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

Report of the Advisory Committee on Administrative  
and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions met with the Board of Auditors in June 1981 and discussed with it its reports to the General Assembly on the financial reports and accounts of the United Nations Development Programme, 1/ the United Nations Children's Fund, 2/ the United Nations Relief and Works Agency for Palestine Refugees in the Near East, 3/ the United Nations Institute for Training and Research, 4/ the voluntary funds administered by the United Nations High Commissioner for Refugees, 5/ and the United Nations Fund for Population Activities, 6/ for the year ended 31 December 1980.

A. United Nations Development Programme

2. In paragraphs 5 and 6 of its report on UNDP, 7/ the Board of Auditors refers to the question of the custodianship and investment of UNDP funds. Given the long history of this question, the Advisory Committee requested the UNDP administration to comment on the Board's observations.

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1/ Official Records of the General Assembly, Thirty-sixth Session, Supplement No. 5A (A/36/5/Add.1).

2/ Ibid., Supplement No. 5B (A/36/5/Add.2).

3/ Ibid., Supplement No. 5C (A/36/5/Add.3).

4/ Ibid., Supplement No. 5D (A/36/5/Add.4).

5/ Ibid., Supplement No. 5E (A/36/5/Add.5).

6/ Ibid., Supplement No. 5G (A/36/5/Add.7).

7/ Ibid., Supplement No. 5A (A/36/5/Add.1), sect. II.

3. The Committee was informed that since 1979, most of the functions relating to the custodianship of UNDP funds had been delegated to UNDP, but the functions related to the placement of investments had remained with the United Nations. This delegation was the result of discussions held over a number of years between the United Nations and UNDP and within the Governing Council. At its twenty-sixth session, in 1979, the Governing Council decided that this matter would be considered closed for a period of at least two years and reopened only if, in actual practice, the new arrangements did not work satisfactorily (decision 79/37). The Committee was further informed that UNDP would, in 1981, review the effectiveness of the existing arrangements and, if as a result of this evaluation it was considered desirable to do so, would explore, in consultation with the appropriate officials of the United Nations, the possibility of having the placement of investment function delegated to the Administrator, as recommended by the Auditors.

4. The Advisory Committee recommends that, as has been done in the past, any proposal to change the present arrangements should first be submitted to ACABQ for review so that appropriate recommendations can be submitted to the Governing Council.

5. In paragraphs 7 to 9 of its report, the Board discusses the question of accumulated non-convertible currencies; the Board recommends that the Administration should intensify its efforts to exchange the non-convertible currencies for readily usable currencies. Information provided to the Advisory Committee by the Administration shows that the latter is fully aware of the problem.

6. In paragraphs 10 to 12, the Board expresses concern at the difficulties experienced by UNDP in collecting contributions pledged but unpaid. The Advisory Committee has been informed that of the total of \$102.3 million unpaid under the UNDP account \$89.2 million related to contributions for 1980. Of the total of \$24.4 million in unpaid contributions pledged to trust funds administered by UNDP, \$23.9 million related to 1980. The "hard-core" problem is thus of more manageable proportions. At the same time, the Committee notes that the Administration has agreed with the Board's recommendations and has indicated that efforts to collect long-outstanding contributions would be intensified.

7. In paragraphs 14 and 15 of its report, the Board refers to its finding that a number of contracts involving significant amounts had been submitted to the Contracts Committee for ex post facto approval. Information provided to the Advisory Committee, at its request, by the UNDP Administration shows that of the 173 contracts, totalling nearly \$32 million, reviewed by the UNDP Contracts Committee in 1980 17 contracts, for a total value of \$1 million, had been submitted for review ex post facto. The UNDP Administration has expressed the opinion that a waiver of competitive bidding would have applied in at least 13 out of those 17 cases. The Advisory Committee notes from the information provided to it that six of the 17 cases (for a total of nearly \$314,000) related to extensions of contracts covering consultancies at headquarters and in the field. As the date of expiry of the original contracts was known in advance, the Advisory Committee believes that the necessary steps should have been taken to submit the requests for extensions to the Contract Committee in good time. The Committee understands that in four

other cases it was due to negligence that the contracts were signed without prior submission to the Contracts Committee. In the circumstances, a tightening of procedures in UNDP should lead to a lower incidence of ex post facto submissions. The Committee trusts that the Administration will take the necessary steps to that end.

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

8. In paragraph 5 of its report on UNICEF, 8/ the Board makes observations on the accounting systems and calls for a review of the existing accounts plan and coding systems in order to facilitate the tracing of transactions, the extraction of information and the analysis of the accounts. The Administration of UNICEF has agreed to implement some of the recommended measures for the 1981 accounts but has indicated that it would proceed with the rest of the necessary revision within the constraints of the present workload and priorities (para. 6). The Advisory Committee trusts that this review will be carried out expeditiously and that the results will be communicated to the Board in time for its next audit.

9. The Board's report includes observations and recommendations on the Greeting Card Operation (GCO) with regard to unrecorded obligations (paras. 7-11), procurement section (paras. 12-14), over-production of cards (paras. 15-18) and cards sent to national committees (paras. 19 and 20).

10. The Advisory Committee notes the Board's observation that some obligations incurred in the GCO accounts were not recorded in the principal accounts, and the Administration's agreement that all authorized expenditures, including disbursements and unliquidated obligations, incurred during the budget period will be shown in the budget accounts as prescribed in the financial rules.

11. In paragraph 9 of its report, the Board states that one of its suggestions with regard to the presentation of the UNICEF budget was the possibility of having one single consolidated biennial budget for programme support and administrative services, Greeting Card Operation and the UNICEF Packing and Assembly Centre (UNIPAC).

12. The Administration of UNICEF has informed the Committee that, while the budget cycle for UNICEF (and UNIPAC) has been the calendar year until 1981, GCO has always had a twelve-months fiscal year coinciding with the production/sale season or campaign. 9/ Prior to 1967, GCO was operated as a separate self-financing fund with its own fiscal year, separate budget and annual financial report reflecting the fund's assets, liabilities, profit and losses and a working capital in an

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8/ Ibid., Supplement No. 5B (A/36/5/Add.2), sect. II.

9/ In 1962, the end of the GCO fiscal year was changed from 31 January to 31 August, and in 1966 it was changed to 30 April. Since 1966, the GCO annual budgets and financial reports have been for the period 1 May to 30 April.

amount sufficient to cover the authorized budgetary estimate. <sup>10/</sup> In June 1967, the Executive Board of UNICEF decided that, beginning with the fiscal year 1968, GCO would be financed entirely from UNICEF funds instead of from a separate working capital. The Executive Board, at its May 1981 session, did not call for a biennial cycle for GCO; it approved the GCO budget for the 1 May 1981-30 April 1982 campaign and authorized the Executive Director to incur expenditures up to \$7.2 million for the 1982/1983 campaign on the basis of preliminary budget estimates prepared in accordance with the current budget practices.

13. The Administration has informed the Advisory Committee that the procedures followed by GCO over the years reflect the seasonal characteristics of the operations and that the GCO budget is a projection of the "profit and losses" accounts of the operation. According to the Administration, the consolidation of the GCO business-type operation into the budget for UNICEF programme support and administrative services as suggested by the Board of Auditors would present a number of practical difficulties but that the Board's suggestion would be studied in depth beginning in the first part of 1982.

14. The review of contracts at GCO headquarters by the Board of Auditors revealed a case in which a prepayment of \$113,000 was made to a bidder to permit the purchase of raw materials even though payment of advances was not provided in the invitation to bid (para. 12). The Board has recommended that "whenever this facility is considered necessary it should be made known to all potential bidders" (para. 14). The Advisory Committee was informed by the Administration that the invitation to bid indicated, inter alia, that GCO reserved the right to supply the paper at its option but that no mention was made of advance payment. In view of the paper market situation at that time and in order to avoid cost increases, the successful bidder and GCO agreed to purchase paper in advance of production and to keep it at the manufacturer's warehouse at no storage cost of UNICEF. The amount of the advance was recovered in full within a few months. The Advisory Committee was informed that advance payments are authorized in very exceptional circumstances only.

15. The Advisory Committee notes the Board's observations with regard to the problem of over-production of UNICEF greeting cards (81 million cards were produced for the 1978 campaign and the number of cards sold including old ones from previous campaigns was 59 million; the production for the 1979 campaign was increased to 84 million but only 67 million cards were sold). While it realizes that some over-production is unavoidable if late orders are to be filled, the Committee believes that every effort should be made to keep over-production to a minimum and ensure the greatest possible use of existing stocks. In this regard, the Committee notes the Administration's response to the Board referred to in paragraph 18 that efforts are being made to improve sales forecasting and to develop methods for the sale of unsold cards.

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<sup>10/</sup> Any surplus of Greeting Card Fund's income which remained over and above the authorized budget estimates was transferred to the UNICEF general resources as income.

16. As regards the Board's observations in paragraphs 21 to 27 on national officers' salaries and staff assessment in UNIPAC, the Advisory Committee has been informed that the question is under review.

17. In paragraph 29 of its report, the Board recommends that UNIPAC should explore the possibility of itself hiring manual labour instead of using the services of a local firm. The Advisory Committee notes that the Administration has informed the Board that it did not consider the suggestion to be feasible at the present time. In the light of the additional information provided by the Administration, the Advisory Committee agrees with that view.

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

18. In paragraph 6 of its report, 11/ the Board states that it has noted that, contrary to the Agency's financial regulation 9.1, the original budget estimates were subsequently amended without prior consultation with the Agency's Advisory Commission. The Board has recommended that appropriate steps should be taken to revise the Financial Regulations to accommodate the current requirements of the Agency.

19. In this connexion, the Advisory Committee has been informed that the budget estimates presented to the Advisory Commission and included in the Commissioner-General's annual report are prepared in June/July of the preceding year. Of necessity, these estimates must be revised periodically to reflect fluctuations in exchange rates and changes in valuations of donated commodities and in the calculation of staff costs. The differences between the initial estimates and the revised figures are explained in the annual report, which is submitted in draft form to the Advisory Commission for consideration at its regular annual meeting. It has also been the practice of the Commissioner-General in recent years to keep members of the Advisory Commission informed about major changes in the budget estimates.

20. The Advisory Committee trusts that the Board's recommendation will be brought to the attention of the Advisory Commission.

D. United Nations Institute for Training and Research

21. The Advisory Committee has no comments on the Board's report on the accounts of UNITAR. 12/

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11/ Official Records of the General Assembly, Thirty-sixth Session, Supplement No. 5C (A/36/5/Add.3), sect. I.

12/ Ibid., Supplement No. 5D (A/36/5/Add.4), sect. II.

E. Voluntary funds administered by the Office of the United Nations High Commissioner for Refugees

22. In paragraphs 8 to 10 of its report, 13/ the Board states that its review of various monthly accounts from UNHCR field offices revealed that the control on the administrative expenditure was not assured in a satisfactory way. The Board has recommended that the control function of administrative expenditure should be transferred from the Finance Service of the United Nations Office at Geneva to the UNHCR Budget and Management Section.

23. In response to inquiries, the representatives of the Secretary-General have informed the Advisory Committee that, in line with normal United Nations practice, it is important to maintain a segregation of duties between the certifying function and the approving function. The former is attached to programme responsibility; the latter is attached to financial responsibility, which for the regular budget accounts falls to the Office of Financial Services. It follows, therefore, that a transfer to UNHCR of the approving function would adversely affect the responsibility of the Office of Financial Services under financial rules 110.1-110.3.

24. The representatives of the Secretary-General have also informed the Advisory Committee that, although field expenditures are now certified by UNHCR, there may be improvements in the processing procedure and, in particular, in expenditure reporting which would provide better management information to UNHCR. In response to this observation by the Board of Auditors, discussions are taking place with UNHCR staff to ensure that proper financial procedures and controls are in place and that management information is provided as required to UNHCR.

25. The Advisory Committee notes the Board's observations and the Administration's response on the questions of unliquidated obligations on projects (paras. 18 and 19), internal audit coverage (para. 20 (a)) and the income from the long-playing record scheme (para. 20 (b)).

F. United Nations Fund for Population Activities

26. In paragraphs 4 to 6 of its report, 14/ the Board states that its examination of expenditures on certain projects financed from trust funds revealed that agency support costs were being charged at different rates for each project (5 per cent in some cases and 3.76 per cent in others). The Board has recommended that support costs should be charged to projects at a uniform rate.

27. In response to inquiries, the representatives of the UNFPA Administration informed the Advisory Committee that the trust fund which was being charged agency

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13/ Ibid., Supplement No. 5E (A/36/5/Add.5), sect. I.

14/ Ibid., Supplement No. 5G (A/36/5/Add.7), sect. II.

support costs at a rate equivalent to 3.76 per cent of the total had been established in 1976 and that the programme supported by it was scheduled to end in 1981. The Advisory Committee has also been informed that beginning in 1977 the UNFPA instituted the practice of charging agency support costs at a uniform rate of 5 per cent of annual expenditures to all trust funds established with the approval of the Governing Council for projects to be executed directly by UNFPA.

28. The Advisory Committee recalls that, in paragraph 3 of resolution 35/83 of 5 December 1980, the General Assembly, inter alia, noted with approval Governing Council decision 80/44 of 27 June 1980 concerning the reimbursement by UNDP of agency support costs. In paragraph 4 of that decision, the Governing Council had urged Governments and governing bodies of agencies to apply the support cost reimbursement arrangements described in paragraph 2 of the decision also to technical co-operation activities financed from all other extrabudgetary resources, including trust funds or similar funds.

29. The practice instituted by UNFPA in 1977 (see para. 27 above) is thus at variance with Governing Council decision 80/44. In the light of paragraph 4 of that decision (see para. 28 above), the Governing Council may wish to consider extending the uniform support cost reimbursement arrangements also to trust funds for projects executed directly by UNFPA.

30. The Advisory Committee notes the Board's observations in paragraphs 12 to 14 on the question of outstanding travel advances. In the Committee's opinion, immediate action must be taken by the UNFPA Administration to ensure compliance with the Fund's administrative policies and procedures in this respect.

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