



SUMMARY RECORD OF THE 8th MEETING

Chairman: Mr. OKEYO (Kenya)

**Chairman of the Advisory Committee on Administrative and
Budgetary Questions:** Mr. MSELLE

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**AGENDA ITEM 113: FINANCIAL REPORTS AND AUDITED FINANCIAL STATEMENTS, AND REPORTS
OF THE BOARD OF AUDITORS (continued)**

ORGANIZATION OF WORK

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The meeting was called to order at 10.25 a.m.

AGENDA ITEM 113: FINANCIAL REPORTS AND AUDITED FINANCIAL STATEMENTS, AND REPORTS OF THE BOARD OF AUDITORS (A/42/5/Add.2, vol. II; A/43/5, vols. I, II and III, and Add.1-8, A/43/445 and 674)

1. Ms. CHISHOLM (United States of America) said that her delegation supported the recommendations relating to the financial reports and statements made by the Advisory Committee. During a period of resource constraints, the audit mechanism and the need for responsiveness to the Board's recommendations were of great importance.

2. The audit reports provided further indications of financial problems in some organizations and programmes, in particular, the International Trade Centre, the United Nations Development Programme and the United Nations Population Fund. Significant problems had also been identified at the United Nations, including inadequate budgetary and inventory control, ineffective control over staff benefits, weaknesses in the negotiation of contracts, a lack of cost-effectiveness in ECA programmes, and management problems in the United Nations Postal Administration. Her delegation was, however, encouraged by the willingness of the administrations to implement the Board's recommendations. The renewed interest of Member States in the audit process had contributed to improved management performance, as evidenced at UNICEF.

3. Commenting on the United Nations, she noted that deficiencies continued to exist in the area of budgetary control, particularly away from Headquarters. The Board had discovered a number of cases where expenditures had been incurred without authorization, in violation of financial rule 110.1 (b) (i). The Secretariat should, in each case, provide an explanation, stating the amounts involved. On occasion, too, expenditures had exceeded allotments. The appropriate financial regulations and rules should be followed more strictly, and the Administration should explain how it intended to correct the problems identified.

4. With regard to the Board's view that financial regulation 4.3 had been inconsistently applied in respect of unliquidated obligations, and its recommendation that the delivery principle for goods and services should be consistently applied, her delegation, while sharing the Board's concern, agreed with the Advisory Committee that excessively strict application of the delivery principle, particularly in the case of technical assistance activities, could complicate the budgeting process. The Advisory Committee on Administrative and Budgetary Questions (ACABQ) had recommended measures which would result in better control and lower levels of unliquidated obligations.

5. The Board had indicated the need for improved control over expendable and non-expendable property, in particular with reference to fuel stocks and prefabricated buildings at UNIFIL. Given the likely expansion of peace-keeping activities, the Board should devote more attention to those operations in future reports

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6. The Board had detected further evidence of inadequate control mechanisms governing the system of staff allowances and entitlements. A number of excess payments had been made, and there had been a near breakdown of internal control procedures in respect of dependency allowances. She failed to understand why the system had become so badly disorganized. Her delegation supported the Board's recommendation that existing regulations should be further strengthened. Similarly, a breakdown in the internal control mechanism relating to personnel payroll clearance forms had resulted in overpayments, a significant amount of which remained outstanding.

7. Several weaknesses had been identified with regard to the negotiation and award of contracts, including an erroneous payment of \$1.7 million in respect of freight forwarding services, in clear violation of financial rule 110.17, the purchase of office supplies on unfavourable terms, and the rejection of a \$2.4 million offer to purchase the United Nations lease on the Park Avenue archives. Since the Administration had initially agreed to relocate the archives, she would welcome an explanation of the inconsistency.

8. Given the priority attached by the Secretary-General to programmes benefiting Africa, the United States was concerned by the audit findings on the Multinational Programming and Operational Centres (MULPOCs) and the Pan-African Documentation and Information System (PADIS). Serious weaknesses in budgetary control had been disclosed at the MULPOCs, whose programming and operational activities were at an extremely low level. Her delegation strongly endorsed the recommendation by ACABQ and the Board for a re-evaluation of the MULPOCs, and would appreciate hearing the Administration's response. She would welcome an estimate of total regular budget support for the MULPOCs during 1986-1987. PADIS, too, had achieved limited results, with a rate of implementation at the end of 1987 of only 10 per cent. The Administration should undertake a complete reappraisal of both programmes in the light of the urgent needs of the region.

9. The Board had discovered serious financial management problems at the United Nations Postal Administration. There had been a steady decline in UNPA income, the figure for 1987 being only one third the 1980 level. Several problems, such as the absence of sound cost accountancy, organizational weaknesses, ineffective management and lack of marketing orientation, had been identified. The Board had noted the lack of a clear definition of responsibilities, particularly at the senior management level. Operating relationships between UNPA headquarters and its Vienna and Geneva offices had been poorly structured. UNPA's execution of contracts had been woefully inadequate: in the case of the stamp catalogue, production costs had exceeded projected income. There was an almost total lack of a marketing function. The Administration of UNPA should provide a status report on the implementation of its reorganization plan, and should respond, before the Committee, to the Auditors' observations.

10. Her delegation was concerned by the results of the audit of the United Nations, and expected the Board's recommendations to be speedily implemented. She

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looked forward to significant improvements in the audit report for the biennium 1988-1989, to be submitted at the forty-fifth session.

11. Turning to UNDP, she noted that the Board had qualified its report because of the Programme's inadequate procedures for auditing other agencies that implemented its projects and because of the way in which UNDP employed the delivery concept for equipment and unliquidated obligations against budgetary appropriations.

12. The problem of auditing executing agencies had emerged at the 1986 audit, and, following discussions with the Panel of External Auditors, in 1987 audit certificates had been issued in respect of two thirds of programme expenditure. The Governing Council had recognized the practical difficulties in requiring all executing agencies to provide annual audit certificates, while the imposition of such a requirement would entail substantial additional costs. The Board still felt that annual certification should be pursued. Inadequate certification in respect of government-executed projects had also been addressed, although it could be several years before new procedures became fully effective.

13. Her delegation agreed with the Advisory Committee concerning the Board's recommendation on the delivery concept for equipment and unliquidated obligations against budgetary appropriations, and shared the Board's concern over the proper classification and charging of project, project support and operating expenditures. A number of administrative expenditures had, in fact, been charged to programmes, a practice which threatened to undermine the integrity of the budgeting process.

14. Of greater concern was the finding that executing agencies had charged various expenditures to project budgets rather than pay them from support cost earnings. Neither did her delegation approve of the provision by UNDP of financial support, in the form of meeting the costs of technical backstopping visits, for executing agencies. UNDP should review the question.

15. Turning to the United Nations Children's Fund, she welcomed the significant progress made towards improved financial accountability, although some issues, particularly those relating to supplementary funding, had not been fully resolved. Financial accountability could not be treated as a secondary issue. Unless UNICEF was beyond reproach in financial matters, the goodwill that it enjoyed would be eroded.

16. While her delegation was impressed by the overall quality of the Board's audit reports, some changes in their content and format would facilitate their review by delegations. In particular, the Board might devote greater attention to management issues and provide a more detailed analysis of the actions taken by management to implement earlier recommendations, while identifying those problems which had not been fully addressed. The United States was encouraged by the Fifth Committee's renewed interest in the audit reports and financial statements. A strong external audit function, supported by Member States, could result in significant improvements in the management of United Nations organizations and programmes.

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Administrations should fully implement the recommendations made by the Board and the Advisory Committee.

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17. The CHAIRMAN suggested that, in its consideration of agenda items 114 and 49, the Committee should follow the procedure outlined at the seventh meeting by the Chairman of the Advisory Committee.

18. It was so decided.

The meeting rose at 11.10 a.m.