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

**Report of the Advisory Committee on Administrative  
and Budgetary Questions**

1. The Advisory Committee on Administrative and Budgetary Questions met with members of the Audit Operations Committee of the Board of Auditors in September 1988 and discussed with them the Board's reports to the General Assembly on the financial reports and accounts of the United Nations, 1/ including the International Trade Centre, 2/ and the United Nations University, 3/ for the biennium ended 31 December 1987; the United Nations Development Programme, 4/ the United Nations Children's Fund, 5/ the United Nations Relief and Works Agency for Palestine Refugees in the Near East, 6/ the United Nations Institute for Training and Research, 7/ the voluntary funds administered by the United Nations High Commissioner for Refugees, 8/ the Fund of the United Nations Environment Programme, 9/ the United Nations Population Fund, 10/ all for the year ended 31 December 1987; and the United Nations Habitat and Human Settlements Foundation 11/ for the biennium ended 31 December 1987. The Advisory Committee's observations on the report of the Board on the accounts of the United Nations Joint Staff Pension Fund for the year ended 31 December 1987 12/ will be submitted separately to the General Assembly at its forty-third session, in a report that will also include the Committee's recommendations on the report of the United Nations Joint Staff Pension Board.

2. In addition, the Advisory Committee examined the Board's report 13/ on its expanded audit of the financial report and accounts of the United Nations Children's Fund for the year ended 31 December 1986, which has been submitted pursuant to the provisions of paragraph 2 of General Assembly resolution 42/206 of 11 December 1987.

3. The Advisory Committee also had before it a note by the Secretary-General (A/43/445), transmitting the summary of principal findings and conclusions for remedial action contained in the reports of the Board of Auditors, which was

prepared by the Auditors in accordance with paragraph 8 of General Assembly resolution 42/206.

4. In paragraph 3 of its report (A/41/632) to the General Assembly at its forty-first session, the Advisory Committee stated:

"In considering the reports, the Advisory Committee found instructive the responses of the Administrations to the observations of the Board. The Committee noted that these observations to the comments of the Board are located in two places: in certain cases they are summarised in the body of the main report; in other cases they also appear at the end of the report. The Committee is of the view that all the observations of the Administrations to be included in the Auditors' reports should be made available to the Board prior to the session where it finalises its reports. The observations received should be grouped in one place in the Auditors' report."

5. The Board of Auditors has since modified the format and presentation of its reports, taking into account the observations and recommendations of the Advisory Committee quoted in paragraph 4 above. During its consideration of the Board's current reports to the General Assembly at its forty-third session, the attention of the Advisory Committee was drawn to a tendency on the part of the Administrations to insist on detailed and even verbatim reproductions of their responses to comments contained in the Board's reports. In this connection, the Committee wishes to stress that it never intended the end-result of its position quoted in paragraph 4 above to involve the inclusion of lengthy comments from the Administrations in the reports of the Board. The Committee firmly believes that it is the prerogative of the Board, in consultation with the Administrations concerned, to determine the length of its reports.

#### United Nations

6. The Advisory Committee has examined the financial reports and accounts for the biennium ended 31 December 1987 and the related report of the Board of Auditors 1/ in respect of regular budget activities, trust funds and special accounts.

7. Various aspects of budgetary control are discussed by the Board in paragraphs 59 to 116 of its report.

8. In paragraphs 67 to 79, the Board considers the question of raising and recording unliquidated obligations in accordance with the delivery principle for goods and services, including acquisition of equipment, in line with generally accepted accounting principles or with United Nations Financial Regulation 4.3, which states:

"Regulation 4.3. Appropriations shall remain available for twelve months following the end of the financial period to which they relate to the extent that they are required to discharge obligations in respect of goods supplied and services rendered in the financial period and to liquidate any other outstanding legal obligation of the financial period. The balance of the appropriations shall be surrendered."

The Board states its views that "the application of that regulation has been inconsistently and less strictly applied in the raising and recording of unliquidated obligations" (para. 68) and that "the criteria for raising and recording unliquidated obligations should be brought in line with the provisions of regulation 4.3 and, specifically, that sections 6 and 8 of the Finance Manual must be reconsidered ... with a view to requiring the consistent application of the delivery principle for goods and services, including acquisition of equipment, provided for in regulation 4.3" (para. 69). The Committee understands that in so far as the United Nations is concerned, the Board did not consider this matter to be sufficiently material to qualify its opinion; however, this was not the case with UNDP and UNFPA (see paras. 28 and 39 below).

9. The Advisory Committee notes that the Board's proposals quoted in paragraph 8 above and the Administration's response (para. 70) involve different interpretations of delivery period and disbursement period. The Committee notes that the Board's interpretation of the delivery principle can best be illustrated as follows: if a motor car is ordered in 1988 (and funds obligated in 1988) but is delivered and paid for in 1989, such disbursement must be counted against 1989 expenditure. The Committee observes, however, that such an approach carries with it the potential for complicating the established programme budgeting process, since it would involve decreasing prior year appropriations and increasing appropriations for the next year.

10. The Advisory Committee notes that a number of the instances cited by the Board relate to the procurement by the United Nations, UNDP and UNFPA of equipment for technical co-operation activities. The Advisory Committee points out that long lead times are often involved in such transactions and that the entering into of commitments well in advance of delivery does not necessarily represent an abuse. In the circumstances, the Advisory Committee believes that the status quo ante should be maintained, with strict financial control ensured by enforcement of existing procedures for the certification of commitments and the monitoring of obligations. Obligating funds without a specific and demonstrated need for them should not be seen as a means to retain balances of appropriations that would otherwise be surrendered. In this connection, the Advisory Committee draws attention to its continuing and close involvement with this issue, as evidenced by its observations and recommendations contained in paragraphs 32 to 35 of its first report on the proposed programme budget for the biennium 1988-1989. 14/ The Committee believes that implementation by the United Nations Administration of its recommendations will result, in future years, in better control and significantly lower levels of unliquidated obligations.

11. The Advisory Committee notes that the Administration has agreed with the Board's technical recommendation (para. 79) that unliquidated obligations relating to UNDP-funded projects that have remained valid beyond 12 months should be transferred to and reported as accounts payable in the relevant financial statements.

12. In paragraphs 86 and 87, the Board comments on a resolution adopted by the Economic and Social Council authorizing the International Narcotics Control Board (INCB) or the Head of its secretariat to transfer credits from one item to another

in the INCB budget. The Board considers this situation to be contrary to the regular provisions regarding budgetary control. In this connection, the Advisory Committee is of the view that implementation of the above Economic and Social Council resolution should not in any way contravene any United Nations financial regulations or rules on budgetary control. In the circumstances, the Committee concurs in the Board's position and recommendation contained in paragraph 87 of its report that "the wording of the above-mentioned resolution be reconsidered, with a view to bringing the INCB in line with regular budget control procedure".

13. The activities of the five Multinational Programming and Operational Centres (MULPOCs) of the Economic Commission for Africa (ECA) are considered in paragraphs 88 to 92 of the Board's report. In the light of the findings reported, the Advisory Committee requests that the United Nations Administration carry out without delay the Board's recommendation in paragraph 91 that "the achievements of the MULPOCs be thoroughly evaluated with a view to deciding whether this experiment should be continued or whether the mandate, number and structure of these centres should be completely reorganised". At the same time, the Committee recommends that the Administration should also urgently reappraise the ECA Pan-African Documentation and Information System (PADIS) in view of its implementation and funding problems identified in paragraphs 177 to 180 of the Board's report.

14. The use of programme support funds is discussed in paragraphs 93 to 95 of the Board's report. The Advisory Committee strongly endorses the Board's view in paragraph 94 that "programme support resources should be used in areas where a demonstrable relationship exists between the supporting activities concerned and the activities that generated the programme support revenue". The Committee notes that this observation of the Board applies not only to the United Nations but to other organisations such as UNDP and UNFPA as well.

15. Payroll and personnel information systems are examined in paragraphs 117 to 170 of the Board's report.

16. The question of loaned posts is discussed in paragraphs 141 to 144 of the Board's report. The Advisory Committee shares the view expressed by the Board in this regard that such loans should be for short durations only; otherwise it would call into question justifications submitted in the Secretary-General's programme budget documents for the establishment and continuation of those posts.

17. The Advisory Committee trusts that the problems and weaknesses of the existing personnel information systems identified in paragraphs 145 to 150 of the Board's report will be addressed when the proposed integrated management information system is approved and implemented.

18. Paragraphs 159 to 162 of the Board's report contain its review of the administration of procedures concerning dependency allowances (in particular, the number of adopted children entitled to dependency benefits) at offices away from Headquarters. In paragraph 162, the Board submits a broad recommendation that a "review of the existing regulations and rules on dependency allowance be further pursued to determine the financial implications of the rule on the number of

dependants qualified to receive allowances and other related staff benefits, with due consideration given to clarifying the basis of measuring the financial capabilities of staff members in providing main and continuing support to dependants". In its detailed response contained in paragraph 161 of the Board's report, the United Nations Administration, inter alia, states:

"The present provisions concerning definition of dependants, i.e. who, and under what conditions, should be recognized as dependants for the purposes of the Staff Regulations and Rules, has been the subject of inter-agency consultation since 1953 and review by the International Civil Service Commission (ICSC). The present provisions reflect the agreement on the matter reached by the organizations participating in the United Nations common system in the Consultative Committee on Administrative Questions in July 1980 and approved by ICSC."

19. The Advisory Committee notes that the ICSC continues to be seized with the question of entitlement to dependency benefits. With regard to the broader aspect of overall administration of staff entitlements, the Advisory Committee notes that the findings and problems reported by the Board on the subject indicate that there is need for the United Nations Administration to exercise more stringent control in determining such entitlements and authorizing expenditures in this regard.

20. In paragraphs 169 and 170, the Board discloses instances of the routine charging of salaries of permanent staff members discharging functions of a continuing nature to the general temporary assistance allotments at ECA. The Advisory Committee is concerned by the apparent increase in such incidents reported by the Board and recommends that the United Nations Administration take immediate measures to discourage this practice.

21. Procurement and contractual services are considered in paragraphs 181 to 215 of the Board's report. The Advisory Committee notes that a number of weaknesses are revealed in the Board's report with regard to the negotiation, bidding and award of contracts in the Organization. The Committee sought additional information from the United Nations Administration with regard to observations raised in paragraphs 196 to 201 by the Board concerning building maintenance problems at the Park Avenue building rented for use as archival storage space. The Committee was informed that all the building maintenance problems identified in the Board's report had since been repaired. In view of the economic advantages and taking into account space constraints at Headquarters, the United Nations Administration had decided to continue the contract.

22. The Board's examination of revenue-producing activities (paras. 233-281), which focused on the operational and financial activities of the United Nations Postal Administration (UNPA), has disclosed a number of significant deficiencies. The Advisory Committee takes note of the United Nations Administration's general agreement with the Board's findings and its stated intention to implement a reorganization plan of UNPA, as described in paragraph 257 of the Board's report. In this connection, the Committee requests that the Administration reflect the results of such reorganization, as well as the status of implementation of the Board's recommendations, in the proposed programme budget for the biennium 1990-1991.

23. The Board's review of control and physical inventory of expendable and non-expendable property (paras. 313-320) revealed a number of control weaknesses in the United Nations peace-keeping operations. The Advisory Committee is concerned at the instances cited by the Board, especially in view of developments that are expected to increase significantly the United Nations peace-keeping activities.

24. In paragraphs 321 to 323, the Board's reports its findings concerning the provision of conference services at the United Nations Office at Geneva. With regard to difficulties of scheduling meetings, the Advisory Committee observes that the problems cited by the Board could be eased, were legislative bodies to refrain from active involvement in scheduling such meetings. However, in practice, because of political and other considerations, legislative bodies actively participate in decision-making as to the venues and timing of meetings. With regard to specific co-ordination and related difficulties in the efficient scheduling of meetings and efficient use of conference-servicing resources, the Committee concurs in the Board's recommendation that substantive user-units and user organizations must co-operate closely with the Conference Services Division of the United Nations Office at Geneva in this regard.

#### International Trade Centre

25. The Board's audit opinion, inter alia, states: "The financial statements were prepared in accordance with the stated accounting principles, which were applied on a basis consistent with that of the preceding financial period. The transactions were in accordance with the Financial Regulations and legislative authority, except for the deviations mentioned in paragraphs 24, 26 and 28 of our report." 15/ The Board's qualified opinion is attributable to its identification and discussion of three instances of departures by ITC from generally accepted accounting principles and from the United Nations financial regulations, rules and directives, i.e., to certain aspects of its policies and practices concerning allotment procedure (paras. 20-25), deferred income (para. 26) and operating reserve (paras. 28 and 29). However, in paragraph 24 of its report, 2/ the Board states that its mention of such departures in its audit opinion "should not be taken as an indication of mismanagement, or even a lack of prudence on the part of the Administration". In this connection, the Advisory Committee notes from paragraphs 25, 26 and 28 of the Board's report that the ITC Administration has agreed to review, in consultation with the United Nations, its policies and practices in the three areas, with a view to addressing the Board's concerns.

26. The subject of staff refund by ITC to the United Nations Office at Geneva for services rendered is considered in paragraph 37 of the Board's report. The Committee notes that in response to the Board's observations, the ITC Administration intends, together with the Administration of the United Nations Office at Geneva, to review such services and the modalities of their compensation.

United Nations University

27. Budgetary control is considered in paragraphs 72 to 75 of the Board's report. 3/ The Board expresses its opinion that authority granted to the Rector by the University Council to allocate and utilize any additional funds that may be received by the University during the biennium 1986-1987 for programme activities and to transfer funds from one item to another without exceeding the grand total of the approved budget "contravenes the very intent of programme budgeting" (para. 73) and recommends that "this grant of authority be reconsidered" (para. 75). In this connection, the Advisory Committee notes the University Administration's response, contained in paragraphs 76 and 77 of the Board's report, that "the authority of the Rector is not an indefinite authority and that the representatives of the United Nations and of the United Nations Educational, Scientific and Cultural Organisation were present and were involved in the decisions of the Council [and that] the Advisory Committee on Administrative and Budgetary Questions was fully aware of this authority" (para. 76). Moreover, "the adjustments/allocation of additional funds were made only for programme activities and not for personnel" (para. 77). The Advisory Committee intends to monitor the situation with a view to ensuring that the Rector's exercise of such authority granted is not indiscriminate and does not prejudice the decision-making prerogatives of the Governing Council of the University.

United Nations Development Programme

28. The Advisory Committee notes that the audit opinion submitted by the Board of Auditors regarding its report on UNDP 4/ is qualified by a number of observations. At the request of the Advisory Committee, members of the Audit Operations Committee confirmed that of the observations in question, the main one related to the Board's view that it could not comment on UNDP programme expenditures executed and reported by United Nations executing agencies (paras. 61-63) and on expenditures pertaining to government-executed projects (para. 66), pending further changes in certification procedures. This has been the Board's position since the 1986 audit. The other observations relate to the Board's views concerning the delivery concept for equipment and unliquidated obligations against budgetary appropriations (paras. 52, 71 and 93), the Board's comments concerning documentation in support of cash-counterpart expenditures (para. 70), the Board's view that the UNDP Administration should fully reflect government contributions to local office costs in statement I (para. 73), the Board's recommendations that UNDP accounting procedures in respect of treatment of interest income and amortization of construction projects expenditure should be modified (paras. 76 and 80, respectively), and the Board's findings on overruns on allotments (paras. 103-105).

29. With regard to the certification of programme expenditures executed and reported by United Nations executing agencies, the Advisory Committee notes from paragraphs 51 and 60 to 65 of the Board's report that discussions with a view to resolving the matter are in progress between the various parties concerned. The Committee trusts that these discussions will lead to an acceptable solution to the problem for UNDP as well as for UNFPA (see para. 39 below).

30. The Advisory Committee notes the observations of the Board concerning the treatment and audit of government-executed projects and the related response of the UNDP Administration (paras. 57 and 58, and 59 and 66, respectively). The Committee also notes from paragraph 70 that in response to the Board's comments concerning documentation in support of cash-counterpart expenditures, the UNDP Administration has undertaken to address the issue.

31. In paragraphs 52, 53, 71 and 93 of its report, the Board discusses the delivery concept for equipment and unliquidated obligations against budgetary appropriations. The responses of the UNDP Administration are contained in paragraphs 54 and 72 of the Board's report. The related views of the Advisory Committee concerning this matter are contained in paragraphs 9 and 10 above.

32. The UNDP Administration's response to the Board's recommendation concerning the treatment in statement I of government contributions to local office costs is contained in paragraph 74 of the Board's report. The Advisory Committee trusts that further consultations will be carried out by the Board and the UNDP Administration with a view to resolving their difference of opinion on this matter.

33. The Committee notes from paragraph 76 of the Board's report that in response to the Board's recommendation concerning UNDP accounting procedures in respect of treatment of interest income, the UNDP Administration has agreed to examine its current practice in this regard. With regard to the Board's recommendation concerning UNDP accounting procedures in respect of amortisation of construction projects expenditure, the Advisory Committee notes the UNDP Administration's response contained in paragraph 81 of the Board's report.

34. In its response to the Board's findings on overruns on allotments, the UNDP Administration describes the efforts it has undertaken and the additional control measures it has introduced, which it expects will ensure stricter budgetary discipline and thereby keep the overruns to a minimum (para. 106).

35. In its consideration of the question of redeployment of resources from the field to headquarters (paras. 107 and 108), the Board comments again "on the nearly total flexibility granted to the Administration in the management of the budget" (para. 107) since the UNDP budget is appropriated under a single appropriation line. In this connection, the Advisory Committee reiterates its views contained in paragraph 12 of its report to the General Assembly at its forty-second session (A/42/579), that "On the basis of the information given to the Advisory Committee regarding the pattern of expenditure, a compelling case has not yet been made to change the appropriation resolution at this time. The Advisory Committee requests the Board to keep this matter under review and to report back to the Advisory Committee and the Governing Council if the situation so warrants."

36. The Board examines the liquidity position of UNDP in paragraphs 115 and 116 of its report. Taking into account statistical data comparing changes in the liquidity position between 31 December 1986 and 31 December 1987, the Board states in paragraph 115 that "The gap between inflows of contributions and outflows of expenditures is thus widening, thereby increasing the excess of income over expenditures and eventually the balance of general resources as well as the



liquidity position." In its report on UNFPA, 10/ the Board also submits a factual statement about a similar increase in the liquidity position of that organisation (see para. 40 below). The Board's reviews of the liquidity positions of UNDP and UNFPA have been carried out pursuant to the request of the General Assembly in its resolution 40/238, paragraph 5, of 18 December 1985.

37. In this connection, the Advisory Committee recalls that in paragraph 11 of its earlier report (A/42/579), the Committee stated that it "believes that the question of the proper level of the UNDP financial reserve is complex, as it involves both general resources and other funds received by UNDP for specific purposes. The Advisory Committee is of the view that the matter should be addressed by the Governing Council, which could provide specific guidance on points of substance as well as presentation." The Committee also notes that measures recently adopted by the UNDP Governing Council as well as currency developments in 1988 will affect the liquidity position of UNDP in the future.

#### United Nations Population Fund

38. In its audit opinion, the Board, inter alia, states "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." 16/

39. The Board's qualified opinion is based on two grounds. Firstly, for reasons explained in paragraph 38 of its report, 10/ the Board could not comment on UNFPA programme expenditures executed and reported by United Nations executing agencies. Secondly, as explained in paragraph 62, the present practice of UNFPA with regard to cut-off rules for charging expenditure to the proper financial period was not based on a consistent application of the delivery principle for goods and services, including acquisitions of equipment, in line with United Nations financial regulation 4.3. The Advisory Committee notes that the Board's observations on expenditure by executing agencies are being addressed (see para. 29 above). As regards the Board's second observation concerning application of the delivery principle, the Committee takes note of the Board's finding that UNFPA rules appear to be more lax than those of the United Nations. The Committee's views regarding the delivery principle are contained in paragraphs 9 and 10 above.

40. In paragraph 64 of its report, the Board states that "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". The related observations of the Advisory Committee concerning a similar increase in the liquidity position of UNDP are contained in paragraph 37 above.

41. The financial accounting procedures and relationships of UNFPA with UNDP are considered in paragraphs 57 to 59 of the Board's report. Following a discussion of weaknesses detected in the present de facto arrangements, the Board recommends in

paragraph 59, that "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". UNFPA and UNDP reached agreement in mid-June 1988 on one (services performed by UNDP on behalf of UNFPA and the basis upon which those services are to be charged) out of three areas specifically identified by the Board in paragraph 59 (a) to (c) of its report. The Advisory Committee requests that the Board of Auditors review this and other agreements (see para. 42 below) negotiated between UNFPA and UNDP concerning the modalities of their relationship, with a view to verifying whether such agreements have addressed the weaknesses identified by the Board.

42. Cash management arrangements in UNFPA are reviewed in paragraphs 66 and 67 of the Board's report. The Advisory Committee notes that this examination has led the Board to observe that the delineation of responsibilities with respect to cash and investments between UNFPA, the United Nations Treasury and the UNDP Treasury "is not entirely clear to all parties concerned" (para. 66) and to suggest, *inter alia*, that "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" (para. 67) (see para. 41 above).

43. Personnel matters are addressed in paragraphs 73 to 76 of the Board's report. In paragraph 74, the Board states: "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 [UNDP] Governing Council or ACABQ, which [UNFPA] 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." The Advisory Committee dealt with this matter in paragraphs 3 to 9 of its report (DP/1984/44) to the thirty-fifth (1988) session of the Governing Council on the Executive Director's reports on the UNFPA revised budget estimates for the 1988-1989 biennium and on the review of overall staffing requirements in the field and at headquarters. In its report (*ibid.*, para. 5), the Committee expressed similar concerns as those expressed by the Board and quoted above. At the same time, while not interposing any objection to UNFPA's reorganization at headquarters, the Committee recommended (*ibid.*, para. 9) that "the Governing Council may wish to seek further reassurance from the UNFPA Administration that the revised functional allocations will, *inter alia*, achieve the objectives of maximizing efficiency and eliminating duplication of work, and that the fragmentation of organizational units will not lead to future grade creep and substantial new requests for post reclassifications".

44. The use and management of consultancy services by UNFPA is considered in paragraphs 77 to 81 of the Board's report. In this connection, in response to observations raised by the Board, the UNFPA Administration states its opinion 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" (para. 80) and that "there is contractual obligation to pay consultants in full, even though

the 'finished product' may turn out to be poor" (para. 81). The Advisory Committee disagrees with that opinion and fully supports the Board's recommendation in paragraph 80 that "as provided in article 3 of the special service agreement, consultants performing very poorly should not receive the full compensation agreed upon".

45. The Board discusses programme and administrative expenditure in UNFPA in paragraphs 84 to 88 of its report. In paragraph 87, the Board states 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". The Advisory Committee shares the views expressed by the Board above and intends to continue to monitor this question in the context of its examination of future administrative and programme support budgets of UNFPA.

#### United Nations Children's Fund

46. The Advisory Committee has no comments regarding the Board's report on the accounts of UNICEF for the year ended 31 December 1987. 5/

47. The Committee also considered the Board's report on its expanded audit of the financial report and accounts of the United Nations Children's Fund for the year ended 31 December 1986, 13/ which has been submitted pursuant to the provisions of paragraph 2 of General Assembly resolution 42/206. In addition, pursuant to the request contained in paragraph 37 of its report (A/42/579) to the General Assembly at its forty-second session, the Advisory Committee received a report from the Executive Director of UNICEF on the status of implementation by UNICEF of the recommendations contained in the Board of Auditors' report that were not subject to the expanded audit (E/ICEF/1989/AB/L.3).

48. As a result of the expanded audit, the Board has now rendered a clean opinion on the UNICEF accounts for 1986. The UNICEF Administration has accepted most of the recommendations contained in this report of the Board. However, as can be seen from paragraphs 71 to 81 of the Board's report, there remains a difference of opinion between UNICEF and the Board concerning the latter's observations and recommendations on the question of temporary allocations by UNICEF from general resources to supplementary-funded projects. In this connection, the Advisory Committee recommends that the UNICEF Administration should clarify the matter and seek the guidance of its Executive Board at its 1989 session in the context of the Executive Director's forthcoming report on full evaluation of supplementary funds policies and procedures as they relate to programme implementation (see E/ICEF/1989/AB/L.3, annex, part B, item 1).

49. Paragraphs 64 to 68 of the Board's report on its expanded audit of the UNICEF accounts for 1986 deal with the fortieth anniversary celebration of UNICEF. In order to facilitate the work of the spring 1988 session of the UNICEF Executive Board, which included an agenda item on this matter, the Advisory Committee

reviewed, on the basis of an advance text, the above-mentioned paragraphs of the Board's report, and submitted its related comments by a letter dated 20 April 1988 to the Executive Director of UNICEF. These comments are reproduced below:

"The Advisory Committee notes from paragraph 66 of the expanded audit [A/42/5/Add.2, vol. II] that 'a total of \$2,561,460.82 of 1986 expenditures were charged against the 1985 budget, contrary to the provisions of financial regulation 4.2'. In addition to the amounts previously identified by the Board additional 1986 expenditures of \$243,409.32 were also identified as having been charged against the 1985 budget. In this connection the Advisory Committee recalls the statement in paragraph 22 of its report in document E/ICEF/1988/AB/L.12 that it is improper to charge funds to one biennium for commitments arising in the following biennium.

"The Advisory Committee notes from paragraph 68 of the expanded audit [A/42/5/Add.2, vol. II] that, with regard to the Revolving Fund, the Board recommended that 'the expenditures that had been charged to the Revolving Fund should be charged instead against the 1986 administrative budget of UNICEF, with Executive Board approval'. In this connection the Committee recalls that in its report A/42/5/Add.2, para. 69, the Board of Auditors had recommended that 'As required by financial regulations 6.6 and 6.7, the Administration should report to the ACABQ the establishment of the revolving fund with a clear specification of the fund's purposes and limits.'

"In paragraph 24 of its report E/ICEF/1988/AB/L.12, the Advisory Committee concurs with the observations of the Board of Auditors and in paragraph 25 of the same report the Advisory Committee states that it has reviewed the establishment of the special account (revolving fund) and is not of the view that it should be approved.

"The Advisory Committee notes that in paragraph 64 of its report on the expanded audit [A/42/5/Add.2, vol. II], the Board of Auditors 'verified the amounts of obligations raised and the expenditures incurred in 1985, 1986 and 1987 for the celebration of the fortieth anniversary of the establishment of UNICEF, including the First Earth Run and the Sport Aid campaign'. According to paragraph 65 of the expanded audit, gross expenditures totalled \$7,673,124.45 while \$4,721,748.72 was recovered from commercial income resulting in net expenditures of \$2,951,375.73. The Advisory Committee recalls that during the original audit of the 1986 UNICEF accounts the Board of Auditors drew attention to the shortfall which had occurred in anticipated income from commercial sources which had resulted in an excess of expenditures and recommended, inter alia, that 'the Administration should submit to the Executive Board a request for approval, on a post factum basis, of the total amount of financial resources expended for the commemoration' (A/42/5/Add.2, para. 65). In paragraph 65 of the expanded audit [A/42/5/Add.2, vol. II] the Board recommends that 'the gross amount of expenditures and the net amount charged to the administrative budget should be reported to the Executive Board'. In the same paragraph the Board of Auditors indicates that it was informed by the UNICEF Administration that a detailed report on the Fortieth Anniversary celebration would be presented to the 1988 Executive Board for

approval. The Advisory Committee understands that this report was not available to the Board of Auditors for its review. The Committee regrets this, especially in view of the Committee's observations on that report (as contained in paras. 20-27 of E/ICEF/1988/AB/L.12), which the Committee reiterates at this time.

"Although the clear, unambiguous information referred to in paragraph 28 of the Committee's report (E/ICEF/1988/AB/L.12) has not been received, in view of the recommendation of the Board of Auditors in paragraph 65 of the expanded audit [A/42/5/Add.2, vol. II], the Advisory Committee will not interpose any objection to the recommendations made by the Executive Director in paragraph 21 of E/ICEF/1988/AB/L.9 with the understanding that the expenditures to be approved by the Executive Board on a post facto basis are those verified by the Board of Auditors which appear in paragraph 65 of the expanded audit [A/42/5/Add.2, vol. II]."

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

50. In its audit opinion, the Board, inter alia, states: "The financial statements were prepared in accordance with the stated accounting principles. Substantial changes in the stated accounting policies were introduced in 1987 as mentioned in our report. The transactions were in accordance with the Financial Regulations and legislative authority, except for the effects of the observations mentioned in paragraph 21 of our report." 17/ The Advisory Committee notes from paragraphs 20 and 21 of the Board's report 5/ that at the time of closing its 1987 accounts, and without discussion with the external auditors prior to implementation, the UNRWA Administration responded to a 1986 recommendation of the Board by introducing a new accounting policy with respect to contributions that provides for the recording both of contributions in kind and of contributions in cash on the cash basis of accounting. However, the response of UNRWA apparently exceeds the intended scope of the Board's 1986 recommendation, since the Board recalls that its recommendation "related only to contributions in kind" (para. 21). The Board also expresses its opinions that "such a hasty restatement of the 1987 accounts was not justified" and that "it would have been more appropriate to modify the financial regulations and rules [of UNRWA] in compliance with the proper procedures before introducing the new accounting policy rather than the other way around" (ibid.).

51. None the less, the Board has not interposed any substantive objection to the new accounting policy of UNRWA and has submitted a number of technical recommendations intended to ensure that the financial statements prepared on the basis of the new policy comply with the Board's recommendations. In this connection, the Advisory Committee notes that the UNRWA Administration has agreed to implement the Board's technical recommendations.

United Nations Institute for Training and Research

52. The Advisory Committee has no comments regarding the Board's report on the accounts of UNITAR. 7/

Voluntary Funds administered by the United Nations  
High Commissioner for Refugees

53. In paragraph 4 of the Board's report, 8/ it is stated that "the Administration's efforts to improve the operational and financial management and control system of UNHCR, in particular, relating to the effectiveness and efficiency of the operations and administration of the organisation, have begun to show positive effects". In response to inquiries from the Advisory Committee, members of the Audit Operations Committee stated that this development, together with improved bookkeeping performance on the part of UNHCR, contributed to the Board's rendering of a clean opinion on the UNHCR accounts for the year ended 31 December 1987, despite its recording of a number of other significant management lapses and weaknesses on the part of the UNHCR Administration.

54. Of the instances of significant management lapses and weaknesses cited by the Board in its report, the Advisory Committee was particularly concerned by those related to a project to deliver and distribute food and maize in a host country (paras. 24-29), procurement of inappropriate X-ray equipment for a project to provide refugees in a host country with adequate and accessible preventive and curative health services (paras. 30-39), exclusion of UNHCR from procurement decisions for a multi-assistance project in a host country (paras. 40-48), and improper contract arrangements for the sale of food aid (paras. 65-68).

55. The Advisory Committee believes that the problems identified above point not only to a continuing need for better co-ordination between UNHCR headquarters, field staff and their local counterparts, but also to lack of full appreciation and understanding of the situation in the field. In this connection, the Advisory Committee draws attention to the Board's observation in paragraph 4 of its report, that "programme planning and implementation, and the monitoring of projects, in particular at the field office level, still require further strengthening to ensure that programme deliveries regarding assistance to refugees vis-à-vis contributions are further maximised". The Committee trusts that with the UNHCR Administration's acknowledgement of the problems identified and its agreement to implement the Board's recommendations, similar management lapses will not recur.

56. Outstanding unliquidated obligations are considered in paragraph 62 to 64 of the Board's report. In response to its inquiries, members of the Audit Operations Committee explained that in the case of UNHCR, the Board did not make reference to its broad discussion elsewhere of the criteria for raising and recording unliquidated obligations vis-à-vis the delivery principle for goods and services, including acquisition of equipment, in line with the generally accepted accounting principles or with United Nations financial regulation 4.3 (see paras. 8-10 above),

because the Board's observations and recommendations concerning UNHCR dealt specifically with the need for UNHCR to improve its performance in the liquidation of project funds (by, inter alia, obtaining timely reports from its executing agencies).

57. The engagement of consultants, experts and temporary assistance is considered in paragraphs 78 to 90 of the Board's report. Paragraphs 79 to 82 deal, in particular, with the UNHCR Administration's non-conformity to procedures for calling for bids or proposals in contracting for consultancy services. In response to the Advisory Committee's inquiries, members of the Audit Operations Committee stated that the Board's observations and recommendations were directed, in particular, at the absence of competitive bidding in the award by UNHCR of a number of large management consultancy contracts to institutions. The Advisory Committee fully concurs in the Board's observations and recommendations on this matter and notes the UNHCR Administration's assurance of its intention to take corrective action.

58. Pursuant to the request contained in paragraph 63 of its report (A/42/579) to the General Assembly at its forty-second session, the Advisory Committee received and took note of a report from the High Commissioner 18/ on the status of implementation by UNHCR of the recommendations contained in the Board of Auditors' special programme audit of the voluntary funds administered by UNHCR, conducted in 1987 (the full text of section I of the Board's special report was reproduced in document A/42/579, annex I).

#### Fund of the United Nations Environment Programme

59. The operation and use of the UNEP Revolving Fund (information) is discussed in paragraphs 45 to 48 of the Board's report. 9/ In paragraph 50, in the light of its findings, the Board concludes that "it is therefore clear that the performance of this undertaking as a self-supporting one cannot be fully assessed in the absence of proper matching of costs against revenue" and recommends that "a study be made to assess whether the undertaking has attained self-sufficiency by ensuring that all costs are properly matched against corresponding revenues". The Advisory Committee concurs in the Board's stated position and recommends that the UNEP Administration undertake an urgent review with a view to determining the status and future of this Revolving Fund.

#### United Nations Habitat and Human Settlements Foundation

60. The case of a General Service staff member who resigned and then was rehired at the Professional level, only to be subsequently engaged as a consultant, is examined in paragraphs 28 to 35 of the Board's report. 11/ The Advisory Committee fully supports the Board's position and shares the Board's disagreement with the Administration's response. The Committee believes that the actions of the Administration in this case are regrettable, and cautions the Administration against any recurrence of such improper actions.

Notes

- 1/ Official Records of the General Assembly, Forty-third Session, Supplement No. 5 (A/43/5), vol. I.
- 2/ Ibid., vol. II.
- 3/ Ibid., vol. III.
- 4/ Ibid., Supplement 5A (A/43/5/Add.1).
- 5/ Ibid., Supplement 5B (A/43/5/Add.2).
- 6/ Ibid., Supplement 5C (A/43/5/Add.3).
- 7/ Ibid., Supplement 5D (A/43/5/Add.4).
- 8/ Ibid., Supplement 5E (A/43/5/Add.5).
- 9/ Ibid., Supplement 5F (A/43/5/Add.6).
- 10/ Ibid., Supplement 5G (A/43/5/Add.7).
- 11/ Ibid., Supplement 5H (A/43/5/Add.8).
- 12/ Ibid., Supplement 9 (A/43/9).
- 13/ Official Records of the General Assembly, Forty-second Session, Supplement No. 5B (A/42/5/Add.2), vol. II.
- 14/ Ibid., Supplement No. 7 (A/42/7).
- 15/ Ibid., Forty-third Session, Supplement No. 5 (A/43/5), vol. II, sect. III.
- 16/ Ibid., Supplement No. 5G (A/43/5/Add.7), sect III.
- 17/ Ibid., Supplement No. 5C (A/43/5/Add.3), sect. III.
- 18/ This report of the High Commissioner to the Advisory Committee has also been submitted to the thirty-ninth (1988) session of the Executive Committee of the High Commissioner's Programme, as document A/AC.96/692/Add.1.

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