sought clarification from the members of the Audit Operations Committee on the comments of the Board on programme budgeting, as contained in paragraphs 49 to 65 of the Board's report. The Committee notes the response from the Administration in paragraph 65 of the Board's report. The Committee is of the view that the environment in which UNHCR operates contributes largely to differences between initial and actual budgets, especially as they relate to special programmes (see paras. 50-53 of the Board's report).

124. The Advisory Committee was informed by the Audit Operations Committee that while an adequate explanation of budget changes is given by UNHCR with regard to administrative support and operational delivery costs, insufficient information is provided in respect of country programmes. The Advisory Committee believes that the cost-effectiveness of new budgeting techniques needs to be weighed carefully against potential benefits. Accordingly, in the context of her next budget submission, the High Commissioner is requested to indicate the extent to which the Board's observations can be taken into account in preparing her budget, particularly with respect to country programme budgets.

125. On the question of training of personnel of implementing partners, as indicated in paragraphs 123 to 126 of the Board's report, the Advisory Committee recommends that priority be given to subjects designed to redress many of the shortcomings identified in the Board's report such as administration, finance, procurement, audit and reporting on project implementation.

United Nations Institute for Training and Research

126. The Advisory Committee notes that the overall financial situation of the United Nations Institute for Training and Research, as revealed by the audit, is precarious. The Committee also notes that the position of the General Fund worsened because of unplanned additional expenditure for personnel services (para. 45). Accordingly, the Committee stresses the importance of the Board's recommendation that UNITAR should exercise more effective control over expenditure, particularly staff costs (para. 21). In particular, the General Fund should not absorb costs that are a proper charge to the Special Purpose Grants Fund and the Executive Director must ensure at all times that no expenditure is incurred for special purpose activities without first ascertaining that income is assured and attainable.

127. On the question of outstanding deficits on Special Purpose Grants projects, the Advisory Committee endorses the position of the United Nations Administration, as summarized in paragraph 27 of the Board's report. Further, UNITAR should immediately stop the practice of implementing projects on the basis of promises for reimbursements by certain donors (para. 41); the practice is in violation of current United Nations administrative procedures on this question.

United Nations Office for Project Services

128. The Advisory Committee has no special comments thereon.

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Report of the Secretary-General on accounting standards

129. The Advisory Committee recalls that this issue was initially highlighted in its report to the General Assembly at its forty-fifty session (A/45/570 and Corr.1). In that report, the Committee had expressed its views regarding the urgent need for a study on the development of accounting standards to be applied in the United Nations system.

130. Following deliberations in the Administrative Committee on Coordination, the Secretary-General had submitted his report to the General (A/48/530). That report summarized the interorganization work done on common accounting standards under the auspices of the Consultative Committee on Administrative Questions (Financial and Budgetary Questions), and set out plans for further action. The General Assembly, in its resolution 48/216 C, took note of the plans of the organizations for the application and development of the United Nations system accounting standards, and requested the Secretary-General to report to the Assembly, through the Advisory Committee, at its fifty-first session.

131. The Advisory Committee welcomes the results of the exercise carried out within the system; progress in this area is in general in line with the trend towards greater harmonization in budgetary and financial matters. The Advisory Committee notes in particular the information contained in the report of the Secretary-General (A/51/523, paras. 8 and 11) regarding the application of the standards by the organizations and the changes, if any, in the financial policies and/or amendments to the financial regulations that may have to be considered by the governing bodies of these organizations.

132. The Advisory Committee met with representatives of the Secretary-General who informed the Committee that there was no difficulty in the application of the standards at the present time in the United Nations itself, although a revision to the Financial Regulations may need to be considered at a later date to allow for a minor technical change owing to currency transactions. This information is in keeping with the information provided by the Board of Auditors that organizations have generally complied with the common accounting standards in presenting the financial statements for the biennium 1994-1995. However, further work needs to be done in the biennium 1996-1997 to bring the financial statements fully in line with these standards (A/51/283, para. 6).

133. The Advisory Committee exchanged views with the representatives of the Secretary-General on the application of article 32 of the accounting standards regarding treatment of delays in income from assessed contributions. Article 32 reads as follows:

> "Income from assessed contributions represents a legal obligation of contributors as from the date when it becomes due payable. Such income should accordingly be recognized as at that date. However, in the interests of prudent financial management, provision may be made as appropriate for delays in the collection of the income so recognized and disclosed in accordance with the formats of the financial statements."

The Committee was informed that the Administration interprets article 32 as "optional" rather than "mandatory" and that, unless instructed otherwise by the

General Assembly, no provision will be made to take account of uncollected funds (see para. 51 above).

134. The Secretary-General should report to the General Assembly should implementation of the accounting standards require the General Assembly to consider further changes, particularly in those areas mentioned in paragraphs 8 and 11 of his report (A/51/523). For its part, the Advisory Committee will remain seized of the matter in the context of its examination of the reports of the Board of Auditors.

Notes

1/ Official Records of the General Assembly, Fifty-first Session, Supplement No. 5 (A/51/5), vol. I.

2/ Ibid., vol. II.

3/ Ibid., vol. III.

4/ Ibid., vol. IV.

5/ Ibid., Supplement No. 5A (A/51/5/Add.1).

6/ Ibid., Supplement No. 5B (A/51/5/Add.2).

7/ Ibid., Supplement No. 5C (A/51/5/Add.3).

8/ Ibid., Supplement No. 5F (A/51/5/Add.6).

9/ Ibid., Supplement No. 5G (A/51/5/Add.7).

10/ Ibid., Supplement No. 5H (A/51/5/Add.8).

11/ Ibid., Supplement No. 5I (A/51/5/Add.9).

12/ Ibid., Supplement No. 5E (A/51/5/Add.5).

13/ Ibid., Supplement No. 5D (A/51/5/Add.4).

14/ Ibid., Supplement No. 5J (A/51/5/Add.10).

15/ Ibid., Supplement No. 9 (A/51/9).

16/ Ibid., Forty-ninth Session, Supplement No. 5 and corrigendum (A/49/5), vol. II, paras. 112-113.

17/ See administrative instruction ST/AI/285.

18/ Official Records of the General Assembly, Fiftieth Session, Supplement No. 5E (A/50/5/Add.5).

19/ A/AC.96/869/Add.1.

20/ EC/46/SC/CRP.45/Add.1, paras. 8 and 9.

21/ See A/AC.96/865, paras. 20-24, and EC/46/SC/CRP.27, paras. 19-21.

ANNEX

Proposed new audit requirements for UNHCR

1. UNHCR proposes two distinct types of audit requirements:

(a) Audited accounts as a pre-qualification and an integral part of pre-selection as an implementing partner for a UNHCR project;

(b) Audit certification for selected projects, either as a sample check or in response to specific concerns.

2. UNHCR implementing arrangements seek to give priority to local resources and to strengthen their capacity, including for sound financial management of UNHCR funds. At the same time, local circumstances and the demands of large-scale and sudden emergencies mean that the beneficiaries will continue to rely on the capacities of international implementing partners of UNHCR. In both cases, the proposed provisions under section A below are designed to help ensure that the implementing partner has a recognized ability to provide the necessary financial management and control over the specific project. The audited accounts required for pre-qualification would be the latest due under national requirements or the non-governmental organization’s own financial rules.

A. Audited accounts before selection as an implementing partner

3. As regards qualification for the implementation of a UNHCR project, an international non-governmental organization will be required to present either a set of global audited accounts in accordance with the national requirements of the country where its headquarters is situated, or a previous operation-specific set of audited accounts, which includes expenditure of UNHCR funds. The global accounts should include countries where UNHCR projects have been or are to be implemented.

4. A national/local non-governmental organization, to qualify to implement a UNHCR project, will be required to present either a satisfactory set of audited accounts in accord with national requirements, or a previous operation-specific set of audited accounts, preferably covering expenditure of UNHCR funds; if, for valid reasons, neither of these audited documents can be produced, exceptional arrangements for the specific project shall be established (see para. 6 below).

B. Audit certification for specific projects

5. UNHCR would seek, in a given year, post-execution audit certificates for a predetermined number of specific subprojects from both international and national/local non-governmental organizations. It will be recalled that in 1995 there were 1,073 subprojects implemented by both types of non-governmental organization (international, 464; national/local, 609). In a given year, UNHCR would make provision for the auditing of 10 to 15 per cent of such subprojects. It is estimated that the cost of these audits would amount to $450,000. The

choice of subprojects to be audited would be made in consultation with the specially dedicated UNHCR Unit in the Audit and Management Consulting Division of the Office of Internal Oversight Services. Priority would be given to any partners implementing UNHCR projects for the first time, but that are not covered by paragraph 6 below. These audits would be managed by the Audit and Management Consulting Division. Where these are undertaken by commercial auditors, the Division would ensure consistent terms of reference, approach and standards. It should be noted that already at least one third of the time of the seven Professionals working in the UNHCR Unit of the Division is directed at UNHCR implementing partners. Expenditure in the biennium 1994-1995 on the UNHCR Unit in the Audit and Management Consulting Division amounted to $2.4 million.

6. In the case of new national/local non-governmental organizations that were not able to meet the pre-qualifying audit requirements set out in section A above, but were considered prima facie as potentially good implementing partners, provision would be made for an interim audit in the course of project implementation.

7. Furthermore, audit inspections would be undertaken as appropriate and in consultation with the UNHCR Unit in the Audit and Management Consulting Division as soon as concerns were raised with regard to the implementation of a specific project by any implementing partner.

ADMINISTRATIVE ARRANGEMENTS

8. The above-proposed arrangements will require a number of additional administrative arrangements for each project. One such arrangement would be a "fact sheet" which recorded, inter alia, the necessary information on audit certification, the considerations leading to the choice of a particular non-governmental organization for a project, and the non-governmental organization contribution to that project. This information would also be collated for each implementing partner on a central database.

9. No specific financial provisions would be necessary in order to have pre-qualification certification. An indication of the costs for the auditing of specific projects is given above. It is proposed that UNHCR's contribution to the Audit and Management Consulting Division would be increased to cover such audits.

CONCLUSION

10. UNHCR considers that the proposals as set out in paragraphs 3 to 7 above represent a realistic and effective approach to the subject of audit certification. The enforcement of these proposals would contribute both to better project implementation and to better financial control, albeit in part post facto, of UNHCR's non-governmental implementing partners.
