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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 1979 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 including the Greeting Card Operations, 2/ the United Nations Institute for Training and Research, 3/ the voluntary funds administered by the United Nations High Commissioner for Refugees, 4/ and the United Nations Fund for Population Activities, 5/ for the year ended 31 December 1978, and those of the United Nations Relief and Works Agency for Palestine Refugees in the Near East, 6/ for the years ended 31 December 1977 and 31 December 1978. The Advisory Committee also discussed with the Board its report to the Committee on matters arising out of the United Nations audit for the biennium 1978-1979.

\* A/34/150.

1/ Official Records of the General Assembly, Thirty-fourth Session, Supplement No. 5A (A/34/5/Add.1).

2/ Ibid., Supplement No. 5B (A/34/5/Add.2).

3/ Ibid., Supplement No. 5D (A/34/5/Add.4).

4/ Ibid., Supplement No. 5E (A/34/5/Add.5).

5/ Ibid., Supplement No. 5G (A/34/5/Add.7).

6/ Ibid., Supplement No. 5C (A/34/5/Add.3).

A. Observations applicable to several organizations

2. In its audit reports on the United Nations Development Programme and the United Nations Children's Fund, and also in the report to the Advisory Committee on matters arising out of the United Nations audit for the biennium 1978-1979 the Board of Auditors expresses concern at the inadequacy of controls in the New York Computer Service (NYCS) data centre.

3. In the report on UNICEF the Board states, inter alia, "our over-all conclusion is that not enough time has been devoted to the establishment of standards and control procedures for the documentation, processing and protection of computer systems, and that there has not been sufficient interaction between NYCS and its users.

We are particularly concerned that UNICEF computer programmes and data files are not adequately protected, notably in the following areas:

(a) Controls over terminal activity are such that anyone with sufficient data processing knowledge can gain access to almost any UNICEF programme or data file from any terminal within the NYCS user group;

(b) The built-in facilities within the computer that could provide protection over data transmission and storage have not been fully activated by NYCS and made available to UNICEF;

(c) Computer programmes, data files and system documentation are not always physically secured." 7/

Virtually the same language is used in the Board's report on the accounts of UNDP.

4. In its report to the Advisory Committee, the Board states, inter alia, that because of the growing workload of NYCS there has been little time remaining to establish and formalize standards and control procedures for the design, processing and protection of computer systems. The Administration is aware that such controls are necessary but lacks the staff to apply them. As a result, controls in the NYCS data centre are, in the view of the Board, significantly below an acceptable level for a centre of its size and complexity. The Board advocates immediate action by the Administration to bring the controls over computer operations at NYCS and its users up to an acceptable level, and to ensure that the appropriate professional resources are available to establish, maintain and monitor these controls.

5. The Advisory Committee discussed the question of security of computerized files with the representatives of the Secretary-General, including those responsible for the operation of the New York Computer Service. The Committee was informed that NYCS had a modest but active programme in the field of computer security. Furthermore, all but two of the major computer systems were conventional batch systems in respect of which the use of terminals was peripheral and auxiliary.

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7/ Ibid., Supplement No. 5B (A/34/5/Add.2), part one, chap. IV, paras. 13-14.

The two newer systems specifically designed for on-line operation had complete password protection for programmes and data files, and specific access control to terminals. The computerized files reflected the data in the paper files; consequently, if the computerized files were tampered with, discrepancies would immediately arise. The representatives of the Secretary-General also stated that there were at present a relatively limited number of staff members who had access to the computer facilities, that their activities were generally well-known and were monitored readily, and that there was an available record of activity for each user which could be traced. Some of the measures suggested by the Board, such as the installation of an emergency power supply and the segregation of duties among the staff of NYCS, would call for additional resources. The representatives of the Secretary-General informed the Committee that while, in their opinion, there was no cause for undue concern at this time, additional protection would be required as the NYCS gradually changed over to interactive equipment.

6. The Advisory Committee recommends that the Secretary-General keep the question of security of computerized files under constant review, while bearing in mind the costs and benefits of possible improvements.

#### B. United Nations

7. In its report to the Advisory Committee on matters arising out of the United Nations audit for the biennium 1978-1979, the Board states that it is of the view that no significant progress has been made by the Administration to improve financial management and control systems in the United Nations, inasmuch as the two "Key recommendations" made by the Board in its report to the General Assembly at its thirty-third session have not been implemented. The two recommendations in question related (a) to the Controller's ability to provide functional leadership, guidance and central direction on all financial functions, and (b) to the establishment of a systems group to deal exclusively with the over-all systems of financial management and control.

8. As regards the former recommendation, the Advisory Committee recalls that in its report to the General Assembly at its thirty-third session it called upon the Secretary-General and the Controller to take immediate action to ensure full implementation of the Financial Regulations and Rules of the United Nations (A/33/171, para. 11).

9. In response to inquiries, the representatives of the Secretary-General informed the Advisory Committee that lack of progress on the recommendation was due to the need to work out modalities whereby the role of the Controller would be strengthened so as to enable him to provide functional leadership, guidance and central direction of all United Nations financial functions, within the context of greater delegation of authority to organizational units away from Headquarters.

10. As regards the establishment of the systems group, called for in the second recommendation referred to in paragraph 5 above, the representatives of the Secretary-General indicated that candidates had been selected and would be appointed soon.

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11. The Committee inquired also into the progress made to develop a comprehensive financial manual setting out the financial management and control policies, responsibilities and procedures of the United Nations, pursuant to paragraph 4 of the General Assembly resolution 33/10 of 3 November 1978. The Committee was informed that work on the manual had not been undertaken.

12. In connexion with the foregoing the Committee recalls that in paragraph 5 of resolution 33/10 the General Assembly called upon the Secretary-General to proceed as quickly as possible to implement the proposals of the Board of Auditors<sup>7</sup> and to report to the General Assembly at its thirty-fourth session on the progress made in meeting the concerns expressed by the Board of Auditors in its report. 8/

13. In its report to the Advisory Committee, the Board of Auditors also lists several weaknesses in cash management. The Board indicates that the Administration is in substantial agreement with its observations and has already initiated action to improve cash forecasting and monitoring procedures and to strengthen internal controls. The Board informed the Advisory Committee that it would keep the matter under review and would report thereon, as necessary, in its audit report to the General Assembly at its thirty-fifth session on the financial reports and accounts of the United Nations for the biennium 1978-1979.

14. The Board also informed the Advisory Committee that it had recommended that the Administration should take immediate action to update its procurement procedures, to develop methods and procedures for the expeditious processing and follow-up of purchase orders, to upgrade its process for vendor selection and evaluation and to improve accounting procedures for expendable and non-expendable property. The Board stated that the Administration had concurred with its over-all evaluation and had indicated that implementation of the Board's major recommendations would improve performance and delivery. The Administration had also taken a number of positive steps to improve the procurement and inventory systems. The Board would monitor implementation and would report thereon, as necessary, to the General Assembly at its thirty-fifth session.

#### C. United Nations Development Programme

15. In its report on the accounts of the United Nations Development Programme for the year ended 31 December 1978 the Board of Auditors recommends that immediate attention should be given to the scope, size and organizational arrangement of the internal audit function, and that greater priority should be given to the review and analysis of agency statements and audit reports. 9/ Other areas covered in the audit report include the need to improve monitoring of operating funds and bank accounts, protection of UNDP computer programmes and data files (see paras. 2-6 above), a more informative presentation of financial statements, and the progress made on the Integrated Systems Improvement Project (ISIP).

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8/ Ibid., Thirty-third Session, Supplement No. 5 (A/33/5), vol. I, sect. IV.

9/ Ibid., Thirty-fourth Session, Supplement No. 5A (A/34/5/Add.1) sect. IV, para. 7.

16. The Advisory Committee notes that it is the view of the Board that ISIP has progressed successfully through the conceptual design phase. As regards the UNDP's internal audit operations, the Board informed the Advisory Committee that, in its view, the UNDP Internal Audit staff should report on important issues directly to the Administrator.

D. United Nations Children's Fund

17. In paragraphs 5 to 8 of its report on UNICEF 10/ the Board of Auditors states that, because of the failure of many Governments to submit periodic reports on the vehicles loaned to them, the Board was unable to determine whether the vehicles reflected in the records were in existence and were being used for the purpose for which they were provided. In response to inquiries, the Board informed the Advisory Committee that the controls specified in agreements with Governments could not be exercised despite the best efforts of UNICEF representatives in the countries concerned. The Committee notes that UNICEF will hold a vehicle management conference at which, inter alia, the Fund's policy on vehicle loan agreements will be reviewed.

18. The Advisory Committee notes from paragraphs 9 to 12 of the Board's report that UNICEF has not established adequate procedures for the engagement and performance evaluation of experts and consultants, to ensure compliance with the principles and guidelines laid down by the General Assembly. The Administration of UNICEF has informed the Board that it was formulating an appropriate statement of policy on the use of outside expertise and professional services.

19. The Advisory Committee's observations on the question of computer operations are set out in paragraphs 2 to 6 above.

E. United Nations Institute for Training and Research

20. The Advisory Committee has no comments on the report of the Board of Auditors on the accounts of UNITAR for the year ended 31 December 1978. 11/

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

21. In its audit reports on the accounts of the voluntary funds administered by the Office of the United Nations High Commissioner for Refugees for the year ended 31 December 1978 12/ the Board makes recommendations for improvement of

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10/ Ibid., Supplement No. 5B (A/34/5/Add.2), part one, sect. IV.

11/ Ibid., Supplement No. 5D (A/34/5/Add.4), sect. IV.

12/ Ibid., Supplement No. 5E (A/34/5/Add.5), sect. IV.

co-ordination and internal control over the procurement system; for the promotion of the repayment of loans (which totalled \$13 million at 31 December 1978); for the speeding up of the submission by implementing agencies of certified final financial statements and narrative reports; and for improved controls over non-expendable properties, such as equipment and machinery.

22. The Advisory Committee notes that the High Commissioner agrees with the Board's recommendations and has already taken steps to put them into effect.

G. United Nations Fund for Population Activities

23. The Advisory Committee has no observations on the report of the Board of Auditors on the accounts of the UNFPA for the year ended 31 December 1978. 13/

H. United Nations Relief and Works Agency for  
Palestinian Refugees in the Near East

24. The Board's report on UNRWA relates to the Agency's accounts for the years ended 31 December 1977 and 31 December 1978. 14/ The Board expresses concern that the internal audit function has not been operating as effectively as it should. The Advisory Committee notes the Administration's explanation reported by the Board in paragraph 7 of its report that problems had arisen because of manpower shortages and the difficult conditions under which the Agency's headquarters had operated in recent years. The Administration expects that a better internal audit programme will be carried out in 1979.

25. In its observations on the Area Staff Provident Fund the Board recommends that procedures be established to ensure that the commercial money managers comply with investment policies and to monitor investment procedures. The Board also states that at the present time contributions by the Agency to the Provident Fund are made on an irregular basis, and suggests that appropriate action be taken.

26. One of the other matters reported by the Board is that its "examination revealed instances of unusual contract awarding practices, non-conformance with prescribed procedures, and liberal interpretation and use of emergency powers". 15/ In this connexion, the Board informed the Advisory Committee that its examination had revealed instances when there was no real emergency and yet the lowest bids had not been accepted or no advertisements had been placed. The Advisory Committee trusts that steps will be taken to prevent a recurrence of such situations.

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13/ Ibid., Supplement No. 5G (A/34/5/Add.7), sect. IV.

14/ Ibid., Supplement No. 5C (A/34/5/Add.3), part three.

15/ Ibid., para. 16 (a).