

**UNITED NATIONS
POPULATION FUND**

**FINANCIAL REPORT
and
AUDITED FINANCIAL STATEMENTS
for the year ended 31 December 1987
and
REPORT OF THE BOARD OF AUDITORS**

GENERAL ASSEMBLY

OFFICIAL RECORDS: FORTY-THIRD SESSION

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NOTE

Symbols of United Nations documents are composed of capital letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

[23 August 1988]

CONTENTS

	<u>Page</u>
LETTERS OF TRANSMITTAL	v
I. FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 1987	1
II. REPORT OF THE BOARD OF AUDITORS	5
III. AUDIT OPINION	34
IV. CERTIFICATION OF THE FINANCIAL STATEMENTS	35
V. FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1987	37
<u>Statement I.</u> Statement of income and expenditure for the year ended 31 December 1987	38
<u>Statement II.</u> Statement of assets and liabilities as at 31 December 1987	39
<u>Statement III.</u> Statement of general resources as at 31 December 1987 .	40
<u>Statement IV.</u> Statement of changes in the financial position for the year ended 31 December 1987	41
Schedules to the financial statements:	
1. Status of voluntary contributions pledged as at 31 December 1987	42
2. Miscellaneous income and expenditure for the year ended 31 December 1987	46
3. 1987 expenditure by agencies and non-governmental organizations	47
4. Budget appropriations and expenditure for the biennium 1986-1987	48
5. Investments as at 31 December 1987	49
6. Status of contributions from Governments for special population programmes as at 31 December 1987	50
7. Trust funds: statement of account for the year ended 31 December 1987	51
8. Unspent allocations as at 31 December 1987	52

CONTENTS (continued)

	<u>Page</u>
9. Trust funds: status of contributions pledged as at 31 December 1987	53
Notes to the financial statements	54

LETTERS OF TRANSMITTAL

29 April 1988

Sir,

Pursuant to financial rule 116.2 (b) of the United Nations Population Fund, I have the honour to submit the annual financial statements of the United Nations Population Fund as at 31 December 1987, which I hereby approve.

Copies of these financial statements are also being transmitted to the Advisory Committee on Administrative and Budgetary Questions.

Accept, Sir, the assurances of my highest consideration.

(Signed) Nafis SADIK
Executive Director of the
United Nations Population Fund

The Chairman of the Board of Auditors
United Nations
New York

23 June 1988

Sir,

I have the honour to transmit to you the financial statements of the United Nations Population Fund for the financial period ended 31 December 1987, which were submitted by the Executive Director. These statements have been examined and include the audit opinion of the Board of Auditors.

In addition, I have the honour to present the report of the Board of Auditors with respect to the above accounts.

Accept, Sir, the assurances of my highest consideration.

(Signed) André CHANDERNAGOR
Senior President of the
Court of Accounts of France
and Chairman of the
United Nations Board of Auditors

The President of the General Assembly
of the United Nations
New York, N.Y.

I. FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 1987

1. The Executive Director of the United Nations Population Fund has the honour to submit herewith the annual financial report of the United Nations Population Fund (UNFPA) for the year ended 31 December 1987 and the report of the Board of Auditors. The accounts consist of four statements supported by nine schedules accompanied by notes that are an integral part of the financial statements, and also cover the trust funds authorized by the Governing Council for population activities.

2. This submission is made in conformity with regulation 16.1 of the UNFPA Financial Regulations approved by the Governing Council of the United Nations Development Programme (UNDP) at its thirtieth session.

Executing agency accounts

3. In accordance with UNFPA financial regulation 17.1 (b), the UNFPA financial statements incorporate the data obtained from the 1987 annual accounts of the executing agencies with regard to the status of funds allocated to them for the execution of UNFPA projects in 1987.

4. As of the date of the preparation of the present financial statements, the status of information received from the executing agencies was as follows:

(a) Audited statements were provided by the following executing agencies:

United Nations Industrial Development Organization (UNIDO)

World Health Organization (WHO)

(b) Statements as submitted for audit were provided by the following executing agency:

United Nations Children's Fund (UNICEF)

(c) In respect of the following executing agencies, the UNFPA financial statements incorporate the information contained in the agencies' financial statements for the biennium 1986-1987, as submitted for audit:

United Nations

Economic Commission for Europe (ECE)

Economic and Social Commission for Asia and the Pacific (ESCAP)

Economic Commission for Latin America and the Caribbean (ECLAC)

Economic Commission for Africa (ECA)

Economic and Social Commission for Western Asia (ESCWA)

International Labour Organisation (ILO)

Food and Agriculture Organization of the United Nations (FAO)

United Nations Educational, Scientific and Cultural Organization (UNESCO)

5. Should any changes be reported in the audited accounts of any of the executing agencies, they will be reported to the General Assembly and to the Governing Council at subsequent sessions. The Executive Director will submit to a subsequent session of the Governing Council copies of the audited statements and audit reports, if any, of the executing agencies and copies of any relevant resolutions adopted by their governing bodies, as required under UNFPA financial regulation 17.1 (b).

Financial status of the Fund

6. As shown in statement III, at 1 January 1987, the balance of unexpended general resources of the Fund was \$15,489,054. During 1987, UNFPA received income of \$156,050,357 and had expenditures of \$140,476,802, which resulted in an excess of income over expenditure of \$15,573,555, as shown in statement I.

7. At 31 December 1987, the balance of unexpended general resources of the Fund was \$24,062,609 (i.e. the opening balance as at 1 January 1987 of \$15,489,054 plus the excess of income over expenditure for 1987 of \$15,573,555 less the transfer to the operational reserve of \$7,000,000). The 1987 unspent allocations as at 31 December 1987 amounted to \$26,707,852 (schedule 8).

1987 programme expenditure and 1987 expenditure against the
1986-1987 biennial budget appropriations

8. At its thirty-third session, the Governing Council gave the Executive Director an approval authority for 1987 of \$165 million (decision 86/34, section IV, para. 7). As shown in schedule 8, total allocations at year-end consisted of \$133,695,413 for project allocations, of which \$14,424,117 was the carry-over of unspent allocations from the previous year. Further, as shown in schedule 4, gross appropriations for the 1986-1987 biennial administrative and programme support services budget of UNFPA totalled \$40,300,400, as approved by the Governing Council at its thirty-third session in its decision 86/35, paragraph 1. The 1986-1987 expenditure consisted of \$15,866,571 for the first year of the biennium and \$18,760,337 for the second year, after credits of \$3,426,316 earned for the biennium 1986-1987 for programme support services were taken into account (\$1,949,128 earned for 1986 and \$1,477,188 earned for 1987).

9. Expenditure for 1987 totalled \$140,476,802, compared to 1986 expenditure of \$132,092,348. The breakdown of 1987 expenditure is shown in statement I. It comprised \$106,987,561 for projects, \$9,086,538 paid to executing agencies, non-governmental organizations and UNFPA itself for programme support costs, \$5,642,366 for field offices' costs not integrated in the administrative and programme support services budget and \$18,760,337 for administrative and programme support costs in 1987 under the biennial administrative and programme support services budget, which included \$3,021,649 of field offices' costs for 33 deputy representatives and senior advisors on population and nine international programme officer posts integrated in the administrative and programme support services budget.

10. In 1987, the ratio of project expenditure to project allocations was 80.0 per cent, compared to 87.6 per cent in 1986. Of the total 1987 project expenditure, \$60,845,001, or 56.8 per cent, was spent by executing agencies, \$21,273,963, or 20.0 per cent, was spent by Governments, \$10,276,122, or 9.6 per cent, was spent by UNFPA itself and \$14,592,475, or 13.6 per cent, corresponded to expenditures of non-governmental organizations' projects.

Contributions from Governments for special population programmes

11. As authorized by the Governing Council at its seventeenth session, UNFPA received contributions from several Governments that were designated for special population programmes. Schedule 6 shows the status of the contributions received in 1987 from the Governments of Japan, the Netherlands and Norway for four special programmes, namely, the International Planned Parenthood Federation, the Population Council, the International Union for the Scientific Study of Population, and the International Committee on the Management of Population Programmes. The balance due to special population programmes as at 1 January 1987 was \$6,100,000. Contributions received from Governments in 1987 were \$15,114,543. After remittances of \$21,214,543, no balance was due to special population programmes as at 31 December 1987.

Trust funds

12. Schedule 7 shows the statement of account as at 31 December 1987 of the trust funds established by the Executive Director for multilaterally and bilaterally funded programmes and other special population activities. In 1987, new trust funds were established by the Executive Director from contributions by the Arab Gulf Fund, the Government of Australia, the Hewlett Foundation, the Government of the Syrian Arab Republic and the United Nations Trust Fund for a Special Economic Assistance Programme for Liberia. In addition, a trust fund for a management development unit project in Bangladesh was established from contributions by the Governments of the Netherlands, Norway and the United Kingdom of Great Britain and Northern Ireland. The unexpended balance of the trust funds at 1 January 1987 was \$2,430,926. Contributions received from the Governments and other sources during 1987 were \$4,442,078 and interest income amounted to \$330,723. The total amount available for programming in 1987 was \$7,203,727. Total programme expenditures were \$3,496,144 leaving at year-end an unexpended balance of \$3,707,583 as the opening balance for 1988.

Operational reserve

13. During 1987, UNFPA maintained a fully funded operational reserve of \$37 million (statement II). The operational reserve was established by the Governing Council in January 1973 at the \$20 million level to guarantee the financial viability and integrity of the UNFPA programme. In decision 81/7, section III, paragraph 5, adopted by the Governing Council at its twenty-eighth session, UNFPA was requested to increase the reserve annually to reach a level equivalent to 25 per cent of the annual estimated contributions by the end of 1989. However, in decision 86/34, section IV, paragraph 4, the Governing Council authorized UNFPA to delay reaching the goal of 25 per cent until the middle of the 1990s and to borrow from the reserve up to \$5.0 million in 1986 and up to

\$3.0 million in 1987. This was in order to supplement the Fund's programme resources if such funds were needed to make up for a sharp decline in resources resulting from the loss of the contribution noted above. However, because the real income level in 1987 exceeded the projections for that year, it was not necessary for UNFPA to borrow from its operational reserve. Furthermore, in view of the actual income realized in 1987, the Executive Director decided to add \$7.0 million to the operational reserve from general resources to reach a level of \$37.0 million, or approximately 25 per cent of contributions, as at 31 December 1987.

Liquidity position

14. As at 31 December 1987, UNFPA had bank balances in convertible currencies and time-deposit investments amounting to \$91,470,644, which included \$37.0 million set aside as the operational reserve (statement II and schedule 5). The bank balances and investments were reported using the United Nations operational rate of exchange, which came into effect on 1 December 1987. At the United Nations operational rate of exchange in effect from 1 January 1988, which more closely reflected the market rate of exchange as at 31 December 1987, the value of these investments would amount to approximately \$4.5 million more than that shown in statement II.

II. REPORT OF THE BOARD OF AUDITORS

Introduction

1. As required by General Assembly resolution 74 (I) of 7 December 1946 and article XVII of the Financial Regulations of the United Nations Population Fund (UNFPA), the Board of Auditors has audited the accounts of UNFPA for the year ended 31 December 1987.
2. The examination was made in accordance with article XII of the Financial Regulations of the United Nations and the annex thereto and with the common auditing standards adopted by the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. The examination was conducted at UNFPA headquarters in New York and at field offices in Indonesia and Thailand.
3. During the year under review, the Board of Auditors continued its normal practice of reporting the results of specific audits and issuing management letters containing detailed observations and recommendations to the Administration. This practice has helped to maintain a continuous dialogue with the Administration. Pursuant to regulation 12.9, the Board engaged the services of a commercial public audit firm for specific assignments.
4. The following are the most significant matters arising from our 1987 audit examination. We have discussed these matters with the Administration, whose responses are incorporated where appropriate.

Summary of recommendations

5. We recommended that the following corrective actions, presented in order of priority, be taken:
 - (a) Accounting principles, procedures and controls should be reviewed along the lines detailed in the present report and summarized in the audit opinion in order to improve the accuracy and the informative value of the financial statements;
 - (b) UNFPA and UNDP should reach an agreement on institutional arrangements pertaining to the delineation of respective responsibilities in the area of finance and personnel administration;
 - (c) The distinction between "administrative costs" and "operational costs" must be further clarified and applied consistently from one year to the next;
 - (d) The allotment of budgetary funds must be further brought in line with the Financial Regulations and Rules of UNFPA, and the control over the implementation of the budget must be tightened.

Summary of findings

6. The valuation of investments reported in the financial statements is underestimated.

7. With the exception of expenditures executed by UNFPA itself, the programme expenditure reported in statement I is not supported by adequate documentation submitted by executing agencies to UNFPA.
8. The Board cannot comment on the fair representation of programme expenditure executed by United Nations executing agencies owing to:
 - (a) An absence of supporting documentation submitted to UNFPA headquarters;
 - (b) An absence of defined criteria to be adopted by the agencies for the determination of what constitutes unliquidated obligations at year-end;
 - (c) An absence of audited "status of funds" reports available at the time the Board is required to issue its opinion.
9. At the close of the audit, only 13.5 per cent of the 1987 financial reports required from Governments in their capacity as executing agencies of UNFPA programmes had been received at headquarters. None of these reports had been audited by independent auditors in the recipient countries as required by the Financial Regulations and Rules of UNFPA.
10. The concept of programme expenditures executed by Governments acting as executing agencies or by non-governmental organizations does not conform with the Financial Regulations and Rules.
11. At the close of the audit, only 16 per cent of the 1987 financial reports required from non-governmental organizations acting as executing agencies of UNFPA programmes had been received, and only 3 out of the 33 reports had been audited.
12. The 1986 and 1987 field office costs reported in statement I are not comparable to one another. In fact, total field office costs increased from one year to the next.
13. Credits due to the UNDP Office for Project Services are misclassified in the interfund balance, whereas they belong to accounts payable.
14. There are unacceptably long delays in the clearing of unliquidated travel obligations, which further increased at the end of 1987 (as compared to 1986).
15. Expenditures charged to certain trust funds exceeded the funds available.
16. Support costs on trust fund expenditures grossed by executing agencies are not separately disclosed in schedule 7.
17. The respective procedures heretofore performed by UNFPA and UNDP on a "verbal understanding basis" were formalized in a written agreement dated 17 June 1988.
18. As noted by the Board in the case of UNDP, the present practice in UNFPA for charging programme expenditure to the relevant financial period is not based on a consistent application of the delivery concept in line with the generally accepted accounting principles.

19. The budget and account code structure for projects does not conform to the relevant UNDP-UNFPA instructions and, as a result, the breakdown of project expenditure as reported in schedule 3 may be misleading.
20. The investment policy applied in 1987 involves an exchange risk which was not hedged by appropriate risk management techniques.
21. The present delineation of responsibilities with respect to cash and investments between UNFPA, UNDP and the United Nations does not appear to be relevant or practical, and results in substantial deposits not being adequately invested.
22. The allotment of budgetary funds does not fully conform to the Financial Regulations and Rules and does not allow for proper control of the execution of the budget.
23. Substantial changes in the approved staffing tables were introduced as a consequence of the reorganization of UNFPA headquarters during the latter part of 1987 without the prior approval of the Governing Council.
24. The management of consultancy services shows a number of weaknesses that call for the strengthening of the Personnel Branch.
25. The ratio of operational costs to programme expenditure steadily increased during the biennium up to 31.3 per cent in 1987.
26. The present distinction between programme and administrative expenditure calls for further clarification, and the guidelines to be adopted must be consistently applied from one year to the next to ensure a fair representation of UNFPA's operations in the financial statements.
27. The procedures for authorizing the allocation of funds to projects were confusing and potentially misleading, and the Administration has changed such procedures as of 1988. Such changes will now have to be incorporated into the Financial Regulations and Rules.
28. The project expenditure rate (expenditures divided by allocations) disclosed by the Administration is misleading.

Financial statements

Valuation of income and assets

29. Because of the significant exchange-rate fluctuations in 1987, we consider that the following comments are in order.
30. Since the contribution income is recorded at the exchange rate prevailing at the date cash is received, the decline of the United States dollar in 1987 resulted in the income disclosed in statement I, including exchange gains of \$10 million arising from the date of pledge and of cash collection. This is in accordance with UNFPA Financial Regulations and Rules. But it should be noted that the "exchange adjustments on collection of contributions" shown in statement I relate only to exchange gains or losses in respect of contributions pledged in United States

dollars and subsequently received in another currency (e.g., the currency of the contributing Member State). Since the explanatory note in the "summary of significant accounting policies" tended to suggest that all exchange gains and losses were disclosed separately, which is not the case, we recommended that note 1 (c) to the financial statements be amended accordingly. The Administration agreed to amend the policy note.

31. Assets and liabilities denominated in currencies have been converted at the United Nations operational rate of exchange in accordance with UNFPA Financial Regulations and Rules. The United Nations operational rate for a given month is specified at the beginning of the month and corresponds with the market rate prevailing during the last days of the preceding month and the very first days of the current month. Thus, the revaluations of assets at year-end have been made using the December operational rate, which corresponds to the market rates of end-November and beginning of December. In view of the significant yen investments at year-end and the decline in the dollar/yen rate during the month of December, the effect of not using a rate that approximates the actual (market) rate is a significant understatement of investments (schedule 5) and exchange gains (schedule 2: miscellaneous income) of \$4.135 million. We recommended that appropriate disclosure be made on schedule 5 and that the accounting policy note be expanded. The Administration agreed to disclose the amount of the understatement in a note to the financial statements.

32. In addition, we recommended that consideration be given in future to revaluing assets and liabilities denominated in currencies other than the United States dollar in such a way as to recognize in the statements unrealized exchange gains or losses, which would be more consistent with generally accepted accounting principles. To that effect, the Financial Rules could allow for using the United Nations operational rate of exchange of January of the following year when the latter better approximates the market rate than does the December operational rate, as was the case at the end of 1987.

Miscellaneous income (schedule 2)

33. A number of weaknesses were noted in the recording of "miscellaneous income from accounts of executing agencies - net". They include reporting part of the 1986 income from UNESCO as 1987 income, erroneous charging by ILO of 1986 and 1987 expenditures that did not belong to the status of funds submitted by ILO as an executing agency, questionable charges relating to "savings on unliquidated obligations" by WHO, the propriety of which could not be clarified before the end of the audit. These observations have been separately documented to the Administration. In addition, we could not obtain reasonable assurances that interest income from operating fund balances between executing agencies and UNFPA was always credited to UNFPA as required by the Financial Regulations and Rules (regulation 13.6 and rule 104.6 refer). As far as we could ascertain, only the United Nations work programme credits UNFPA with interest income. Although the amounts concerned are not significant to the financial statements, we are of the opinion that they call for issuing strict guidelines to the reporting agencies and a more careful checking of the status of funds reported.

Programme expenditure

34. Programme expenditure (excluding programme support costs paid to executing agencies and non-governmental organizations) represents 76 per cent of total UNFPA

expenditure in 1987. Programme expenditure may be broken down as follows (schedule 3 refers):

	<u>United States dollars</u>	<u>Percentage</u>
United Nations executing agencies (excluding UNFPA)	60.8	56.8
Governments as executing agencies	21.3	19.9
UNFPA as its own executing agency	10.3	9.6
Non-governmental organizations	<u>14.6</u>	<u>13.7</u>
Total	107.0	100.0

35. As a matter of fact, statement I lumps together the first three categories presented in the above table under the heading "executing agencies", while non-governmental organizations are shown on a separate line. This presentation does not conform to the definition of an executing agency, which includes non-governmental organizations (financial regulation 2.1 refers). In this regard, we would rather recommend that the layout of financial statement I be modified to show separately three categories of agencies corresponding to three very distinct types of operations: United Nations executing agencies (including UNFPA), governments (as executing agencies) and non-governmental organizations. The Administration concurred.

36. For the reasons (and with the exceptions) reported below, the only expenditures supported by adequate documentation at headquarters are those that are incurred by UNFPA at its own executing agency, and the Board cannot comment on the fair representation of the other categories of expenditure mentioned above. Each of these categories will be dealt with in turn.

Programme expenditure executed by United Nations executing agencies

37. These expenditures are reported by the executing agencies, which submit their "status of funds" reports as at 31 December. The figures disclosed in statement I were correctly extracted from the underlying reports, with the few exceptions noted below.

38. However, the Board cannot comment on the fair representation of such reports at UNFPA headquarters owing to:

(a) An absence of supporting documentation for expenditure incurred available at UNFPA headquarters;

(b) An absence of defined criteria to be adopted by the agencies for the determination of what constitutes unliquidated obligations at the year-end;

(c) An absence of available audited "status of funds" reports at the time the Board is required to issue its opinion.

Regarding subparagraph (b) above, the guidelines for the 1987 year-end closure of accounts sent out by UNFPA to United Nations executing agencies (ADM/13/07, dated

29 December 1987) do not provide appropriate guidance. Because financial policies and procedures of UNFPA and UNDP regarding reporting requirements by executing agencies are essentially identical and because of the part UNDP plays in preparing the UNFPA accounts, the Board would suggest that the UNFPA guidelines could be patterned, to a large extent, on UNDP guidelines (UNDP memorandum FIN/214/7A, dated 30 November 1987 refers), with one exception relating to criteria for the determination of what constitutes unliquidated obligations. Paragraph 62 of the present report, as well as the Board's report on the 1987 financial statements of UNDP, 1/ examine that matter at length, detailing the reasons why the generally accepted "delivery principle" should be consistently applied to all categories of expenditures for recognizing unliquidated obligations. With regard to subparagraph (c) above, financial regulation 17.1, in UNFPA as well as in the UNDP Financial Regulations and Rules, provides for the submission of annual audited accounts, but, under the present conditions, these accounts are received several months too late to be incorporated in the UNFPA financial statements. As an example, it is worth mentioning that document DP/1988/41 purporting to present the "audited accounts of executing agencies" to the Governing Council does not, in fact, include any audited accounts as at 31 December 1986, since such accounts have not yet been received by UNFPA. In addition, financial regulation 17.1 (d) provides that, in the case of agencies on a biennial financial period, the accounts of the first year of the biennium "may be unaudited, provided audited accounts are subsequently submitted covering both years of the biennial financial period". A significant number of major United Nations executing agencies report on a biennial basis. However, the Board wishes to point out, in this respect, that, in the case of UNFPA and UNDP, it is required to issue its opinion on annual financial statements and that, when biennial audited accounts are submitted, the breakdown of the audited biennial figures between the first and the second year of the biennium is not audited, and therefore, neither are the figures that are disclosed in the annual financial statements. As a result of the foregoing, the Board is not in a position to express an opinion on expenditure reported by United Nations executing agencies. Since such expenditure represents 56.8 per cent of programme expenditure (and 43.3 per cent of total expenditure reported in statement I), the Board qualified its audit opinion on the financial statements of UNFPA for the year ended 31 December 1987 on that basis.

39. The UNFPA situation closely parallels that of UNDP, which was commented upon at length in the Board's report concerning the 1986 accounts of that organization. 2/ In concurrence with the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency, as well as the Administrations of UNDP and of the executing agencies concerned, the Board has taken steps in 1988 which have resulted in substantial improvements in the availability of audited accounts submitted by these agencies and, therefore, in the reliability of the financial statements of UNDP for the year ended 31 December 1987. The Board intends to pursue this matter with the Administration of UNFPA with a view to taking similar steps in 1988 and 1989 concerning the UNFPA financial statements. In view of the part UNDP plays in preparing these statements, the experience gained in 1988 will help considerably. However, the

1/ Official Records of the General Assembly, Forty-third Session, Supplement No. 5A (A/43/5/Add.1), sect. II.

2/ Ibid., Forty-second Session, Supplement No. 5A (A/42/5/Add.1), sect. II.

Board wishes to point out that it is primarily the responsibility of the Administration to remind executing agencies of their obligations under regulation 17.1 and to request them to submit audited "status of funds" before the closure of the UNFPA accounts. The existing guidelines fail to draw their attention to such requirements (see ADM/13/07, para. 7). In addition, according to financial regulation 15.3, it is the Administration's responsibility to provide guidance concerning the methods and standards for accounting for project expenditure financed from UNFPA funds. We recommend that appropriate instructions and guidelines be sent on a timely basis by the Administration. Nevertheless, a joint effort of the Administration as well as of the external auditors will prove necessary to improve the present situation and the Board intends to take that matter up again before the Panel of External Auditors at its next session. The Administration concurred and undertook to send "appropriate instructions and revised guidelines, patterned after the UNDP instructions, to all agencies in 1988".

40. As mentioned above, the expenditure incurred by United Nations executing agencies reported in financial statement II had been reconciled with the underlying reports. However, we noted that the 1987 UNESCO expenditure disclosed in schedule 3 was understated, since it had been reduced by the amount of the overstatement recorded in the 1986 accounts, ^{3/} i.e., \$79,317. We recommended that this correction be mentioned in a footnote to schedules 3 and 8. The Administration concurred.

41. In addition, we recommended strongly that, in future, an additional caption in statement I should provide for the disclosure of "adjustments to prior years' programme expenditure" as is the case for UNDP financial statements. Thus, the adjustments would be reported as such instead of being "netted" against relevant figures for the current year.

Programme expenditures executed by Governments

42. Article XV of the Financial Regulations and Rules requires that Governments submit to UNFPA at the beginning of each year a status of funds and a statement of annual expenditures covering the financial period just ended. At the close of our audit, only 13.5 per cent of the reports pertaining to the 271 government-executed projects having incurred expenditure in 1987 had been received at UNFPA headquarters. Therefore, no meaningful reconciliation of government-executed expenditure with such documents proved possible. In addition, it must be noted that none of those reports had been audited in compliance with financial regulation 17.2. Unfortunately, it must also be noted that when such audited accounts are submitted they are not always taken into account. In one of the countries we visited, the audited statement of annual expenditures towards the construction of health facilities disclosed that, out of the advance of \$660,000 reported to have been spent in 1986, \$420,000 were still outstanding at year-end. The 1986 accounts were not adjusted accordingly. Incidentally, it is worth noting that this is another reason to insert an additional caption in statement I to disclose "adjustments to prior years' programme expenditure" as suggested above, since such adjustments resulting from the production of audited accounts should be disclosed under that heading.

^{3/} Ibid., Supplement No. 5G (A/42/5/Add.7), sect. II, paras. 23 and 24.

43. Since UNFPA monitors directly the expenditure executed by Governments acting as executing agencies - deviating in this respect from the accounting procedures obtaining in 1987 in UNDP, we could reconcile the amount disclosed in statement I against the general ledger. But, on the basis of the supporting documentation available at headquarters, we noted that the recording of expenditures suffered from a fundamental flaw, since the concept of expenditures retained does not conform to the Financial Regulations and Rules. Regulation 2.2 defines expenditures as "the sum of disbursements and unliquidated obligations for the current year". But government-executed project expenditure is accounted for on the basis of the "advances" remitted to governments, which means that, in addition to disbursements and unliquidated obligations, expenditures include "outstanding advances" (i.e., advances not yet disbursed or obligated). These outstanding advances should normally be cleared and recorded as actual disbursements on the basis of the quarterly "statements of operations" (forms B1 and B2) submitted by the governments and supported by adequate documentation. However, we noted that a substantial amount of outstanding advances remained uncleared at the closure of the accounts. We could not obtain, or work out, because of time constraints, an assessment of the advances remaining outstanding at the end of the year, but a spot check in two countries revealed outstanding advances amounting to 36.9 per cent and 23.6 per cent of total expenditure at year-end. As a result of the foregoing, the actual amount of expenditure reported as executed by governments and disclosed in statement I cannot be ascertained. Government-executed project expenditure represents 20 per cent of programme expenditure and 15 per cent of total expenditure.

44. The Administration replied that it intended "to update the rules so that they reflect the current financial management practice for recording expenditures for government-executed projects". In this connection, we must reiterate our recommendation that, on the contrary, it is the current financial management practice that ought to be brought in line with the Financial Regulations and Rules and, therefore, that outstanding advances should not be included in current expenditures.

Programme expenditure executed by non-governmental organizations

45. Some 70 per cent of programme expenditure executed by non-governmental organizations is accounted for on the basis of "requests for advances" backed up by budget proposals reviewed and agreed upon by UNFPA. We reconciled statement I figures with such source documents as well as with the general ledger for the other 30 per cent. But it follows that the observations made in respect of government expenditure are also applicable to non-governmental organizations since neither the Financial Regulations and Rules nor other stated accounting policies provide for specific rules to be applied to that category of executing agencies. Since the procedure for charging advances on the basis of quarterly "statements of operations" does not apply, it appears that, for all practical purposes, advances to non-governmental organizations are treated in the UNFPA accounts as "grants", the use of which has to be justified at the end of the year in compliance with article XV of the UNFPA Financial Regulations and Rules, as well as with the "revised policy guidelines for assistance to non-governmental organizations" issued by UNFPA (UNFPA/CM/86/65 dated 14 November 1986). The year-end financial statements reporting the expenditure of UNFPA funds by non-governmental organizations must be certified by independent auditors.

46. As a matter of fact, as at the close of the audit, only 33 statements relating to the 1987 accounts had been received for 207 ongoing projects executed by non-governmental organizations, and only three of them had been audited. It might be understood that the specific nature of non-governmental organizations calls for specific accounting policies to be applied, but we think that, as a minimum, those policies that exist (annual reports) should be strictly enforced, and that deviations from usual accounting requirements should be disclosed in the summary of accounting policies which is not the case at present. For that reason, the Board is not in a position to comment on the fair representation of non-governmental organization expenditures. Such expenditures represent 13.7 per cent of programme expenditure and 10.4 per cent of total expenditure.

47. The Administration replied that "appropriate financial rules will be formulated in order to reflect current financial management practice for recording of expenditures of NGO-executed projects. In addition we will make every attempt to ensure that audited statements are submitted by all NGOs and that applicable financial rules will be strictly enforced. Moreover, any deviations from usual accounting regulations which are material to the financial statements shall be disclosed".

Programme support costs

48. Programme support costs are computed as a percentage of project expenditure executed by the relevant executing agency, except in the cases of governments acting as executing agencies that do not receive support costs. Regarding United Nations executing agencies, the standard rate of 13 per cent applies; lower rates may be provided for in project documents when the specific circumstances of the project so warrant. With regard to non-governmental organizations, the ratio of support costs is determined on a case-by-case basis. Regarding UNFPA as an executing agency, the support costs it grosses are included in the "Programme support costs" line of statement I. These costs comprise the amounts disclosed in schedule 4 under "Governments" and "UNFPA". They constitute a resource of the biennial budget of the organization which, for that reason, is reported "net" in statement I. These "credits" to the budget are generated by a standard assessment of 5 per cent of (a) trust fund expenditures; (b) expenditures charged to government-executed projects; and (c) procurement expenditures charged to field projects and undertaken by the Procurement Unit at headquarters. Until 1987, procurement expenditures for government-executed projects handled by the Procurement Unit were charged twice: as expenditure handled through the Procurement Unit and as government-executed project expenditure. This practice was discontinued as of 1987. The relevant rectification is reflected in footnote a/ to schedule 4.

Field office costs

49. In order to appreciate the change in field office costs from 1986 to 1987, it must be pointed out that the relevant figures shown in statement I are not comparable. Beginning in 1986, field office costs have been taken out of "Programme expenditure" to be reflected, in part, under a specific heading in statement I, and, in part, to be incorporated in several consecutive stages in the administration and programme support services budget and reflected under the "biennial budget expenditure" heading in statement I. In 1987, field office costs no longer include (as was the case in 1986) the costs of 16 deputy representative and senior adviser on population posts, which were transferred to the "biennial budget" line. Therefore, the 1986 and 1987 figures shown in statement I are not

comparable. In addition, total field office costs include not only the costs that are reflected as such in statement I but also costs of the deputy representative and senior adviser on population and international programme officer posts which are reflected in the "biennial budget". Total field office costs increased from \$5,217,002 in 1985 to \$7,447,716 in 1986 and \$8,664,015 in 1987. They did not decrease as it would appear on the basis of figures shown in statement I. We recommended that the text of note 2 be revised to provide the explanations necessary to a full appreciation of such figures. The Administration agreed to amend the wording of note 2.

50. Since the "field office" line of statement I does not reflect total field office costs, a part of which is included in the "biennial budget" line, the layout of statement I is not entirely clear. We recommended that, in future, either total administrative and programme support services expenditures be disclosed under the biennial budget line, since all field office costs are included in that budget as of 1 January 1988, or total field office costs and headquarters administrative and programme support services expenditure be reported under two separate lines.

Assets

Cash

51. Convertible currencies increased considerably from 1986 to 1987 as a result of policy decisions by the United Nations Treasury, which are examined at further length in paragraph 65 below. Convertible currencies include a balance on a savings account in yen that was not mentioned in the list of UNFPA bank accounts available for reconciliation. This omission had no impact on the overall cash and investments position at year-end (statement IV), however, since the total amount of the cash and the savings account at the same bank was correctly recorded. Nevertheless, we recommended that the opening of bank accounts be monitored more closely.

Due from the United Nations Development Programme

52. The interfund balance reported under that heading was satisfactorily agreed between UNFPA and UNDP in 1987, with no significant or unusual adjustments at year-end. However, the amount does not include a credit of \$858,805 that is due to the Office for Project Services. We reviewed the audited status of funds of the Office for Project Services for 1987, which shows the expenditure incurred by the Office for Project Services and is correctly recorded in the UNFPA accounts. But the statement discloses neither "opening" nor "closing" balance because cash and investment balances held by the Office for Project Services on behalf of UNFPA are recorded in the interfund account between UNDP and UNFPA. There is no effect on statement I, but it is considered that the \$858,805 credit due to the Office for Project Services, which is included in the interfund balance disclosed in statement II ("due from UNDP: \$2,070,963"), should be included in amounts payable to executing agencies since the Office for Project Services is an agent of UNFPA. This misclassification of balance sheet accounts, although not significant to statement II as a whole, results in a notable understatement of what is "due from UNDP" and in an equally notable understatement of "accounts payable". We strongly recommend that, in future, the Office for Project Services be actually considered for what it is, i.e., an executing agency, that its annual status of fund be completed to disclose opening and closing balances, and that the amounts payable to or receivable from UNFPA not be "netted" against the interfund account balance. The Administration concurred.

Accounts payable

53. In its 1986 report, the Board had noted the growth of unprocessed travel expenditure at year-end. In respect of the years 1983 to 1986, unliquidated travel obligations amounted to \$1,024,825. This amount increased by \$760,270 in 1987 to an estimated balance of \$1,785,095. This confirms that there are unacceptably long delays in the clearing of unliquidated travel obligations and that these delays arise primarily from two sources: (a) a backlog of travel inter-office vouchers accumulating in a suspense account in UNDP accounting records; and (b) a failure by individuals to submit travel claims on a timely basis. A task force is currently employed in the UNDP travel section with the objective of clearing the suspense account. However, it is fairly well agreed that in the absence of longer term measures the difficulties identified will recur when the task force has fulfilled its mission. We therefore recommend that consideration be given to the following:

(a) The assigning of greater responsibility to the UNFPA travel unit. The unit could be more actively involved in the monitoring of outstanding travel obligations and in the following-up of individuals who have not submitted travel claims. It does not appear that this monitoring would significantly overstretch the present resources of the unit;

(b) The feasibility of travel vouchers relating to UNFPA travel costs being debited directly to a suspense account in the UNFPA accounting records, as is the case with project vouchers. The possibility of the UNFPA travel section being responsible for the clearing of these vouchers should also be examined.

54. The Administration replied that "the UNFPA travel unit will make every attempt to actively monitor outstanding travel obligations and also follow-up with individuals who have not submitted travel claims. In addition, the feasibility of travel vouchers being debited directly to a suspense account will be further examined with the UNDP travel section".

Trust fund accounts

55. Financial regulation 5.2 provides that "trust funds shall be accepted only on a fully funded basis". However, schedule 7 to the financial statements shows a debit balance of \$896,598 at the end of 1987 (\$1,110,286 as at 31 December 1986) resulting from UNFPA expenditures on projects financed by that trust fund pending receipt of the contributions pledged by the Government concerned. An amount of \$655,090 was received from that Government in early 1988 to reimburse part of the advances made for its trust fund, which still leaves a disputed amount of \$241,508 outstanding. In that respect, we wish to stress that such expenditures should not have occurred in the first place before the funds had been made available in their entirety. The Administration explained that this occurred as a result of confusion in the various sources of funds contributing to a project budget and of an occasional breakdown in clearance procedures. The Administration concurred with our observation and undertook to implement corrective action.

56. Schedule 7 shows in a separate column only support costs accruing to UNFPA in respect of projects executed by Governments, non-governmental organizations or UNFPA. For projects that are executed by other executing agencies, the support costs, generally charged at the rate of 13 per cent, are included in the "programme expenditure column". We recommended that the presentation of schedule 7 be improved by disclosing separately from programme expenditure the related support

costs. The Administration agreed to change the layout of the schedule accordingly (while still disclosing, in aggregate, the amount paid to UNFPA) in the 1988 financial statements.

Financial accounting procedures and relationships with the
United Nations Development Programme

57. Following up on the observations included in its 1986 report, the Board carried out a detailed review of the adequacy of the allocation of responsibilities between UNFPA and UNDP in the area of financial accounting and reporting. Under the financial rules that became effective on 1 January 1985, the Executive Director of UNFPA is "responsible and accountable to the Governing Council for all phases and aspects of UNFPA financial activities". To discharge this duty, he may delegate appropriate responsibilities to, *inter alia*, the Director of the Division of Finance in UNDP, and "under arrangements agreed to by the Executive Director and the Administrator, UNDP, the Director, Division of Finance, UNDP, shall prepare and submit financial statements for all UNFPA accounts". Although neither such delegation of authority nor such "agreed arrangements" exist in writing, the UNFPA accounting records are maintained by the UNDP Division of Finance as part of their general ledger system and UNDP is responsible for the preparation of the financial statements from the underlying records. All accounting transactions made by UNFPA are processed by UNDP onto the general ledger. A number of these transactions are made by UNDP on behalf of UNFPA: such transactions are recorded via an interfund account that is effectively a current account between the two organizations and is settled by periodical payments by UNFPA. Essentially, all financial transactions entered in the accounting records are certified by UNFPA (with the exception of payroll costs and project expenditures executed by agencies of the United Nations system) and approved by UNDP. UNDP recharges centralized administration costs that it has incurred on behalf of operating units, of which UNFPA is one. The allocations are calculated by the UNDP Budget Section and include part of the costs of the personnel, management information systems, and finance and administration units.

58. In the context of the present *de facto* delegation of responsibility for the UNFPA financial accounting records, the Board believes that the systems and internal controls established should ensure the proper recording of transactions (subject to the absence of verification procedures in respect of project expenditure by United Nations agency-executed projects). However, we consider that the present control environment and the delineation of responsibility for the accounting records and certification of the financial statements gives rise to the following inconsistencies:

(a) The Executive Director of UNFPA approves the financial statements, which are prepared and certified by UNDP and over which she has no control;

(b) The validation and monitoring of general ledger output is performed by the UNDP Finance Division, but there is no formal procedure for the UNFPA Finance Branch to review and monitor financial accounting output. In our opinion, such inconsistencies do not call for transferring the responsibility for maintaining proper accounting records to UNFPA, but for a formalization of the segregation of duties between UNDP and UNFPA, as well as for a systematic monitoring by UNFPA of the financial accounting data produced by UNDP in order for the Executive Director effectively to be in a position to approve the financial statements submitted to the Governing Council and the General Assembly.

59. The respective procedures currently performed by UNFPA and UNDP on a "verbal understanding basis" should be formalized in a written agreement as provided for by rules 103.1 (b), 116.1 and 116.2 of the UNFPA Financial Regulations and Rules. Such an agreement should include the following:

(a) The delegation of the responsibility for the preparation of the financial statements and maintenance of the accounting records to the UNDP Director of Finance;

(b) The respective roles of UNFPA and UNDP in respect of budgetary control and general ledger accounting. We made a number of specific recommendations in that respect to the Administration of UNFPA with a view to establishing systematic procedures to effectively monitor and challenge, when necessary, the accounting data produced by UNDP during the year and before approving the year-end financial statements;

(c) The services to be performed by UNDP on behalf of UNFPA and the basis upon which those services are to be recharged (the "subvention"). Negotiations covering the various aspects of this problem were under way between UNFPA and UNDP, and a final agreement was reached on 17 June 1988. However, since this agreement was made available to us after the end of the audit, we could not review it and are not in a position to comment upon it at this stage.

Accounting procedures and instructions

60. Given that the current version of the Policies and Procedures Manual is largely outdated (in fact, the preparation of a completely revised and updated version of that manual has been launched), there appears to be a need for revised accounting instructions, particularly in the areas mentioned in the two subsequent observations.

Cut-off rules

61. With respect to both project and biennial budget expenditure, there are no accounting instructions relating to charging expenditure to the proper financial period. In the course of the audit, we came across a number of cases in which 1987 expenditures had been charged to 1986 (e.g., the purchase of a car for a field office in 1987, which was partly charged to 1986 and partly netted against the proceeds of the sale of another car in 1987). Such examples have been pointed out separately to the Administration.

62. In addition, we observed that the present practice was not based on a consistent application of the delivery principle in line with the generally accepted accounting principles or with United Nations financial regulation 4.3. In fact, UNFPA rules appear to be more lax than those of the United Nations, since UNFPA rule 114.1 only requires that "action to obligate be based on a written contract, purchase order, agreement, or other form of undertaking or acknowledgement of liability by UNFPA". Regarding expenditure by executing agencies, the guidelines issued by UNFPA to executing agencies are also more lax than the UNDP guidelines, which require application of the delivery principle for all categories of project expenditures, with the exception of equipment (see UNFPA letter ADM/13/07 dated 29 December 1987). This matter is under review in UNDP, which has taken it up with the main executing agencies. In addition, the Board has taken the matter to the Panel of External Auditors of the United Nations, the

specialized agencies and the International Atomic Energy Agency for review and consideration. This appears to be a case in which the solutions that will eventually be adopted for UNDP project expenditure could be extended to UNFPA operation (see paras. 38 and 39 above). The Administration agreed to follow up on that matter in close consultation with UNDP, with a view to adopting identical principles and procedures (instructions to agencies) for both organizations.

Project budgeting and accounting code structure

63. Instruction UNFPA/19/Rev.13, annex D, dated 22 January 1986, provides for the budgeting and accounting code structure for project expenditure. We observed that, in several respects, this instruction deviates from the UNDP-UNFPA accounts code handbook, table 6 (latest revision, April 1988), which was established to provide the appropriate framework. It is all the more regrettable that these deviations tend to blur the breakdown of expenditure by component (personnel, equipment) that was adopted in the handbook. As a result, the breakdown of project expenditure, on which schedule 3 to the financial statements is based, may be misleading. As an example, programme support costs assessed on UNFPA-executed project expenditure financed out of trust funds are charged to the budget line for "administrative support personnel", when these two categories of expenditure are entirely different in nature. The handbook provides a specific line for agency support costs, which does not appear in the UNFPA instruction. Printing costs, usually charged to the budget line for report and printing costs, may also be charged to the line for meetings or seminars. The UNFPA instruction also specifically provides for the costs of evaluation missions undertaken by consultants or staff members to be charged to the budget line for "travel", while only "individual consultancies and sub-contracting costs" are to be charged to the budget line for "evaluation activities". However, we noted that, in almost all the cases that we reviewed, total mission costs were charged to "evaluation activities". Other examples have been brought to the attention of the Administration. In conclusion, we recommend that the budget and account code structure for projects be consistently aligned with the relevant section of the UNDP-UNFPA handbook and that detailed explanations be provided to the users. The Administration concurred and explained that the new edition of the instructions would be aligned with the accounts code handbook and that "detailed administrative instructions will be prepared and issued to assist users for the consistent application of the code system".

Financial situation

Liquidity position

64. As a result of the increase in the income of UNFPA (+11.5 per cent) exceeding the increase in expenditures (+6.4 per cent), the liquidity position of the organization has changed substantially in 1987:

<u>United States dollars</u>	<u>31 December 1985</u>	<u>31 December 1986</u>	<u>31 December 1987</u>
Operational reserve	30 000 000	30 000 000	37 000 000
General fund balance	7 555 709	15 489 054	24 062 609
Trust fund balances	<u>2 822 208</u>	<u>2 430 926</u>	<u>3 707 583</u>
Total	40 377 917	47 919 980	64 770 192

The level of the operational reserve has been retroactively increased by \$7,000,000, thus reaching in 1987 the target ratio of 25 per cent of pledges that the Governing Council had set for 1995. The liquidity position of UNFPA increased by 35 per cent in 1987 and stood at 46 per cent of total 1987 expenditures as at year-end.

Investment policy

65. The pattern of investments broken down by currency changed dramatically between 1986 and 1987, as shown in the table below, which is extracted from schedule 5 and shows total investments, including those of the operational reserve and investments in respect of UNFPA trust funds.

Breakdown of UNFPA investment by currency

	<u>End 1986</u>		<u>End 1987</u>	
	United States dollars	Percentage	United States dollars	Percentage
United States dollar	82 550 410	98.7	30 154 000	35.7
Japanese yen	1 099 953	1.3	42 592 216	50.4
Deutsche mark	15 424	-	6 141 642	7.2
Netherlands guilder	-	-	5 563 441	6.6
Swedish kronor	14 137	-	101 548	0.1
Total investments	83 679 924	100	84 552 847	100

As at 31 December 1987, UNFPA investments were mostly denominated in currencies other than the United States dollar: Japanese yen, deutsche mark, and Netherlands guilders. As a matter of fact, the change at year-end was even more pronounced than is suggested by the above table, since (a) the valuation of yen investments is understated as a result of using the United Nations operational rate of exchange, which did not approximate the market rate, and (b) the largest part of the cash balance (\$6.9 million) was held in pounds sterling (\$4.5 million) and Swiss francs (\$2.2 million). Contributions are usually promptly converted into dollars and invested in dollar-denominated securities. In 1987, however, the United Nations Treasury, which is handling investments on behalf of UNFPA and on the basis of decisions taken by the Administration, "deferred the conversion into dollars pending development of the foreign exchange market in order to maximize the proceeds in dollars". Following the continued devaluation of the United States dollar against major currencies until the end of 1987, this policy turned out to be very profitable; exchange gains on revaluation of assets reached \$3.3 million and would have been stated at \$7.4 million if the market exchange rate as at 31 December 1987 had been used for the purpose of that valuation. However, it should be pointed out that such a policy involves a significant exchange risk since the major part of UNFPA disbursements remains denominated in dollars. If this policy is to be continued, we strongly recommend that the Administration set up and implement the necessary instruments and procedures to manage such risks and, in

particular, consider hedging the amounts involved by resorting to one or the other of the available techniques (futures, options).

Cash management

66. The \$6.9 million mentioned above were received almost in their entirety from two Member States in October 1987. As at 31 December 1987, they were still held in cash and had borne no interest during that period. From what we could ascertain, this resulted from the intricate delineation of responsibilities with respect to cash and investments between UNFPA, the United Nations Treasury and the UNDP Treasury. It would appear that this delineation is not entirely clear to all parties concerned. UNFPA is mandated to place its cash balances in "short-term instruments". This is one of the reasons why interest income increased by only 4.3 per cent in 1987 as compared to 1986, although total cash and investments increased by 9.1 per cent, with no significant decrease in interest rates in 1987. In this respect, it should be mentioned that the interest rates shown in schedule 5 are the stated rates at year-end and do not represent average accrued interest on investments throughout the year. As total cash and investments as at 31 December 1987 amounted to \$91.5 million, representing 65 per cent of total expenditures, it would appear that part of this amount could have been invested for longer periods (i.e., over one month), while remaining safely within the short-term category of instruments required by financial regulation 13.5. Investment of the operational reserve, for example, could be considered from that point of view. In any case, this would call for careful planning of cash movements during the forthcoming months, in order to determine reasonable balances available for investment. There is clearly a lot of room for improvement in UNFPA in that regard.

67. As a conclusion of our review of investment and cash management, we recommend that it be centralized instead of divided between three institutions as at present: UNFPA, the United Nations and UNDP. Indeed, the distinction between "very short-term investments" handled by the UNDP Treasury and "short-term investments" handled by the United Nations Treasury is neither quite relevant, nor practical. We suggest that a single unit acting on behalf of and in close concertation with the UNFPA Administration would be preferable to the present arrangements. New and more straightforward arrangements could be devised within the general agreement currently being negotiated between UNFPA and UNDP with respect to their accounting and financial relationships. The Administration explained that "UNFPA is currently negotiating with UNDP all the aspects relating to treasury operations with a view to reaching a more straightforward arrangement".

Budgetary control

Allotment procedure

68. The execution of the budget should be controlled through allotments. Financial regulation 2.2 provides that allotments be issued by the Executive Director while financial rule 111.1 (a) provides that the Chief of the Division for Finance, Personnel and Administration "shall at the beginning of each biennial period make allotments of funds". In practice, however, out of the five allotment advices authorizing expenditures from the biennial budget, three were issued by the Deputy Chief of the Finance Branch, and two by the Chief of the Division. We recommended that, given the precedence of financial "regulations" over "rules", authority to allot funds should be delegated by the Executive Director to the Chief

of the Division. The Administration concurred with that recommendation and a formal delegation of authority was issued to the Chief of the Division for Finance, Personnel and Administration.

69. Allotment advices, as issued during the 1986-1987 biennium, do not represent an efficient management tool for the control of budgetary expenditure for the following reasons:

(a) Financial rule 111.1 (a) provides that the Chief of the Division for Finance, Personnel and Administration "shall be responsible for ensuring that all expenditures relating to the biennial budget as approved by the Governing Council remain within the appropriation". However, there is no document showing the biennial budget "as approved by the Governing Council", even when the Council mandates substantial changes in the estimates that are submitted to it for approval, as was the case with the 1986-1987 estimates. As a result, one has to assume that the sum of the allotment advices reflects the biennial budget as approved;

(b) Allotment advices are issued in separate sets for each of the two years of the biennium, which is inconsistent with the fact that expenditures are controlled on a biennial basis;

(c) The authorized level of expenditures as shown in the control system in place in UNFPA does not always conform to the allotted amount, which calls into question the relevance of the allotment procedure;

(d) Allotment advices are broken down by budgetary programmes and, within each programme, by divisions, but they do not conform to the pattern of "main objects of expenditures", as required by financial rule 111.1 (a);

(e) Allotment advices do not include staffing tables as required by financial rule 111.2. It should be noted that staffing tables are the actual control mechanism for payroll expenditures.

70. The Administration disputed the statement under paragraph 69 (a) above and pointed out that "document DP/1986/74, dated 25 April 1986, shows the Council's approved appropriation breakdowns and includes proposals for revision of the 1986-1987 biennial budget. Document DP/1987/41, dated 16 April 1987, shows the approved appropriations breakdowns of the revised 1986-1987 biennial budget". We do not disagree with such a statement, which, in fact, confirms that the appropriations as approved by the Council are requested from the Council. This takes place some time in April of the year following that when the budget has been approved, i.e., some four months after the allotment advices authorizing expenditures against the appropriations should have been issued. Therefore, we reiterate our observation that "one has to assume that the sum of the allotment advices reflects the biennial budget as approved". In addition, the Administration commented on the observation in paragraph 69 (d) above, to the effect that "allotments by programmes and divisions were issued in accordance with the approved appropriations of the Council. It should be noted that the Governing Council's decision clearly superseded any financial rule formulated by the UNFPA Administration in the past and that the correct course of action is not to implement obsolete financial rules but to bring up-to-date the rules to fully reflect the legislative mandate of the governing body of the Organization". We cannot share the Administration's view in that regard.

71. As a result of our review, we recommended that:

(a) Allotments should be issued before the beginning of the biennium or at the very outset of the biennium, and should authorize a maximum level of expenditure to be incurred during a given period of time broken down by programmes and, within each programme, by main objects of expenditures;

(b) The first allotment advice to be issued after each budget session of the Governing Council should reflect the appropriations as approved by the Council;

(c) The pattern of "main objects of expenditures" shown in the allotment advices should be made consistent with that shown in the budget documents submitted to the Governing Council;

(d) The allotted amounts shown in the control system in place in UNFPA (as reported in the "biennial status of allotment and expenditures") should be made strictly consistent with the allotment advices issued by the Chief of the Division of Finance, Personnel and Administration, who is the only official vested with the authority to change allotments. For management purposes, the breakdown of allotments in the control system may be, and actually is as at present, more detailed (three-digit code of object of expenditures) than in the allotment advices, but, at the aggregated level retained in the allotment advices, the amounts shown in the allotment advices and the amounts reflected in the control system should be identical;

(e) Allotments should be issued continuously over the biennial period, each allotment either revising prior figures or increasing authorized expenditure, with the final allotment showing 100 per cent of authorized expenditure for the whole of the biennial period;

(f) Staffing tables should be attached to the allotment advices and patterned on the format shown in the budget document submitted to the Governing Council for approval.

The Administration concurred with these recommendations and undertook to implement them in the course of 1988.

72. The allotment advices are not circulated to all certifying officers. In fact, the most recent list of certifying officers, contained in document UNDP/ADM/87/77/Rev.2, of 9 February 1988, has not been updated to reflect the organizational changes undertaken by the Executive Director of UNFPA, effective 1 September 1987, or the appointment of UNFPA certifying officers in the field offices, since field office expenditures are included in the biennial budget as of 1 January 1988. The list of certifying officers should also be corrected to clarify the distribution of responsibilities between UNDP and UNFPA certifying officers (see ledger type 2, part IV, a and b).

Personnel

73. Staffing tables showing the distribution of posts by divisions and by groups (at least for Professional posts) are submitted to the Governing Council together with the biennial budget document and are approved or modified by the Council. The approved staffing tables should be reflected in the allotment advices for the purpose of personnel management and the Personnel Branch should maintain manning

tables showing the actual manning situation (encumbered and vacant posts, with the characteristics of the contracts held by incumbents). At present, there are no allotments of staffing tables and the "official" manning tables maintained by UNDP are updated five to six months late and do not correspond with payroll documents maintained by the central Payroll Unit in the United Nations Secretariat. Control of the personnel situation is therefore made a time-consuming task. However, we were provided with the "unofficial" records kept by the Personnel Branch to monitor international staff. Since this unofficial list is constantly updated, it is difficult to assess the situation at any previous point in time, e.g., as at the end of the biennium for audit purposes. Therefore, we recommend that a record of actual manning and personal status of staff members be kept from time to time (e.g., every month or every quarter).

74. Substantial changes in the approved staffing tables were introduced during the latter part of 1987 as a result of the reorganization of the organizational units of UNFPA at headquarters, which became effective on 1 September 1987. We noted that such changes were undertaken without the prior approval of the Governing Council or ACABQ, which financial regulation 11.5 would have called for. However, we noted that such approval was sought as part of the authorizations requested from the Governing Council in the revised budget estimates for the biennium 1988-1989 submitted to it at its June 1988 session.

75. Our detailed review of international Professional posts showed that several staff members encumbering established regular budget P-4 and P-5 posts that are charged to the administrative and programme support services (biennial) budget were appointed under the 200 series of Staff Rules (and are personally classified as L-5 or L-4). However, staff rules 200.1 through 212.7 are applicable to "project personnel", which are defined as "individuals appointed for service with projects in the various technical assistance programmes". By the same token, the Executive Director explained in 1986, in document DP/1986/42, paragraph 40, that the employment of personnel under the 200 series of Staff Rules was only justified at headquarters under "a project in connection with headquarters assignments", which is not the case of the staff members mentioned above. In this connection, it must be pointed out that such a situation is not in compliance with the staff rules and should be corrected.

76. With regard to personnel matters, the Administration offered the following comments: "The Personnel Branch with the staff structure now restored to the required level, provides a data base on a continuing basis, on the manning situation with due characteristics. The 'unofficial records' are updated on a regular basis, and compensate for the late delivery from UNDP of the official records. Efforts are in hand to regularize the short-term problem of temporary recruitment of staff, under 200 series, into regular vacant posts. We agree that where it becomes necessary (for example, to secure a staff after Appointments and Promotions Board approval but pending the actual conclusion of recruitment formalities) to appoint under 200 series, such appointments should be regularized to 100 series within a reasonable period of time".

Consultancy services

77. In its report on the 1986 accounts of UNFPA, the Board of Auditors underlined the need to strengthen the Personnel Branch in UNFPA. Our review of the management of consultants, which falls under the purview of the Personnel Branch, leads us to insist further on that recommendation.

78. In order better to assess and streamline the need for consultancy services and to enable the Personnel Branch to take timely action, a planning procedure for the arrangement of consultants was started in 1987. However, this procedure has been poorly implemented and no real planning took place in 1987. This absence of planning is all the more regrettable, in that the administration of budget funds for consultancy services is centralized and this is one of the areas where major savings were anticipated in the execution of the 1986-1987 budget. However, no savings were enforced through the allotment procedure and the revised appropriation of \$235,000 for that object of expenditure was spent in full during the biennium.

79. Another consequence of the lack of planning is that it is not unusual for special service agreements to be signed after the expiration of the period to which they relate or after the beginning of the working period agreed upon. Out of the 40 files reviewed, 10 included retroactive contracts. In addition, several cases of consultants employed beyond the applicable limit of 12 months (through extensions of contract period or signature of a new contract upon the expiration of the preceding one) were disclosed and reported to the Administration. Finally, with regard to the prior certification of consultancy expenditures, our review revealed a number of cases in which this capital financial control function could not be performed adequately, either because the proposed salary was not shown on the request, or because personnel officers increased the proposed salary after the expenditure had been authorized by the certifying officer. This procedure obviously results in the certification function being devoid of any substance.

80. The payment of the fees agreed upon with consultants is dependent on the certification by the requesting unit that "work has been satisfactorily performed". We observed several cases in which consultants had been rated extremely poorly, but were none the less paid the full amount of the agreed fee. The Administration explained that the evaluation of consultants had no bearing on the contractual obligation to pay for services rendered, as long as the unit responsible for the engagement of the consultant issued the "Certification for Payment to Consultant" form. Nevertheless, we reiterate our recommendation that, as provided in article 3 of the special service agreement, consultants performing very poorly should not receive the full compensation agreed upon.

81. With regard to consultancy services, the Administration offered the following comments: "Revised and consolidated guidelines on recruitment of consultants will be issued to reinforce advance planning by the administration and requesting units. On selective basis, Personnel is now advising postponement/rescheduling of consultancies rather than undertake 'post facto' recruitment action. Certification of requests by Finance Branch is to indicate to Personnel that funds at the indicated (usually maximum) levels are available in the concerned consultancy budgets. Actual costs (which never exceed the maximum levels) are known upon completion of assignments and when honoraria evidenced in signed SSA, are to be paid. We feel strongly that there is contractual obligation to pay consultants in full, even though the 'finished product' may turn out to be poor. Consultant evaluation sheet assists (a) the requesting unit in future decision-making on the choice of consultants and (b) the Personnel in terms of providing advice on recruitment".

Cost-effectiveness

82. The table below has been extracted from UNFPA financial statements, and includes the adjustments necessary for taking into account changes in the presentation of the statements from one year to the next, 4/ as well as correction of errors already pointed out in the present report (see paras. 33, 40, 48 and 49). In this regard, it is useful to note that this table is not directly comparable to document DP/1988/40, dated May 1988, which does not include such adjustments and in which figures are not entirely consistent from one year to the next. Line B of the following table shows the more meaningful ratio of operational costs (UNFPA administrative costs and programme support costs paid to agencies) to programme expenditure. In 1985, and again in 1986, the Governing Council requested the Executive Director to keep administrative and programme support costs to a minimum during the biennium 1986-1987. In this connection, it must be noted that the ratio of operational costs to programme expenditure has steadily increased during the biennium. This trend would be further accentuated if, as noted below, a clearer delineation between administrative expenditure and programme expenditure was drawn since it is our opinion that expenditures which are of an administrative or programme support nature continue to be reported as programme expenditures. Therefore, we cannot share the view expressed in document DP/1988/34 that "operational costs were again reduced in 1987, as in 1986".

83. The Administration indicated that "the increase in the ratio of operational costs may be largely attributable to the fact that programme expenditure during the biennium 1986-1987 has decreased considerably from that of 1985, and we anticipated that an upward trend of the ratio will not be the case in 1988". In addition, regarding the quotation from document DP/1988/34 mentioned in paragraph 82 above, the Administration underlined that "actual operational costs were lower than the estimated costs that had been presented to the Governing Council, namely, by \$1.3 million in 1986 and \$0.5 million in 1987".

4/ Official Records of the General Assembly, Forty-second Session, Supplement No. 5G (A/42/5/Add.7), sect. II, para. 45.

	1985 <u>a/</u>	1986 <u>a/ b/</u> all figures in United States dollars	1987 <u>b/</u>
1. Programme expenditure (including programme support costs) <u>c/</u>	124 475 443	109 597 673	116 176 705
2. Programme expenditure (excluding programme support costs)	115 229 220	101 283 847	107 066 878
3. Programme support costs	9 247 223	8 313 826	9 109 827
4. Field office costs	5 217 002	5 913 827	5 647 366
5. Administrative and programme support services budget expenditure (net)	12 695 836	16 255 333	18 760 337
6. Headquarters staff costs charged to projects	6 500 000	611 500	0
7. Total operational costs (3+4+5+6)	33 660 061	31 094 486	33 512 530
A. Field office costs + administrative and programme support services budget expenditure/programme expenditure (4+5+6/1)	9.6 per cent	20.8 per cent	21.3 per cent
B. Total operational costs/project expenditure (7/2)	29.2 per cent	30.7 per cent	31.3 per cent

a/ 1985 and 1986 amounts have been revised according to paragraph 45 of the 1986 report of the Board of Auditors.

b/ 1986 and 1987 amounts have been revised according to paragraph 49 of the present report.

c/ Excluding those charged by UNFPA to the trust funds.

Delineation between programme and administrative expenditure

84. The delineation between "programme" expenditure and "administrative and programme support" expenditure is crucial to the fair representation of UNFPA operations in financial statement I. The line between these two categories of expenditure has been drawn more clearly in recent years. However, a review of the present situation reveals that further clarification is needed. Referring to the report of the Executive Director on draft guidelines for determining project-related and administrative-related personnel expenditures (DP/1986/42), the Governing Council decided, in June 1986 (decision 86/35, para. 8), that it should receive annually "detailed information on the use of the project funds for headquarters-based activities", including, *inter alia*, "clear explanation of why such activities cannot be financed from the biennial budget", and that "the biennial budget should contain a pro forma indication of the expected project-funded services at headquarters". Our audit revealed that, even though such pro forma indications were suggested in a "proposed new format for the Administrative and Programme Support Services budget" submitted to the Governing Council and ACABQ in 1986, neither the revised estimates for 1986-1987, with respect to 1987, nor the initial estimates for 1988-1989 included any mention of the project-funded services at headquarters. However, an annex to the revised budget estimates for the 1988-1989 biennium submitted to the Governing Council in June 1988 does provide information on projects that have been started (or continued) in 1988 and that are providing for the costs of headquarters-based activities. Since this was outside the scope of our audit, we are not in a position, at this time, to comment on the comprehensiveness of the information disclosed in that annex. With regard to the annual report by the Executive Director on the use of project funds for headquarters-based activities, no such report was submitted in 1987.

85. Whatever progress may be expected in that regard, we are of the opinion that there is a need for the Administration, with the guidance of the Governing Council, to issue clear guidelines determining what must be regarded as programme expenditure and what must be regarded as administrative and programme support expenditure to be provided for in the administration and programme support services budget. At present, such guidelines, when they exist, are not always complied with. A case in point is the set of criteria that was suggested in 1986 by the Executive Director in document DP/1988/42 for determining what headquarters-based activities might be financed from project funds. One of these criteria is that such activities should be "clearly distinguishable from programme support services of a continuing nature" and be completed within "a specified period of time". However, such standard and recurrent activities as publishing regular publications or developing audio-visual and media services have been carried out as project activities under various titles and project number (INT/82/PO5 and INT/87/PO4, respectively, in 1987) for many years. Other regular headquarters activities charged, in part, to project budgets are mentioned in the annex to the 1988-1989 budget referred to above: the operation of the Management Information Unit and the studies leading to the establishment of procedures for monitoring multilateral population projects.

86. Assuming that, in future, the project budgets providing for headquarters expenditure are clearly identified, the guidelines should further address the question of what categories of expenditures may be charged to such project budgets. Theoretically, this should result from the detailed breakdown of the project budget but unfortunately, it is not always so. Staff travel is a case in

point. The budget of project INT/87/PO4 (audio-visual and media services) provides for "travel of individual journalists" (this is the only travel-related item in the project budget). However, the travel costs of several regular staff members at headquarters, including the Chief of the Information and External Relations Division, were charged to that project budget in 1987. In addition, it is revealing of present uncertainties that, when the Chief of that Division accompanied the Executive Director of UNFPA on a visit to Beijing to attend the meeting of the Asian Forum of Parliamentarians, and to Delhi for consultations with the Indian Government, in September 1987, 60 per cent of his travel costs were charged to project INT/78/PO4 and the remaining 40 per cent to the administrative budget, while the travel costs of the Executive Director were (properly so, in our opinion) entirely charged to the latter. There is no perceivable rationale for such a difference in accounting treatment. Another case in point is project GLO/75/P30 (UNFPA-funded missions for evaluation studies of UNFPA-funded population programmes), which provides, *inter alia*, for the travel costs of the staff of the Evaluation Branch. The Administration explained that such travel costs were charged to this project only when the Evaluation Branch staff were required to supplement evaluation activities undertaken by executing agencies. In such cases, the total costs of the evaluation mission is charged to that project. However, after other types of travel costs charged to the project were identified, the Administration explained that these were occasional errors.

87. As a conclusion, we insist that clear and precise guidelines to determine which costs pertain to programmes and which to administrative and support services are required and must be consistently applied from one year to the next to ensure a fair representation of the operations of UNFPA in the financial statements.

88. With regard to the distinction between administrative and programme expenditures, the Administration offered the following comments:

"One of the main reasons for the existence of a 'gray' area is that UNFPA is sometimes obliged to supplement the substantive programme support service undertaken by executing agencies. This refers notably to the activities in the technical and evaluation areas. Another one is the fact that UNFPA is charged to conduct awareness creation activities which, as experience has shown, are frequently best undertaken by UNFPA itself, rather than being conducted only by other organizations with UNFPA's funds. We feel that the draft guidelines for determining project-related and administrative-related personnel expenditures (DP/1986/42), of which the Governing Council took note with appreciation, dealt with the subject adequately. However, it is correct that UNFPA had not responded in full up to now to the reporting requirements contained in Council decision 86/35, paragraph 8. In accordance with that decision UNFPA would have to report twice: one, in the submission of the budget estimates for the APSS budget, in a pro forma manner and second, at the end of each year, in detail, on the actual use made of project funds for headquarters based activities. As the text of that decision shows, the latter reporting requirement refers mainly to personnel services. In view of the fact that as past reporting on this subject was inadequate, we have decided to submit, in an annex to the revised budget estimates for 1988-1989 (DP/1988/39), not only pro forma information on intended project activities at headquarters, but fairly detailed information on all projects which might be of interest in this regard. Thus, this annex gives a description of projects which, in our view, are to be regarded as project-related. In our opinion clear guidelines do exist which are implemented with the active participation

of the Governing Council. At the same time, the criteria in the guidelines need to be applied with common sense. Thus, the criterion that in order to be a 'project' the activity must be completed within 'a specified period of time', while generally valid, would not appear applicable to awareness creation activities which are clearly part of UNFPA's programme mandate and of a continuing nature. Obviously, a programme activity pursued through regular publications does not lose its programme character, simply because it is intended for an indefinite period to time. We see no problem with respect to the categories of expenditures which may be charged to project budgets, since they are determined by the nature of the project and since in principle any project may include any category of expenditures. However, the Auditors have pointed out correctly that the criteria for charging travel costs need to be elaborated further, notably in those cases where both a charge to a project and to the administrative budget are justifiable. Discrepancies in this regard as the Auditors correctly observe, have indeed led to errors".

Authorization of allocation of funds to projects

89. In its report on the 1986 accounts of UNFPA, the Board expressed the opinion that neither of the concepts used for financial planning and financial authorization purposes, namely, the "approval authority" and the "programme ceiling", could be considered to correspond to the requirements of the Financial Regulations and Rules of the organization (articles VII and VIII). The Board also mentioned that the present procedures for authorizing the allocation of funds to projects were confusing and potentially misleading. It appeared, in particular, that:

(a) The concept of "programme ceiling" should be defined and used consistently from one financial period to the next;

(b) A programme ceiling should be approved by the Governing Council prior to the beginning of the year when it obtains;

(c) A given level of project allocations for each of the future years under the work-plan should be authorized by the Governing Council. This level would constitute the framework for planning programme activities and project commitments. This amount should be limited to programme costs, since administrative costs are separately provided for under the biennial budget appropriations;

(d) The Financial Regulations and Rules should be revised accordingly (in particular, regulation 7.3, which has been made obsolete by the adoption of a new format for the administrative and programme support services budget).

The objective of such recommendations is to enhance the transparency of the financial authorizations given to the Executive Director and to enable the Governing Council readily to compare estimates and actuals. The Administration concurred with the Board's views that the current procedures were not consistent with the Financial Regulations and Rules, and in particular, with the requirement that an "authorized level of project allocation for each year" be approved by the Governing Council. The Administration also indicated that allocations to projects would not exceed the approved programme ceiling at year-end, but that they could "during the year". In that respect, we can only stress that financial

rule 108.1 (b) still requires that allocations "may not exceed at any time" the authorized level. The report of the Executive Director to the Governing Council on the 1987-1992 work-plan (document DF/1988/34) incorporates the changes that the Administration has undertaken concerning:

- (a) Definition of the "programme ceiling";
- (b) The timing for the approval of the programme ceiling;
- (c) Definition of the "programme approval authority" sought from the Council;
- (d) The method for computing the level of the approval of authority under each of the successive years that the work-plan encompasses.

The Administration also concurred with the Board's recommendation that such changes should be incorporated in the UNFPA Financial Regulations and Rules and undertook to propose the revision of these regulations and rules accordingly.

Project expenditure

Index of resource utilization

90. In its report on the 1986 accounts of UNFPA, the Board noted that the figures disclosed in schedule 8 (unspent allocations as at 31 December 1987) provided the basis for computing and reporting an implementation rate or "project expenditure rate (expenditures divided by allocations)". The Board also noted that such use of this information was misleading, in that the allocations shown in schedule 8 are year-end allocations that have been reduced during the latter part of the year and "rephased" to future years. The Administration concurred with that observation and suggested that another ratio would prove more meaningful, i.e., the ratio of year-end expenditure to resources available for project expenditures. While it would welcome that suggestion, the Board noted that whatever ratio is finally selected for the purpose of informing the Governing Council, great attention should be paid to its definition and consistent use over time, since changes in the constituent parts of the ratio are likely to result in significant variances in the reported figures. As an example, several ratios of expenditures to resources that could have been computed in 1987 are shown below:

	<u>Percentage</u>
(a) Project expenditure rate: expenditures divided by project allocations at year-end (schedule 8)	80.02
(b) Resource utilization rate: expenditures divided by actual available programmable resources as estimated	
in April 1987 (\$126.5 million)	84.6
in August 1987 (\$132.6 million)	80.7
at end of 1987	81.1

Percentage

(c) Expenditures divided by total programmable resources (= actual programmable resources + authorized overprogramming = programme ceiling) as estimated	
in April 1987 (\$137.6 million)	77.8
in August 1987 (\$144.0 million)	74.3
at end of 1987 (\$144.0 million)	74.3

Monitoring and control of project expenditures

91. A review of sample projects executed by UNFPA, Governments and non-governmental organizations disclosed cases in which expenditures as at 31 December 1987 exceeded year-end allocations by \$5,000 or more, even though overall expenditures remained within allocations. In a number of the cases, the over-expenditures were quite sizeable (\$103,445; \$103,364; and \$74,408 in the more important ones). Explanations for such over-expenditures were not always available at headquarters, where project implementation is monitored. When explanations were available, they referred to erroneous rephrasing of allocations, miscoding of expenditures (see para. 61, above) or long delays in the approval of allocations. Whatever the reason, however, this points to a weakness in expenditure control since, according to financial regulation 10.2, at no time should individual project allocations be exceeded. It appears that the whole chain of expenditure control needs to be strengthened (field office accountants, certifying officers, finance officers in the geographical divisions).

92. The execution of project INT/87/P25 (awareness-creation about population concerns), approved in July 1987, was entrusted to a non-governmental organization. The objective of the project was to conduct an awareness-raising campaign in relation to the "Day of 5 billion". By far, the main component of that project was the production, on the basis of data provided by UNFPA, of 300 copies of a population clock for a total cost of \$130,000 to be distributed around the world by UNFPA to personalities selected by UNFPA. The contract with the clockmaker was signed by the executing non-governmental organization, providing for the payment to be made by the non-governmental organization, "on behalf of UNFPA". The total cost of the approved project amounted to \$177,500, but a letter signed by the Chief of the Programme Division indicated that total expenditure would amount to \$182,000, out of which "\$177,500 will be allocated to the NGO, the balance of \$5,000 will be retained by UNFPA for mailing costs". Total mailing costs were estimated at \$10,810. However, the non-governmental organization had committed itself to paying the clockmaker for the total amount due on 31 March, i.e., well before the project had been approved. As a result, it had to borrow \$130,000 from a bank from 1 April to 31 July (UNFPA remittances were received on 27 July). On 3 August, UNFPA received a cable asking for the payment of interest charges on the loan in the amount of \$5,950. The payment was authorized by the Chairman of the Project Review Advisory Committee on 11 August 1987 and wired immediately. Three comments are in order: (a) the non-governmental organization had no authority to enter into an agreement "on behalf of UNFPA" before the project was approved; (b) UNFPA did not raise any objection to the payment of interest charges that had been incurred without its authorization; and (c) the \$5,950 amount was charged to the "equipment" budget line when it was obviously not equipment. As at 30 April 1988, out of the 300 clocks purchased, 135 had been sent to UNFPA country representatives

for presentation, 76 were awaiting presentation to designated recipients, 50 had been awarded to UNFPA staff members or field offices, and 34 were available for further distribution.

93. The Administration commented as follows:

"The production of population clocks in conjunction with the 'Day of 5 billion' was agreed to by the late Executive Director of UNFPA during his last official visit to Japan in 1986, when he met with the officials of JOICFP and the President of SEIKO I. The SEIKO I president also agreed to provide at no charge the labor and technical know-how required for the production of the three hundred population clocks. Upon the completion, at the beginning of 1987, of a feasibility study to produce a population clock with population projection data for the 157 member states of the United Nations (including USSR and excluding Ukrainian and Byelorussian SSR), the project document was prepared by the executing agency in close consultation with SEIKO I and UNFPA. However, the sudden death of the Executive Director and subsequent organizational transition delayed the formal project approval process. Meanwhile, the production of the population clocks has to proceed because they had to be ready for distribution before 11 July 1987, which was designated as the 'Day of 5 billion'. The project was approved only in July 1987, but that was based on the approval, given in principle to JOICFP and SEIKO I, by the Executive Director in the latter part of 1986. This also explains why the payment of interest charges was not objected to by the PRAC which reviewed the request for such payment. We considered that payment of interest charges (\$5,950) was a part of the production cost of the population clocks and therefore we charged it to the 'equipment' budget line."

Non-expendable property

94. Under the policies stated in financial rule 114.16 and in note 1 (d) to the financial statements, three categories of inventories should be maintained by UNFPA in respect of non-expendable property at headquarters, property assigned to field offices, and property assigned to projects financed by UNFPA (at least until the devolution of such property has been settled). In its 1986 report, the Board noted that such inventories could not be reviewed at the time and recommended that the value of non-expendable property be reported in an appropriate schedule to the financial statements. Our 1987 review focused on headquarters and field offices inventories. Substantial improvements were noted in inventory-taking at headquarters, even though no list of "attractive" items is maintained as note 1 (d) to the financial statements would imply. No disclosure of such inventories appear in the 1987 financial statements. Although it is not a formal requirement of the current Financial Regulations and Rules, the Board reiterates its recommendation that the value of non-expendable property of UNFPA be itemized and reported in an appropriate schedule to the financial statements. Regarding the inventories of field offices, we recommended that the same unit (the Administrative Branch) be responsible for the inventories of the field offices as well as of headquarters. This is not the case at present and there is a need to unify procedures for inventory-taking in the field offices, as well as to strengthen inventory monitoring and control. Our review of the inventories in the two field offices we visited revealed that they were somewhat erratic and far from comprehensive. As at April 1988, fewer than half of the field offices had forwarded a copy of their inventories to headquarters. The Administration undertook to implement the above recommendations.

Comments on matters dealt with in the 1986 report

95. Changes introduced in 1987 to comply with the main recommendations contained in the 1986 report of the Board have been commented upon under the appropriate heading in the present report. The Administration complied with such recommendations except as mentioned in paragraphs 59, 77, 84, 90 and 94 above.

Acknowledgement

96. The Board of Auditors wishes to express its appreciation for the co-operation and assistance extended by the Executive Director of the United Nations Population Fund, her officers, and members of their staff.

(Signed) André CHANDERNAGOR
Senior President,
Court of Accounts of France

(Signed) R. T. NELSON
Auditor General of Ghana

(Signed) Eufemio C. DOMINGO
Chairman, Commission on Audit,
the Philippines

III. AUDIT OPINION

We have examined the following appended financial statements, numbered I to IV, properly identified, and relevant schedules of the United Nations Population Fund for the financial period ended 31 December 1987. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances, except as explained in paragraphs 38, 43 and 46 of our report.

In our opinion, except for the presentation of programme expenditure and programme support costs expenditure, the financial statements present fairly the financial position of the organization as at the end of the period and the results of its operations for the period then ended.

The financial statements were prepared in accordance with the stated accounting policies, which were applied on a basis consistent with that of the preceding financial period. Also, in our opinion, as explained in paragraphs 38 and 62 of our report, the relevant stated accounting policy should be brought in line with generally accepted accounting principles. Transactions were in accordance with the Financial Regulations and legislative authority.

(Signed) André CHANDERNAGOR
Senior President,
Court of Accounts of France

(Signed) R. T. NELSON
Auditor General of Ghana

(Signed) Eufemio C. DOMINGO
Chairman, Commission on Audit,
the Philippines

23 June 1988

IV. CERTIFICATION OF THE FINANCIAL STATEMENTS

29 April 1988

I certify that, to the best of my knowledge, information and belief, all material transactions have been properly charged in the accounting records and are properly reflected in the appended financial statements, numbered I to IV, and supporting schedules, numbered 1 to 9.

(Signed) M. Douglas STAFFORD
Director
Division of Finance
United Nations Development Programme

V. FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1987

STATEMENT I

UNITED NATIONS POPULATION FUND

Statement of income and expenditure for the year ended 31 December 1987

(United States dollars)

1986			1987
INCOME			
Contributions from Governments			
133 493 062	Pledges for current year	(schedule 1)	149 299 557
(248 299)	Additions and adjustments to pledges for prior years (net)	(schedule 1)	(233 361)
<u>465 647</u>	Exchange adjustments on collection of contributions	(note 1 (c))	<u>(1 138 178)</u>
133 710 410			147 928 018
1 073	Donations		3 737
<u>6 314 210</u>	Miscellaneous income (net)	(schedule 2)	<u>8 118 602</u>
<u>140 025 693</u>	TOTAL INCOME	(statement IV)	<u>156 050 357</u>
EXPENDITURE			
Programme expenditure			
89 601 623	By executing agencies	(schedule 3)	92 395 086
<u>11 984 450</u>	By non-governmental organizations	(schedule 3)	<u>14 592 475</u>
101 586 073			106 987 561
<u>8 725 877</u>	Reimbursement of programme support costs to executing agencies and non-governmental organizations	(schedule 3)	9 086 538
5 913 827	Field office costs	(note 2)	5 642 366
<u>15 866 571</u>	UNFPA biennial budget expenditure (net)	(schedule 4)	<u>18 760 337</u>
<u>21 780 398</u>			<u>24 402 703</u>
<u>132 092 348</u>	TOTAL EXPENDITURE	(statement IV)	<u>140 476 802</u>
<u>7 933 345</u>	EXCESS OF INCOME OVER EXPENDITURE	(statement III)	<u>15 573 555</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT II
 UNITED NATIONS POPULATION FUND
Statement of assets and liabilities as at 31 December 1987
 (United States dollars)

1986		1987
	ASSETS	
	Cash	
162 153	Convertible currencies	6 917 797
<u>53 679 924</u>	Investments (schedule 5)	<u>47 552 847</u>
<u>53 842 077</u>	(statement IV)	54 470 644
	Advances and accounts receivable	
	Non-convertible currencies	
198 232	pending United States dollar credit from UNDP (note 3)	169 246
2 782 125	Operating funds provided by UN:PA to executing agencies (note 5)	4 068 819
420 081	Due from UNDP	2 070 963
189 086	Accounts receivable and deferred charges	498 734
<u>172 888</u>	Accrued interest	<u>181 455</u>
<u>3 762 412</u>		6 989 217
<u>1 531 655</u>	Pledges receivable from Governments for current and prior years (schedule 1 and note 4)	1 247 466
<u>30 000 000</u>	Investments of the operational reserve (schedule 5)	<u>37 000 000</u>
<u>89 136 144</u>		<u>99 707 327</u>
	LIABILITIES, RESERVES AND UNEXPENDED RESOURCES	
	Liabilities	
1 297 007	Accounts payable	2 254 468
1 836 669	Operating funds payable by UNFPA to executing agencies (note 5)	3 916 299
31 982 488	Unliquidated obligations of executing agencies (note 5)	28 766 368
6 100 000	Due to special population programmes (schedule 6)	-
<u>2 430 926</u>	Due to UNFPA trust funds (schedule 7)	<u>3 707 583</u>
43 647 090		38 644 718
30 000 000	Operational reserve (note 6)	37 000 000
<u>15 489 054</u>	Unexpended balance of general resources (statement III)	<u>24 062 609</u>
<u>89 136 144</u>		<u>99 707 327</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT III

UNITED NATIONS POPULATION FUND

Statement of general resources as at 31 December 1987

(United States dollars)

1986		1987
7 555 709	Balance as at 1 January	15 489 054
<u>7 933 345</u>	Add: Excess of income over expenditure (statement I)	<u>15 573 555</u>
15 489 054		31 062 609
-	Less: Transfer to operational reserve (note 6)	<u>7 000 000</u>
<u>15 489 054</u>	Balance as at 31 December (statement II and note 7)	<u>24 062 609</u>

The accompanying notes are an integral part of the financial statements

STATEMENT IV

UNITED NATIONS POPULATION FUND

Statement of changes in the financial position for the year
ended 31 December 1987

(United States dollars)

1986		1987
SOURCE OF FUNDS		
140 025 693	Total income for the year (statement I)	156 050 357
	Increase in operating funds	
-	payable to executing agencies	2 079 530
	Decrease in pledges receivable	
<u>23 192 425</u>	from Governments	<u>284 189</u>
<u>163 218 118</u>	<u>Total funds provided</u>	<u>158 414 176</u>
APPLICATION OF FUNDS		
132 092 348	Total expenditure for the year (statement I)	140 476 802
2 323 482	Decrease in liabilities	7 082 002
85 991	Increase in accounts receivable	289 229
461 499	Increase in funds provided to UNDP	1 650 882
	Increase in operating funds	
4 174 428	provided to executing agencies	1 286 694
-	Increase in operational reserve	<u>7 000 000</u>
<u>139 137 748</u>	<u>Total funds used</u>	<u>157 785 609</u>
<u>24 080 370</u>	INCREASE IN CASH AND INVESTMENTS	<u>628 567</u>
	Cash and investments at beginning	
29 761 707	of year <u>a/</u>	53 842 077
<u>24 080 370</u>	Increase in cash and investments	<u>628 567</u>
<u>53 842 077</u>	Cash and investments at end of year <u>a/</u> (statement II)	<u>54 470 644</u>

The accompanying notes are an integral part of the financial statements.

a/ Excluding the investments of the operational reserve.

SCHEDULES TO THE FINANCIAL STATEMENTS

SCHEDULE 1

UNITED NATIONS POPULATION FUND

Status of voluntary contributions pledged as at 31 December 1987

(United States dollars)

Donor	Balance due as at 31 December 1986 and prior years	Additions and adjustments for 1986 and prior years	Pledges for 1988 and future years		Payments received	Unpaid pledges as at 31 December 1987	Composition of balance due	
			Pledges for 1987	Local currency and United States dollars			For 1987 and prior years	For 1988 and future years
Afghanistan	2 000	-	-	2 000	4 000	2 000	-	2 000
Albania	-	-	11 000	1 571	1 571	1 571	-	1 571
Algeria	-	-	-	30 000	-	30 000	-	30 000
Angola	-	-	-	500	-	500	-	500
Antigua and Barbuda	1 000	(1 000)	-	-	-	-	-	-
Australia	-	-	-	165 900	-	-	-	-
Austria	-	-	650 000	448 276	165 900	448 276	-	448 276
Bahamas	-	-	-	150 000	150 000	150 000	-	150 000
Bahrain	-	-	-	2 000	2 000	-	-	2 000
Bangladesh	17 256	(30)	-	56 000	-	56 000	-	56 000
Barbados	-	3 000	-	18 087	1 126	36 174	18 087	18 087
Belgium	476 190	101 997	25 000 000	720 461	6 000	1 354 467	634 006	720 461
Benin	-	-	-	500	578 187	500	-	500
Bhutan	-	-	-	2 300	-	2 300	-	2 300
Bolivia	15 000	-	-	5 600	-	5 600	-	5 600
Brazil	-	-	-	10 000	-	10 000	-	10 000
British Virgin Islands	-	-	-	500	10 000	10 000	-	10 000
Bulgaria	-	-	35 000	26 718	500	26 718	-	26 718
Burkina Faso	7 600	1 235	-	8 835	-	8 835	-	8 835
Burundi	-	-	50 000	7 937	7 353	7 937	-	7 937
Cameroon	4 838	246	-	-	-	5 084	-	5 084
Canada	-	-	-	7 067	-	7 067	-	7 067
Central African Republic	-	-	13 100 000	10 000 000	9 197 334	10 000 000	9 197 334	10 000 000
Chile	-	-	-	4 498	-	4 498	-	4 498
China	-	-	-	5 000	-	5 000	-	5 000
Colombia	39 608	-	-	600 000	550 000	10 000	10 000	5 000
Comoros	3 040	-	-	40 000	79 842 b/	600 000	600 000	600 000
Congo	500	494	-	-	39 766	39 766	-	39 766
Cyprus	-	(500)	-	3 534	-	3 534	-	3 534
Democratic People's Republic of Korea	-	-	-	750	-	750	-	750
Democratia Yemea:	6 520	-	20 000	9 132	8 929	9 132	-	9 132
Denmark	-	-	-	2 420	4 840	6 983	-	6 983
Dominica	500	500	76 500 000	11 953 125	10 145 918	11 953 125	4 200	11 953 125
Ecuador	22 000	-	-	1 000	1 000	-	-	1 000
Egypt	-	-	188 100	22 000	-	66 000	44 000	22 000
	-	-	224 446	85 113	139 333	85 113	-	85 113

SCHEDULE 1 (continued)

Donor	Balance due as at 31 December 1986 and prior years	Additions and adjustments for 1986 and prior years	Pledges for 1988 and future years		Local currency	United States dollars	Total	Payments received	Unpaid pledges as at 31 December 1987	Composition of balance due	
			Pledges for 1987	Pledges for 1988 and future years						For 1987 and prior years	For 1988 and future years
El Salvador	-	-	5 000	-	-	5 000	5 000	-	-	-	-
Fiji	-	-	1 918	1 325	2 000	1 918	1 918 a/	1 325	-	-	1 325
Finland	-	-	7 943 513	10 243 902	42 000 000	10 243 902	7 943 513	10 243 902	-	-	10 243 902
France	-	-	360 656	389 381	2 200 000	389 381	360 656	389 381	-	-	389 381
Germany, Federal Republic of	-	-	22 007 531	23 696 970	39 100 000	23 696 970	22 007 531	23 696 970	-	-	23 696 970
Ghana	-	-	-	5 000	-	5 000	-	5 000	-	-	5 000
Greece	-	-	5 000	5 000	-	5 000	5 000	-	-	-	-
Guatemala	1 923	38	5 000	-	-	5 000	-	5 000	-	-	-
Guyana	-	-	421	484	4 830	484	-	6 961	6 961	6 961	-
Honduras	500	(500)	10 000	10 000	20 000	10 000	10 000	10 000	10 000	-	484
Hungary	-	-	14 607	20 833	1 000 000	20 833	14 607	20 833	-	-	10 000
Iceland	5 200	-	2 600	2 685	100 000	2 685	5 200	5 285	2 600	2 600	20 833
India	-	-	465 116	465 116	6 000 000	465 116	465 116	465 116	465 116	-	2 685
Indonesia	150 000	-	150 000	150 000	-	150 000	300 000	150 000	150 000	-	465 116
Iraq	40 322	(40 322)	-	-	-	-	-	-	-	-	150 000
Italy	-	-	2 316 602	3 265 306	4 000 000 000	3 265 306	2 316 602	3 265 306	-	-	-
Jamaica	1 832	-	1 832	1 832	10 000	1 832	5 496	5 477 a/b/	19	-	3 265 306
Japan	-	-	36 200 000	-	-	-	36 200 000	-	-	-	-
Jordan	-	-	22 000	-	-	22 000	22 000	-	-	-	-
Kenya	8 283	(342)	2 647	2 647	45 000	2 647	-	13 235	13 235	10 588	2 647
Kuwait	25 000	-	-	5 000	-	5 000	-	30 000	30 000	25 000	5 000
Laos People's Democratic Republic	-	-	500	500	-	500	-	1 000	1 000	-	500
Lesotho	1 261	146	1 379	1 421	2 800	1 421	2 786	1 421	1 421	-	500
Liberia	3 000	-	50 000	2 000	-	2 000	-	55 000	55 000	-	1 421
Luxembourg	20 953	4 407	9 865	14 409	500 000	14 409	9 817	39 817	25 408	53 000	2 000
Madagascar	14 227	-	5 000	-	-	-	3 473	15 754	15 754	15 754	14 409
Malawi	-	-	661	711	1 500	711	661	711	-	-	711
Malaysia	-	-	15 000	15 000	-	15 000	-	30 000	15 000	15 000	-
Maldives	-	-	871	1 000	-	1 000	871	1 000	1 000	-	1 000
Mali	500	-	-	-	-	-	-	500	500	-	-
Malta	-	-	564	-	-	-	-	564	-	-	-
Mauritania	4 000	(4 000)	-	-	-	-	-	-	-	-	-
Mexico	-	-	442	4 167	10 000 000	4 167	4 167 b/	442	442	442	-
Mongolia	-	-	556	599	1 700	599	556	599	-	-	599
Morocco	4 000	-	4 000	6 000	-	6 000	4 000	10 000	4 000	4 000	6 000
Nepal	-	-	3 750	-	-	-	3 750 a/	-	-	-	-
Netherlands	-	-	17 929 138	24 705 882	46 200 000	24 705 882	17 929 138	24 705 882	-	-	24 705 882
New Zealand	-	-	210 350	210 350	-	210 350	210 350	-	-	-	-
Niger	-	-	1 429	1 500	-	1 500	1 429	1 500	1 500	-	1 500
Norway	-	-	15 871 529	17 472 868	112 700 000	17 472 868	15 871 529	17 472 868	-	-	17 472 868
Oman	10 000	-	-	-	-	-	-	10 000	10 000	10 000	-
Pakistan	818	-	316 800	-	-	-	316 800	818	818	818	-
Panama	2 500	-	1 500	1 500	1 500	1 500	3 000	2 500	1 000	1 000	1 500
Papua New Guinea	1 538	167	-	-	-	-	-	1 705	1 705	1 705	-
Paraguay	60 000	-	15 000	-	-	-	30 000	45 000	45 000	45 000	-

SCHEDULE 1 (continued)

Donor	Balance due as at 31 December 1986 and prior years	Additions and adjustments for 1986 and prior years	Pledges for 1988 and future years		Payments received	Unpaid pledges as at 31 December 1987	Composition of balance due	
			Local currency	United States dollars			For 1987 and prior years	For 1988 and future years
Peru	25 000	-	-	63 756	-	25 000	25 000	-
Philippines	-	-	1 300 000	63 756	65 834	61 704	-	61 704
Poland	-	-	2 300 000	7 419	6 897	7 419	-	7 419
Portugal	40 000	-	-	23 000	40 000	43 000	20 000	23 000
Republic of Korea	-	-	-	50 000	44 791	50 000	-	50 000
Romania	-	-	60 000	4 286	-	4 286	-	4 286
Rwanda	-	-	-	1 000	1 000	1 150	-	1 150
Saint Kitts and Nevis	150	883	-	1 000	883	2 039	1 039	1 000
Saint Lucia	500	-	-	1 000	-	500	500	-
Saudi Arabia	-	-	-	30 000	30 000	30 000	-	30 000
Senegal	119 253	-	-	5 000	-	129 253	124 253	5 000
Seychelles	-	-	-	300	-	700	-	-
Sierra Leone	5 076	(4 967)	-	-	-	109	-	-
Singapore	7 500	(7 500)	-	-	-	-	-	-
Solomon Islands	1 500	-	-	-	-	-	-	-
Somalia	122	(11)	100 000	1 010	-	1 500	1 500	-
Spain	60 000	(60 000)	23 000 000	153 534	343	1 788	778	1 010
Rki Lanka	-	-	-	205 357	153 534	205 357	-	205 357
Sudan	265 334	(255 000)	-	10 000	10 000	10 000	-	10 000
Sweden	-	-	-	25 000	25 510	35 834	10 834	25 000
Switzerland	-	-	75 000 000	12 396 694	11 691 526	12 396 694	-	12 396 694
Syrian Arab Republic	-	2 213	6 600 000	4 852 941	3 921 569	4 852 941	-	4 852 941
Taiwan	-	-	-	-	4 426	-	-	-
Togo	-	-	-	50 000	48 400	50 000	-	50 000
Tunisia	-	-	3 000 000	10 601	-	21 202	10 601	10 601
Turkey	-	-	15 972	19 940	19 658	20 179	239	19 940
Turkey	-	-	-	20 000	20 000	20 000	-	20 000
Uganda	1 945	43 055	300 000	5 000	-	50 000	45 000	5 000
United Kingdom of Great Britain and Northern Ireland	-	-	5 250 000	9 459 459	8 090 806	9 459 459	-	9 459 459
United Republic of Tanzania	-	-	500 000	6 944	-	11 111	4 167	6 944
Uruguay	-	14 400	-	-	-	-	-	-
Viet Nam	2 166	(2 166)	-	-	14 400	-	-	-
Yemen	46 850	(30 000)	-	1 500	3 000	3 000	1 500	1 500
Yugoslavia	-	-	-	2 850	10 310	12 240	9 390	2 850
Zaire	2 000	-	-	-	945	-	-	-
Zambia	250	259	-	1 000	-	22 500	21 500	1 000
Zimbabwe	1 500	(63)	4 400	2 635	-	509	509	-
Total	1 531 655	(233 361)	149 299 557	131 969 433	149 358 951	133 208 333	1 247 466	131 960 867

(statement I)

(statement II and note 4)

(Footnotes on following page)

(Footnotes to schedule 1)

a/ Includes the following amounts received in 1986 for 1987 pledges:

	<u>Local currency</u>	<u>United States dollar equivalent</u>
Central African Republic	-	4 498
Fiji	2 000	1 770
Fiji	-	148
Jamaica	-	1 360
Nepal	-	3 750
Philippines	-	8 424
Tunisia	-	45
		<u>19 995</u>

b/ Includes the following amounts received in 1987 for 1988 pledges:

	<u>Local currency</u>	<u>United States dollar equivalent</u>
Colombia	-	234
Jamaica	3 274	600
Jamaica	-	1 213
Mexico	10 000 000	4 167
Philippines	-	2 052
Seychelles	-	300
		<u>8 566</u>

SCHEDULE 2

UNITED NATIONS POPULATION FUND

Miscellaneous income and expenditure for the year ended
31 December 1987.

(United States dollars)

1986		1987
4 180 672	Interest income from investments	4 360 170
449 166	Miscellaneous income from accounts of executing agencies - net	401 061
1 430 663	Net adjustments on revaluation of currencies and gains/losses on exchange (note 1 (c))	3 310 245
148 385	Savings in liquidating obligations of prior biennium	-
<u>105 324</u>	Other income - net	<u>47 126</u>
<u><u>6 314 210</u></u>	Total income - net (statement I)	<u><u>8 118 602</u></u>

SCHEDULE 3

UNITED NATIONS POPULATION FUND

1987 expenditure by agencies and non-governmental organizations

(United States dollars)

	Personnel services	Sub-contracts	Training (fellowships)	Equipment and supplies	Miscellaneous	Subtotal	Programme support costs	Total
United Nations (work programme)	677 295	59 367	20 045	29 320	14 312	800 339	100 794	901 133
United Nations (Department of Technical Co-operation for Development)	6 517 140	127 577	3 161 028	4 854 508	758 385	15 418 638	2 004 042	17 422 680
ECE	268 174	(4 000)	19 355	12 428	1 368	297 325	38 652	335 977
ESCAP	785 973	370 092	358 254	71 819	84 709	1 670 847	217 212	1 888 059
ECLAC	1 044 719	-	39 468	-	38 134	1 122 321	145 901	1 268 222
ECA	2 096 997	2 967	441 377	80 791	292 525	2 914 657	378 927	3 293 584
ESCWA	439 221	-	58 610	45 259	16 273	559 363	72 717	632 080
ILO	4 135 233	179 437	1 221 562	741 770	438 824	6 716 826	873 187	7 590 013
PAO	1 450 849	234 864	216 739	34 617	58 624	1 995 693	204 323	2 200 016
UNESCO	2 815 617	540 737	1 239 229	809 147	585 557	5 990 287 a/	689 578 b/	6 679 865
WHO	4 712 640	3 934 029	5 667 010	6 939 806	849 872	22 103 357	2 433 436	24 586 793
UNICEF	141 313	-	-	302 740	26 511	470 564	-	470 564
UNIDO	32 907	-	2 529	-	-	35 436	4 607	40 043
Governments	3 669 308	3 387 629	3 878 438	9 205 712	1 132 876	21 273 963	1 063 713	22 337 676
UNFPA	1 995 517	445 624	1 034 575	5 829 998	970 408	10 276 122	290 442	10 566 564
UNDP-Office for Projects Execution	195 826	48 272	305 433	170 742	29 075	749 348	79 502	828 850
Agencies total	30 978 729	9 326 595	17 663 652	29 128 657	5 297 453	92 395 086 c/	8 647 033	101 042 119
Non-governmental organizations	2 757 152	2 664 423	3 197 129	4 558 525	1 415 246	14 592 475 c/	439 505	15 031 980
	33 735 881	11 991 018	20 860 781	33 687 182	6 712 699	106 987 561	9 086 538 c/	116 074 099

(schedule 8)

a/ Reduced by \$79,317 relating to adjustment of prior year's programme expenditure.

b/ Reduced by \$23,289 relating to adjustment of prior year's programme support costs.

c/ Statement I.

SCHEDULE 4

UNITED NATIONS POPULATION FUND

Budget appropriations and expenditure for the biennium 1986-1987

(United States dollars)

	Appropriations for 1986-1987				Expenditure in 1986-1987			Unencumbered balance as at 31 December 1987	
	Gross appropriations	Estimated credits and income	Net appropriations	Disbursements 1986-1987	Unliquidated obligations as at 31 December 1987	Gross expenditure 1986-1987	Credits and income received 1986-1987		Net expenditure 1986-1987
I. Executive direction and management	4 264 100	-	4 264 100	4 283 776	227 697	4 511 473	-	4 511 473	(247 373) b/
II. Administrative and information support services	12 670 900	2 000 000	10 670 900	12 257 419	107 035	12 364 454	1 713 158	10 651 296	19 604
III. Programme planning, appraisal and monitoring	18 447 700	2 000 000	16 447 700	16 356 117	265 642	16 621 759	1 713 158	14 908 601	1 539 099
IV. Field and programme support	4 917 700	-	4 917 700	4 423 158	132 380	4 555 538	-	4 555 538	362 162
	40 300 400	4 000 000	36 300 400	37 320 470	732 754	38 053 224	3 426 316 a/	34 626 908 a/	1 673 492

a/ As a result of an overstatement of credits and income received in 1986, the total credits and income received in the 1986-1987 biennium is overstated by \$388,762 and the net expenditure is understated b/ the same amount. Actual biennial budget expenditures amount to \$35,015,670, consisting of \$16,255,333 incurred in 1986 and \$18,760,337 incurred in 1987.

b/ In accordance with the authority granted by the Governing Council at its thirty-third session (decision 86/35), the Executive Director has requested the concurrence of the Advisory Committee on Administrative and Budgetary Questions to transfer \$247,373 from Programme III (programme planning, appraisal and monitoring) to cover this overexpenditure.

SCHEDULE 5

UNITED NATIONS POPULATION FUND

Investments as at 31 December 1987

(United States dollars)

Type	Currency	Interest rate	Amount
Current accounts	Deutsche mark	variable	210 488
	Japanese yen	variable	207 031
	Netherlands guilders	variable	5 563 441
	Swedish kronor	variable	<u>101 548</u>
			<u>6 082 508</u>
Interest-bearing accounts	United States dollars	6.3750	<u>4 704 000</u>
Time deposit accounts	Deutsche mark	3.6250	5 931 154
	Japanese yen	5.0000	24 562 963
	Japanese yen	5.0000	10 414 815
	Japanese yen	4.9000	7 407 407
	United States dollars	7.3750	450 000
	United States dollars	7.0000	10 000 000
	United States dollars	7.9375	<u>15 000 000</u>
			<u>73 766 339</u>
	Total		<u><u>84 552 847</u></u>
<hr/>			
Comprising:			
	General resources		43 018 847
	Trust funds		4 534 000
		(statement II)	<u>47 552 847</u>
	Operational reserve	(statement II)	<u>37 000 000</u>
			<u><u>84 552 847</u></u>

SCHEDULE 6

UNITED NATIONS POPULATION FUND

Status of contributions from Governments for special population programmes as at 31 December 1987
(United States dollars)

	International Planned Parenthood Federation	Population Council	International Union for the Scientific Study of Population	International Committee on the Management of Population Programmes	Total
Balance due to special population programmes as at 1 January 1987	6 100 000	-	-	-	6 100 000
Contributions received from Governments in 1987					
Japan	12 730 000	-	-	-	12 730 000
Netherlands	2 000 937	73 332	73 332	-	2 147 601
Norway	-	88 853	88 853	59 236	236 942
	20 830 937	162 185	162 185	59 236	21 214 543
Less: Amounts remitted	<u>20 830 937</u>	<u>162 185</u>	<u>162 185</u>	<u>59 236</u>	<u>21 214 543</u>
Balance due to special population programmes as at 31 December 1987	-	-	-	-	-
					(statement II)

SCHEDULE 7

UNITED NATIONS POPULATION FUND

TRUST FUNDS

Statement of account for the year ended 31 December 1987

(United States dollars)

Trust funds	Unexpended balance as at 1 January	Contributions received in 1987	Interest income	Subtotal	Programme expenditure	Support costs	Total expenditure	Unexpended balance as at 31 December
Arab Gulf Fund	-	-	-	-	51 565	2 578	54 143	(54 143)
Australia	-	175 136	4 084	179 220	175 136	8 757	183 893	(4 673) <u>d/</u>
Bahrain	1 936	-	30	1 966	-	-	-	1 966
Belgium	119 932	337 676	7 610	465 218	379 198	18 960	398 158	67 060
Canada	462 362	229 688	35 441	727 491	251 826	7 848	259 674	467 817
Colombia	55 379	-	2 472	57 851	6 019	2 300	8 319	49 532
Rafael M. Salas Endowment Fund*	69 658	55 028 <u>a/</u>	5 814	130 500	-	-	-	130 500
European Economic Community	68 421	-	2 783	71 204	11 940	-	11 940	59 264
Finland	16 707	226 912	4 536	248 155	12 487	624	13 111	235 044
Hewlett Foundation	-	10 000	-	10 000	10 000	-	10 000	-
Italy	(1 110 286)	-	-	(1 110 286)	(221 188)	7 500	(213 688)	(896 598) <u>e/</u>
Management Development Unit	-	604 960	13 115	618 075	117 245	5 862	123 107	494 968
Microcomputer Database on Women, Population and Development	17 128	68 361	1 187	86 676	80 566	-	80 566	6 110
Netherlands	1 365 427	92 406	87 487	1 545 320	368 102	10 676	378 778	1 166 542
Norway	723 321	2 476 966	121 525	3 321 812	1 972 322	51 238	2 023 560	1 298 252
Organization of Petroleum Exporting Countries	193 019	-	8 471	201 490	30 557	1 528	32 085	169 405
Syrian Arab Republic	-	162 052	3 796	165 848	103 269	5 163	108 432	57 416
United Nations	-	2 893	89	2 982	-	-	-	2 982
United Nations Population Award	<u>447 922</u>	<u>-</u>	<u>32 283</u>	<u>480 205</u>	<u>24 066</u>	<u>-</u>	<u>24 066</u>	<u>456 139</u>
Total	<u>2 430 926</u>	<u>4 442 078</u> <u>b/</u>	<u>330 723</u>	<u>7 203 727</u>	<u>3 373 110</u>	<u>123 034</u> <u>c/</u>	<u>3 496 144</u>	<u>3 707 583</u>

(statement II)

* Previously known as the Endowment Fund.

Total contribution received in 1987:

<u>a/</u> Private donations Contributions (schedule 9)	\$ 55 028
	<u>4 387 050</u>
<u>b/</u> Total	<u>\$4 442 078</u>

c/ Represents agreed percentage of programme expenditure reimbursed to UNFPA for support costs on Government, non-governmental organizations and UNFPA-executed projects.

d/ \$218,790 received in 1988.

e/ \$655,090 received in 1988.

SCHEDULE 8

UNITED NATIONS POPULATION FUND

Unspent allocations as at 31 December 1987

(United States dollars)

	1987 allocations (as revised)	Expenditure	1987 unspent allocations	Future years' allocations	Total unspent allocations
United Nations (work programme)	934 133	800 339	133 794	530 320	664 114
United Nations (Department of Technical Co-operation for Development)	16 498 531	15 418 638	1 079 893	21 320 233	22 400 126
ECE	352 758	297 325	55 433	-	55 433
ESCAP	1 805 205	1 670 847	134 358	1 246 663	1 381 021
ECLAC	1 142 430	1 122 321	20 109	-	20 109
ECA	3 452 754	2 914 657	538 097	95 750	633 847
ESCWA	602 350	559 363	42 987	31 200	74 187
ILO	7 328 240	6 716 826	611 414	8 564 753	9 176 167
FAO	1 995 912	1 995 693	219	1 926 985	1 927 204
UNESCO	7 430 486	5 990 287 a/	1 440 199	12 764 788	14 204 987
WHO	24 562 221	22 103 357	2 458 864	24 544 873	27 003 737
UNICEF	414 007	470 564	(56 557)	277 963	221 406
UNIDO	42 000	35 436	6 564	-	6 564
Governments	30 770 353	21 273 963	9 496 390	42 258 911	51 755 301
UNFPA	20 363 313	10 276 122	10 087 191	10 115 287	20 202 478
UNDP, Office for Projects Execution	767 695	749 348	18 347	875 972	894 319
Non-governmental organizations	118 462 388 15 233 025	92 395 086 b/ 14 592 475 b/	26 067 302 640 550	124 553 698 10 201 966	150 621 000 10 842 516
	<u>133 695 413</u>	<u>106 987 561</u>	<u>26 707 852</u>	<u>134 755 664</u>	<u>161 463 516</u>
		(schedule 3)	(note 7)	(note 7)	

a/ Reduced by \$79,317 relating to adjustment of prior year's programme expenditure.

b/ Statement I.

SCHEDULE 9

UNITED NATIONS POPULATION FUND

TRUST FUNDS

Status of contributions pledged as at 31 December 1987

(United States dollars)

Government/organization	Balance due as at 31 December 1986	Additions and adjustments	Total	Payments received in 1987	Unpaid pledges as at 31 December 1987	Composition of balance due	
						For 1987 and prior years	For 1988 and future years
<u>UNFPA multilateral and bilateral and other programmes</u>							
Australia	-	201 656	201 656	201 656	-	-	-
Belgium	-	337 676	337 676	337 676	-	-	-
Canada	184 783	163 226	348 009	229 688	118 321	38 168	80 153
Finland	-	226 912	226 912	226 912	-	-	-
Netherlands	-	534 247	534 247	534 247	-	-	-
Non-governmental organization	-	10 000	10 000	10 000	-	-	-
Norway	-	2 544 279	2 544 279	2 544 279	-	-	-
Syrian Arab Republic	-	162 052	162 052	162 052	-	-	-
United Kingdom of Great Britain and Northern Ireland	-	137 647	137 647	137 647	-	-	-
United Nations	-	2 893	2 893	2 893	-	-	-
Total	184 783	4 320 588	4 505 371	4 387 050	118 321	38 168	80 153
<u>International Conference on Population in Mexico (1984)</u>							
Peru	25 000	-	25 000	-	25 000	25 000	-
Yemen	25 000	-	25 000	-	25 000	25 000	-
Total	50 000	-	50 000	-	50 000	50 000	-
Grand Total	234 783	4 320 588	4 555 371	4 387 050	168 321	88 168	80 153

(schedule 7)

NOTES TO THE FINANCIAL STATEMENTS

Note 1. Summary of significant accounting policies

The financial statements reflect the application of the following significant accounting policies:

(a) Income

In accordance with UNFPA financial rule 116.1 (a), income (including pledges from Governments, investment income and miscellaneous income, but excluding contributions to trust funds) is recorded on an accrual basis. Details of contributions pledged for future years are shown in schedule 1.

(b) Expenditure

In accordance with UNFPA financial rule 116.1 (a), expenditure is accounted for on an accrual basis. Project expenditure includes unliquidated obligations raised by the executing agencies in respect of goods and services provided for in the project budgets for 1987 and contracted for by the end of that year.

(c) Exchange rates

UNFPA financial rule 104.1 provides that pledges shall be converted at the United Nations operational rate of exchange in effect on the date of the pledge. UNFPA financial rule 104.2 provides that payments of voluntary contributions shall be recorded as income expressed in United States dollars at the United Nations operational rate of exchange in effect on the date of payment.

Exchange rate adjustments of (\$1,138,178) arising on collection of contributions pledged in a particular currency but paid in a different currency are shown in statement I. All other exchange adjustments have been recorded as miscellaneous income in accordance with UNFPA financial rule 104.3 and in 1987 amounted to a net gain of \$3,310,245 as shown in schedule 2.

In accordance with UNFPA financial rule 116.1 (d), the assets and liabilities held in currencies other than United States dollars have been revalued at the United Nations operational rate of exchange in effect at the end of the year.

(d) Capital expenditure

The full cost of non-expendable equipment used for administrative purposes is charged to the UNFPA biennial budget in the year in which it is purchased. An inventory is maintained of all non-expendable equipment (defined as items of equipment valued at \$400 or more a unit, and with a serviceable life of at least five years, and items of equipment included in any special lists, for which formal inventory records are maintained).

Note 2. Field office costs

Field office costs in 1987 of \$5,642,366, as reported in statement I do not include the costs of 16 deputy representatives and senior advisers on population posts that were included in the 1986 field office costs of \$5,913,827.

The overall field office costs in 1987 of \$8,664,015, include the field office costs of \$5,642,366 mentioned above plus the costs of \$3,021,649 for 33 deputy representatives and senior advisers on population and 9 international programme officer posts that were integrated in the biennial budget in 1987. The comparable costs in 1986 of \$7,447,716, included the field office costs of \$5,913,827 plus the costs of \$1,533,889 for 17 DRSAP and 9 IPO posts integrated in the biennial budget in 1986.

The aggregate costs of the deputy representatives and senior advisers on population and international programme officer posts referred to above, amounting to \$4,555,538 for the 1986-1987 biennium, are reported under programme IV, schedule 4.

Note 3. Non-convertible currencies pending United States dollar credit from UNDP

The amount of \$169,246 represents non-convertible currencies, held by UNDP on behalf of UNFPA, converted into United States dollars at the United Nations operational rate of exchange in effect on the date of receipt.

Note 4. Contributions pledged by Governments

Contributions pledged by Governments for current and prior years that had not been paid by 31 December 1987 were as follows:

	<u>United States dollars</u>
1983 and prior years	139 773
1984	85 049
1985	65 944
1986	108 319
1987	848 381
	<hr/>
Total	(statement II) <u>1 247 466</u>

Note 5. Operating funds provided or payable to, and unliquidated obligations of, executing agencies

Operating funds of \$4,068,819 have been provided to executing agencies and \$3,916,299 are payable to executing agencies as shown in statement II. These balances, after taking into account unliquidated obligations, are consistent with the operating fund balances reported by the executing agencies.

The unliquidated obligations of \$28,766,368 are shown separately in statement II and consist of \$18,904,810 in respect of agencies for whom operating funds are provided/payable, \$9,201,374 in respect of UNFPA/Governments as executing agencies for their projects and \$660,184 in respect of non-governmental organizations.

Note 6. Operational reserve

At its twenty-eighth session (decision 81/7, section III, paragraph 5), the Governing Council decided that the level of the operational reserve for each year should be established at 25 per cent of the estimated contributions for that year, rounded off to the nearest \$1 million, this target to be fully achieved as soon as possible and not later than by the end of 1989.

However, at its thirty-third session (decision 86/34, section IV, paragraph 4), the Governing Council authorized the Executive Director to delay the implementation of Council decision 81/7 section III, paragraph 5, until the middle of the 1990s, if the income between 1986 and 1990 reached only the assumptions of the lower scenario of the work plan of the Fund for 1987-1990.

During 1987, the income situation of the Fund having improved, the Executive Director decided to transfer \$7 million from general resources to the operational reserve, bringing the balance to \$37 million as at 31 December 1987, as shown in statement II. This represents approximately 25 per cent of the contributions for 1987.

Note 7. Unspent allocations

The balance of general resources shown in statement III excludes 1987 unspent allocations of \$26,707,852 and allocations for future years amounting to \$134,755,664 issued to executing agencies and non-governmental organizations, as shown in schedule 8.

Note 8. Investments in currencies other than United States dollars

The investments reported in the balance sheet and schedule 5 include the United States dollar equivalent of investments in other currencies using the United Nations operational rate of exchange in effect since 1 December 1987. At the United Nations operational rate of exchange in effect from 1 January 1988, which more closely reflects the market rate of exchange as at 31 December 1987, the value of these investments would amount to approximately \$4.5 million more than that shown in the accounts.

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