



SUMMARY RECORD OF THE 13th MEETING

Chairman: Mr. OKEYO (Kenya)

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

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OF THE BOARD OF AUDITORS (*continued*)

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The meeting was called to order at 3.25 p.m.

AGENDA ITEM 122: UNITED NATIONS COMMON SYSTEM (A/43/20 and A/C.5/43/12)

1. Mr. AKWEI (Chairman of the International Civil Service Commission), introducing the fourteenth annual report of the Commission, said that, in accordance with the General Assembly's request in resolution 42/221, section VIII, the Commission had re-examined its functioning by first concentrating on its reporting procedures. In the light of the constructive comments made by various members of the Committee, the Commission had agreed that its report should be shortened and the format improved. Henceforth the report would consist of two parts: the first containing basic information needed for the Fifth Committee's deliberations (a brief outline of the various issues considered, its recommendations or decisions together with the financial implications); and the second setting forth the views of the organizations and of the staff representatives and providing further details, including some examples of the effects of its decisions and recommendations. The Commission had also decided on several other improvements in its methods of work, in order to strengthen the process of consultation with administration and staff representatives. Given the important and urgent work assigned to it by the General Assembly, the Commission had decided to review all the other aspects of its functioning at a future session.

2. Referring to the matter of relations between the Commission and the staff bodies, he drew attention to the fact that both the Federation of International Civil Servants' Associations (FICSA) and the Co-ordinating Committee for Independent Staff Unions and Associations (CCISUA) had decided to suspend participation in all activities of the Commission and had therefore not attended the thirteenth session of the Commission's Advisory Committee on Post Adjustment Questions (ACPAQ) or the twenty-eighth session of the Commission (A/43/30, paras. 11, 12, 104 and 106). The reason for that decision was a number of specific allegations which the Commission considered unfounded. While the participation by staff bodies in the deliberations of the Commission was not a legal requirement, it was an important element in the Commission's work under the Statute. The Commission therefore hoped that FICSA and CCISUA would soon resume their normal participation; they had expressed a desire for negotiating machinery, but that idea was outside the Commission's competence. The Commission had therefore decided to fulfil its responsibilities while working for the restoration of normal relations with the staff representatives.

3. Turning to the matter of the net remuneration margin, he pointed out that the Commission had decided, at its July session in 1987, on a new method of calculating the out-of-area price progression factor for the sole purpose of abating the continuing adverse effects of currency fluctuations on take-home pay. That decision had had unforeseen and unintended effects on the post adjustment indices of New York and Washington, as well as on the cost-of-living differential of those cities, which affected the calculation of the margin. Under the new method, the rise of New York to the higher post adjustment level would take place on 1 February 1988. In its resolution 42/221, the General Assembly had decided that the Commission should maintain the methodology for calculating the margin given in

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its 1985 annual report, which was based on a methodology for calculating the out-of-area progression factor in the post adjustment, resulting in the freeze on the post adjustment for New York being lifted as of 1 June 1988. The Commission had therefore decided to abide by the General Assembly's decision and that had apparently been the primary factor leading to the decision of the staff representatives to suspend their participation in the activities of the Commission.

4. In 1985 and later in 1987, the General Assembly had requested the Commission to maintain the margin around the desirable mid-point of 115 over a period. At the time, many delegations had expressed concern that the margin would be kept closer to the higher end of the range, 120, which he had sought to avoid. For that purpose, the Commission had decided to establish the post adjustment for New York, the base city, on the following four factors: the size and timing of increases in the United States Federal Civil Service salaries; inflation in New York and its impact on the New York post adjustment index; United States federal income taxes; and the cost-of-living differential between New York and Washington (*ibid.*, paras. 21 to 24).

5. In view of the fact that the current level of the margin stood at 112.9 and that the United States Federal Civil Service salaries were expected to increase by 4.1 per cent with effect from 1 January 1989, the next class of post adjustment in New York would become due as of January 1989. All indications were that a new increase for the United States Senior Executive Service might take place in the spring of 1989, which might mean a possible further change in the cost adjustment class of New York in 1989 in order to maintain the margin around the desirable mid-point of 115. In any case, the Commission would keep the General Assembly informed of all future developments in that regard and continue to monitor the level of the net remuneration margin.

6. In accordance with the request of the General Assembly in resolution 42/221, the Commission had embarked on a comprehensive review of the conditions of service of the Professional and higher categories. Bearing in mind the urgency, scope and complexity of that undertaking, the Commission had decided to give the matter, to a certain extent, its undivided attention in 1989. For the time being, the Commission had identified all areas which must be addressed on a priority basis: the definition and identification of the comparator (or comparators); the salary structure and the post adjustment system; performance incentives and promotion opportunities to enhance motivation and productivity; and incentives for mobility and service at difficult duty stations (*ibid.*, paras. 44 to 70). In all four areas the Commission had identified a number of possible objectives and the various ways of achieving them. Given the impact of the various options on the system as a whole and given the time and resources necessary for further consideration, the Commissioner hoped that the General Assembly would guide it so that it could embark on the second phase of the study.

7. The education grant had been last revised on 1 January 1984. At its session in July 1987, the Commission had reported that there was justification for an increase in the level of the grant, but had decided to defer a recommendation on the matter until 1988. Since 1984 tuition fees at the seven headquarters locations

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had increased from 21 per cent to 121 per cent, while overall inflation over the same period had varied from 18 per cent to 64 per cent. The Commission had therefore recommended that the floor provision should be abolished and that, in countries where the remuneration correction factors applied, a grant should be established in local currency.

8. The last in-depth review of dependency allowances by the Commission had taken place in 1982. Since then, the weighted average increase in tax abatement and direct payments under social legislation with respect to dependent children in the seven headquarters countries had been approximately 50 per cent in local currency terms. The Commission had therefore recommended that, for the Professional and higher categories, the children's allowance should be raised from the current \$700 to \$1,050 with the secondary dependants allowance increasing from \$300 to \$450, both with effect from 1 January 1989. In countries where remuneration correction factors applied, the Commission recommended a 50 per cent increase in local currency amounts payable on 1 April 1988. Once again the Commission had recommended that the floor provisions relating to those allowances should be eliminated. On the other hand, it had decided that, in a number of other aspects pertaining to dependency allowances for Professional and higher categories and the General Service and other locally recruited categories, no further changes were warranted.

9. He requested the Committee to address the issue of those two entitlements as a matter of urgency, in the first place because they were long overdue and, in the second place, because, as a result of major cost reductions and recent cuts in staff remuneration and pensions, it was difficult for executive heads to recruit and retain competent staff.

10. Post adjustment continues to be the most significant variable portion of the remuneration package for the Professional and higher categories and the most sensitive to fluctuations in exchange rates and inflation. Both the Commission and ACPAQ had been reviewing the post adjustment system with a view to simplifying and improving it as well as identifying alternatives to the current system. While some solutions had been found to problems in the post adjustment system resulting from currency fluctuations, permanent solutions to other long-standing problems were still being sought, especially as part of the Commission's comprehensive review of conditions of service of Professional staff.

11. The Commission had noted that the current post adjustment system resulted in problems for duty stations with non-convertible currencies, primarily as a result of the constant devaluation of local currencies vis-à-vis the United States dollar, but also as a result of the unavailability of certain goods. An in-depth analysis of those problems had been carried out by ACPAQ in the past two years. In addition, the Commission had already agreed to a number of improvements and was studying others, such as the possible elimination of housing from the calculation of post adjustments. As the duty stations affected were also those where the organizations had the most difficulty in recruiting and retaining staff of the required calibre, the efforts made by the Commission and ACPAQ to find lasting and equitable solutions to those problems could only have beneficial effects.

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12. The somewhat disappointing responses from Member States on the question of supplementary payments to and deductions from the remuneration of staff was regrettable. The Commission had decided, among other things, to include the issue in the comprehensive review of conditions of service of the Professional and higher categories, and reiterated that in its view, such practices were illegal, contrary to staff regulations, unnecessary and undesirable. They must cease, for they were harmful to staff morale.

13. With regard to conditions of service in the field, he said that the questionnaire used for establishing certain entitlements for staff serving in difficult or very difficult duty stations had been considerably revised, as had the scoring scheme used to rate them. The Commission had also decided on certain improvements concerning reimbursement for medical examination of eligible dependents. In accordance with General Assembly resolution 42/221, it had examined the guidelines for assessing the adequacy of educational facilities at field duty stations (*ibid.*, para. 87).

14. As the General Assembly had requested, the Commission had continued its ongoing review of the status of women in the organizations of the common system. Most organizations had made a commitment to the principle of improving the status of women, but had made little progress in carrying out the Commission's recommendations in that regard. Organizations with the highest success rates, including the United Nations, were those where targets had been set and monitored. The Commission had expressed its disappointment that so little progress had been achieved in that direction and had made a number of pertinent recommendations to the organizations (*ibid.*, para. 91).

15. Lastly, in considering the implementation of the Commission's recommendations and decisions by the organizations, the Commission had devoted its attention in particular to the following topics: deviations in the implementation of General Service salary scales recommended for various duty stations; and the persistent failure of the World Intellectual Property Organization (WIPO) to implement the Commission's decisions with regard to post adjustment classifications, long-service steps and linked grades. When WIPO had joined the common system in 1975, it had thereby accepted the Commission's Statute. Therefore, it should have rescinded its staff regulation 3.1 *bis* which was contrary to the Commission's decisions on the post adjustment classification for Geneva and had resulted in unwarranted overpayments to WIPO staff. Since 1986, the Commission and he personally had been in contact with the administration of WIPO on the matter and it seemed that WIPO's governing bodies had at last decided to replace regulation 3.1 *bis* by a transitional provision that would still protect overpayments for existing staff until such time as permanent measures were adopted for the whole common system regarding exchange-rate fluctuations. Although that did not entirely conform to the Commission's decision that transitional measures should be rapidly phased out, WIPO's new position was preferable to the former situation which had been detrimental to the entire common system.

16. In conclusion, he stressed that a highly motivated, well-remunerated and contented staff was the best guarantee that the Organization would be able properly

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to discharge its new responsibilities in peace-making and peace-keeping, the resettlement of refugees and the promotion of health, human rights and welfare.

17. The CHAIRMAN informed the Committee that the President of the Federation of International Civil Servants' Association (FICSA) had requested that a representative of her organisation should be invited to make a statement in the Fifth Committee in order to introduce document A/C.5/43/12. The Committee had also received a communication from the Co-ordinator of the Co-ordinating Committee for Independent Staff Unions and Associations of the United Nations System (CCISUA), who had also asked to make a statement in the Fifth Committee on that agenda item. On the basis of General Assembly resolution 35/213, and considering that the Administrative Committee on Co-ordination (ACC) and its subsidiary organ, the Consultative Committee on Administrative Questions (CCAQ), as indeed ICSC itself, accorded equal treatment to CCISUA and FICSA, he suggested that the Fifth Committee should invite a representative of FICSA to make an introductory statement on the document submitted by that Association (A/C.5/43/12).

18. It was so decided.

19. The CHAIRMAN suggested that the Committee should invite CCISUA to submit a written document, through the Secretary-General, in the manner prescribed in General Assembly resolution 35/213, paragraph 2, and that a representative of CCISUA should be invited to make an introductory statement on the document.

20. It was so decided.

AGENDA ITEM 123: UNITED NATIONS PENSION SYSTEM (A/43/9, A/43/712 and A/C.5/43/3)

21. Mr. ZADOR (Chairman of the Standing Committee of the United Nations Joint Staff Pension Fund), introducing the report on the operations of the Joint Staff Pension Board (A/43/9), said that it dealt principally with the study of measures to restore the long-term actuarial balance of the Fund, as requested in General Assembly resolution 42/222.

22. The results of actuarial valuations were heavily influenced by the economic and demographic assumptions made as to future events. For the purposes of comparability, it was desirable to maintain continuity and stability in its assumptions. However, assumptions must be changed when actual experience, over a period of years, did not match expectations and there was no reason to believe that the trend would reverse itself.

23. A number of changes made since 1982 had significantly affected actuarial costs. Since that time, the General Assembly had adopted measures on reductions in future benefits and pension adjustments, as indicated in paragraphs 20 to 32 of the report. Some of them, particularly the reduction in the benefit accumulation rate and changes in the pension adjustment system, had served to reduce the actuarial imbalance significantly. Others, however, such as those on the amount of lump-sum commutation, the ceiling placed on the level of pensions or the reductions in the scales of pensionable remuneration had had little, if any, impact on the actuarial

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situation of the Fund. Table 1 on the evolution of the actuarial imbalance showed that, overall, the imbalance had decreased from 6.82 per cent as at 31 December 1980 to 4.4 per cent as at 31 December 1986, representing a net reduction of 2.42 per cent. Furthermore, whereas the actuarial imbalance should have been 0.83 per cent between 1986 and 1988 solely because of the accumulation of interest thereon, the increase in the rate of contribution, had, in fact, resulted in decreasing the imbalance by 0.76 per cent.

24. In view of the evolution of the pension system over that relatively short period, the Committee of Actuaries had noted that only a narrow range of options was available to meet the increased costs of the system, while ensuring at the same time fair, reasonable and equitable benefits. It had also decided that a period of stability in benefit levels was desirable and that the rate of contribution should be increased in order to meet the rising costs of the pension system as a consequence of economic and demographic changes. However, a decision on the latter point should be deferred until the results of the forthcoming actuarial valuation had been published. The Committee of Actuaries had also decided in favour of raising the mandatory age of separation and the normal retirement age from 60 to 62. Current provisions on early retirement should be reconsidered. Consideration should also be given to the possibility of placing further limitations on the exclusion of employees of organizations affiliated with the Fund from participation in it and to liberalizing the eligibility requirements.

25. Views in the Standing Committee had differed on the desirability of modifying the mandatory age of separation, the normal retirement age and the early retirement provisions. Nevertheless, the Standing Committee had concluded that those subjects, as well as the provisions on the conditions of participation, should be examined more extensively by the Board in 1989.

26. The Standing Committee had also reviewed the impact of currency fluctuations on the pensionable remuneration and the consequent pension of staff in the General Service and other locally recruited categories. It had decided that a study of the methodology for the determination of the pensionable remuneration and the consequent pension of General Service staff should be pursued and completed, if possible, by 1990.

27. The Standing Committee had also examined the question of investments of the Fund. It had welcomed the fact that the impact of the sharp decline in stock prices in 1987 and the subsequent volatility of the markets had been minimal in the case of the Fund.

28. With regard to the application by the World Tourism Organization (WTO) for membership in the Fund, the Standing Committee, in the light of the action taken by WTO to meet the conditions for membership set out in article 3 (b) of the Regulations, had recommended that the General Assembly should admit WTO to membership in the Fund as from 1 January 1989.

29. In conclusion, the Standing Committee saw 1988 as a transitional year, as major decisions would have to be taken in 1989 and 1990, upon completion of various

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studies of vital importance. In addition to those already mentioned, the studies in question included a comprehensive review of the conditions of service of the Professional and higher categories, which ICSC must complete in 1989, and a comprehensive review of the levels of pensionable remuneration, to be conducted by ICSC in close collaboration with the Pension Board, which was to be completed in 1990. The Standing Committee had therefore concluded that for the time being it would not be appropriate to consider additional changes in the pension system.

30. Mr. FORAN (Assistant Secretary-General for General Services), introducing the report of the Secretary-General on investments of the United Nations Joint Staff Pension Fund (A/C.5/43/3), said that, after the stock market crash of October 1987, the Joint Staff Pension Fund had been in comparatively good shape. Returns on investments for the year ending 31 March 1988, while modest in comparison to the returns in previous years, could none the less be considered satisfactory. The total rate of return had been 3.1 per cent, which, after adjusting for inflation, represented a real rate of return of negative 0.8 per cent.

31. After summarizing the report, particularly with respect to the diversification of investment and the increased investments in developing countries and development institutions, he drew attention to table , explaining that it was a sequel to the table that had been introduced for the first time in 1987 to show the effects of the stock market crash on the Fund.

32. Considering the volatility prevailing in all financial markets and likely to continue, an extremely defensive position had been adopted. The policy consisted of shifting from equities to bonds in order to preserve the principal of the Fund. There was likely to be a further shift in asset allocation to the fixed-income sector (bonds and short-term investments).

33. In conclusion, while the investments made in the 1982-1987 period had resulted in doubling the principal of the Fund, the economic climate had since changed. A cautious approach was therefore justified in order to preserve and build on previous gains.

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

34. Mr. BROWN (Associate Administrator, United Nations Development Programme) said that the report of the Board of Auditors showed genuine differences of opinion at the technical level between the auditors and the UNDP Administration. The main issues which had led the Board to give a qualified opinion were "structural" in nature and not entirely within the Administrator's competence to resolve.

35. As for all other shortcomings identified in UNDP's procedures, the Administration had taken, and was taking, the necessary steps to remedy the situation to the greatest possible extent. At its thirty-fifth session in 1988, the Governing Council had noted with satisfaction that the Administrator had taken the necessary steps within his competence to correct the situations which had given rise to the auditor's qualified opinion in 1986.



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36. Members of the Fifth Committee had made comments regarding the format of the auditors' report. UNDP was concerned by the fact that the summary of findings and the summary of recommendations, in its present form, could give a misleading impression of the facts. It also hoped that the Administration's views would be fairly reflected and that in future, they would be reflected in full. It agreed with the proposal of certain delegations that the audit report should clearly distinguish between management issues and issues of a purely accounting nature. Similarly, it would be desirable, as one delegation had proposed, to streamline the report, provided that it did not lead to an oversimplification of often difficult and complex issues.

37. There were two principal reasons for the qualification of the audit opinion on UNDP's accounts. The first was that the audited figures from certain executing agencies were not always available at the time the auditors had to certify UNDP's accounts. As stated in the report, as a result of co-operation between the auditors of the executing agencies and those of UNDP, considerable progress had been made on the matter. UNDP, for its part, was prepared to do its utmost to assist the auditors in that regard. The problem was that the financial regulations of several organizations constituting the larger executing agencies of UNDP required biennial, not annual, audits. The Board felt it was not in a position, in those circumstances, to give an unqualified opinion on the UNDP accounts in either the first or the second year of the biennial period. Clearly, the Administrator could not resolve the issue alone, as that would require action on the part of the governing bodies of the organizations concerned to amend their financial regulations. The issue had been discussed at length by the Governing Council in 1988, which had requested that it should be brought to the attention of the Joint Panel of External Auditors at its next meeting. The Council had also suggested that the governing bodies of the organizations concerned should consider the possibility of providing UNDP with annual audited accounts in respect of UNDP-financed activities. UNDP shared the concern, expressed by the delegation of the United States, regarding the cost of such additional reporting and was awaiting with interest the outcome of the Panel's reconsideration of the question. It would notify the Panel of the reasons why it wished to retain its current procedures.

38. The Board had offered to accept a partial audit of UNDP accounts concerning its operations with executing agencies. In their reply, the agencies had requested clarification on the nature of such a partial audit, whose feasibility and usefulness seemed to them doubtful.

39. The second reason for the qualified audit opinion was the problem of unliquidated obligations for equipment. The issue had been debated at some length at the June session of the Governing Council. The organizations believed that, given the dispersion of UNDP activities and the difficulty in determining the exact time of delivery, it would be difficult and costly to apply that criterion to expenditures for equipment. The Governing Council had decided to maintain its current practices. Moreover, even if the Council had decided to adopt the "delivery principle", the executing agencies, which accounted for 92 per cent of UNDP expenditures, would still have to be convinced of the wisdom of that decision. They were in no way obligated to execute UNDP projects on the basis of

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the "delivery principle". Clearly, such a decision must be made by consensus. Moreover, the agreements concluded with the executing agencies provided for the agencies to use their own accounting systems and procedures.

40. In either case, therefore, the problems were not the responsibility of UNDP and should be dealt with separately. It was unfair for the Board of Auditors to invoke those reasons for expressing qualified opinions on UNDP accounts year after year, thereby giving the impression that there had been misconduct or negligence on the part of the UNDP Administration.

41. A number of delegations had expressed concern about the reported instances of over-expenditure against allotments. Paragraph 106 of the report described in detail the steps taken by UNDP to minimize such problems. He stressed, however, that UNDP had not over-expended the appropriations approved by the Governing Council. Allotments were issued within those appropriations as a means of internal financial control. Consequently, the UNDP administration had difficulty in understanding the auditors' comment that "Transactions were in accordance with the Financial Regulations and legislative authority, except for the disposal of budgetary funds in excess of allotments". It would obviously be easy to raise the amount of allotments up to the level of appropriations. That would eliminate most of the cases in which allotments had been over-expended. Allotments were, however, an important means of imposing a degree of budgetary discipline; nevertheless, there were situations where allotments had to be over-expended, provided that the total was not higher than the amount of approved appropriations.

42. Some delegations had referred to the delineation between programme, programme support, and operating costs. In particular they had questioned whether agencies should be allowed to charge projects with the cost of missions made by their own staff. Relevant instructions had been sent to Resident Representatives in March 1987. The guidelines in force had, in fact, needed some clarification and UNDP had been concerned, in particular, as to whether or not the technical backstopping for projects was adequate. The instructions sent to Resident Representatives specified that they should allow the cost of missions by executing agency staff to be charged to the corresponding project budget if they were satisfied that the purpose of the mission had been technical backstopping. UNDP should not be too rigid about authorizing such expenditure because, in the last analysis, savings of \$3,000 to \$4,000 might well endanger a million dollar project.

43. UNDP was aware of the concern about rising operating costs, a factor which its Administration was following closely and on which it reported each year to the Governing Council. It should be emphasized, however, that the expression of UNDP's administrative expenses as a percentage of total IPF delivery was misleading, because IPF delivery was only one aspect of UNDP's responsibilities.

44. With regard to the high level of liquidity, he explained that the weakening of the United States dollar had resulted in an increase in the dollar value of UNDP's assets. Over the same period, IPF programming levels, expressed in dollars, had remained unchanged. The UNDP Administration had had no competence to increase IPF expenditure. In June 1988, the Governing Council had decided to increase the IPF

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total by \$600 million, but the effects of the decision would not be felt until after 1989.

45. In response to the Canadian delegation's question concerning the differences between the audited accounts received from executing agencies and the unaudited figures originally provided to UNDP, he said that, on analysis, it appeared that the only difference from the published figures was an amount of \$68,000, charged to the budget of one year instead of another, for the programme expenditure of one executing agency.

46. The question had also been asked why the Office for Project Services charged "usual" support costs for projects for which it provided no substantive input. The reply was, first, that the Office for Project Services did not charge the "usual" overhead rate, which was 13 per cent of project expenditure, but only 11 per cent. Furthermore, that Office had to surrender to UNDP's general resources the difference between that 11 per cent and the cost actually incurred, save for a reserve of 10 per cent of appropriations for the biennium which could be carried forward to the next biennium. Thus, at the end of 1987, the Office had surrendered \$1.6 million to UNDP's general resources.

47. Mr. INOMATA (Japan), referring to the questions already asked by his delegation about unliquidated obligations and steps to minimize overruns, asked whether more stringent efforts would not have made it possible to eliminate the weaknesses in the budgetary control system rather than merely reducing them. In particular, he asked whether the various activities projected had already been carried out, what seminars and training courses had already been held, and how many persons had participated in them.

48. Mr. BROWN (Associate Administrator, United Nations Development Programme) replied that an initial training session for approving and certifying officers had already been completed at headquarters. There was also a wider training programme for the administrative staff of field offices; it was a complete four-month training programme with an average of 25 participants. The participants then had to work for a period as trainees in a field office before being sent out on their own. The programme should make it possible to provide the human infrastructure required for solving the problems raised by delegations.

49. Mr. KUNUGI (Deputy Executive Director, United Nations Population Fund), referring to the qualified opinion given by the Board of Auditors, commented on by a number of delegations, said that in regard to the certification of programme expenditures executed by executing agencies, he hoped that the current discussions would make it possible to solve the problem for both UNFPA and UNDP. With reference to the question of the delivery principle, the UNFPA Administration had taken note of the view of ACABQ that existing procedures should not be amended but more strictly enforced.

50. The increased liquidity position of UNFPA in 1987 had been due mainly to three factors: the appreciation of currencies other than the United States dollar; UNFPA's conservative approach in programme planning in the light of funding

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uncertainties experienced in 1985 and 1986; and the efforts being made to improve the quality of programmes that required long planning periods. In the past, UNFPA had been commended for being cautious. In future, it should perhaps be moderately aggressive in its programme planning.

51. In response to the question asked by the Norwegian delegation on behalf of the Nordic countries, he said that UNFPA and UNDP had concluded a written agreement on the provision of financial services, delineating the responsibilities of each organization. Negotiations were under way to formalize arrangements on matters relating to personnel administration and other administrative matters, including travel.

52. Regarding the use and management of consultancy services, he explained that the consultancy assessment questionnaire was a management tool devised by UNFPA to help it decide whether a consultant hired for the first time should be recruited again. In the light of the view expressed by ACABQ and the Japanese delegation and of the legal opinion obtained from the Legal Office, UNFPA would choose in future to make only partial payments, if necessary, where the services rendered were not up to the expected level.

53. In the matter of delineation between administrative and programme costs, UNFPA was trying to establish guidelines, as instructed by the Governing Council and suggested by the Board of Auditors. The task was by no means easy because there were expenditures which could reasonably be charged to either category. However, once precise guidelines had been developed, UNFPA would apply them consistently.

54. In response to the concern expressed by the Norwegian delegation on behalf of the Nordic countries and by the Japanese delegation about changes made in the staffing table without the approval of ACABQ or the UNDP Governing Council, he said that in future any substantial change would be made only with the agreement of the relevant bodies.

55. Mr. VAN DEN HOUT (Netherlands) said, with reference to paragraph 39 of the report of the Board of Auditors on UNFPA (A/43/5/Add.7), that the second sentence reported that steps had been taken to improve the availability of the audited accounts of certain agencies. He would like to know what those steps were and whether they would enable the Board of Auditors to withdraw their qualifications in respect of the UNFPA accounts.

56. Turning to paragraphs 42 to 47 of the report, he asked what were the possible problems posed by the presentation of financial reports on projects executed by non-governmental organizations and Governments, which represented about 30 per cent of UNFPA's programme expenditures. He also asked whether the UNFPA Administration agreed with the criticism expressed in paragraph 44 of the report.

57. Lastly, he would like to hear the UNFPA Administration's comments on the conclusion in paragraph 87 of the report. He would also like further elucidation of the statement in paragraph 88 that "in principle any project may include any category of expenditures". Apparently, that did not allow an a priori distinction to be made between administrative and project expenditures.

58. Mr. KUNUGI (Deputy Executive Director, United Nations Population Fund), responding to the Netherlands representative's first question, said that the steps referred to were set out in paragraphs 60 to 65 of the report of the Board of Auditors on the financial statements of UNDP (A/43/5/Add.1). The UNFPA Administration hoped that they would be reflected in a substantial improvement in the presentation of audited accounts by the executing agencies and that they would enable the Board of Auditors to withdraw their qualifications in that connection.

59. The problems raised by the accounts of projects executed by non-governmental organizations and Governments were of two kinds: first, some executing agencies did not apply the relevant UNFPA financial regulations and rules, and second, the results of those that did apply them were not always satisfactory. As far as government-executed projects were concerned, UNFPA intended to apply the system proposed by UNDP and approved by the Governing Council at its 1988 session, namely, that the accounts of projects should be audited once in the course of each project and not annually. In the case of NGOs, a control system was currently in operation to ensure that each organization presented complete financial statements at the proper time, and organizations which did not comply would have their advance payments suspended. As for the external auditing of all the accounts of NGO-executed projects, UNFPA would confer with the internal and external auditors in order to define the criteria for that purpose.

60. In response to the question of the Netherlands representative concerning paragraph 44 of the report of the Board of Auditors, he said that UNFPA agreed with the Board and had taken the necessary steps.

61. With regard to the classification of expenditures, a distinction should be drawn between staff and other costs. On the question of staff costs, in 1986 the Governing Council had approved guidelines setting out which staff costs should be charged to project budgets, and which should be charged to the administrative and programme support services budget. According to those guidelines, costs relating to the staffing of administrative and support services were charged to the budget for those services. In the budget for the biennium 1988-1989, programme resources did not include staff costs, the full amount of such costs being charged from then on to the administrative and programme support services budget. Expenditures other than staff costs related essentially to publications and travel. With regard to publications, the Governing Council had decided in June 1988 that for the current biennium the practice would continue of charging to programme expenditure the cost of publications designed to promote awareness of demographic issues. At its next session, the Council would once again take up the question and would decide which publications should be financed from the administrative and programme support services budget for 1989. With respect to the budget for the biennium 1990-1991, the UNFPA Administration would charge expenditures relating to essential publications to administrative and programme support services. Finally, referring to travel costs, he said that suitable definitions were under consideration, taking into account the suggestions made by the Auditors.

62. Mr. INOMATA (Japan) congratulated the UNFPA Administration on having speedily taken measures to resolve two kinds of problems, namely the delimitation of administrative costs, programme costs and programme and project support costs, on

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the one hand, and, on the other hand, the use of consultant evaluation sheets when paying for consultancy services. That offered an excellent example of interaction, which his delegation particularly favoured between the Board of Auditors, the secretariats concerned and Member States, interaction which enabled appropriate attention to be paid to the findings and recommendations of the Board of Auditors.

63. Mr. DA CUNHA (Deputy Regional Representative, New York Regional Office, Office of the United Nations High Commissioner for Refugees) said that, as the Auditors had noted in their report, the Administration's efforts to improve the operational and financial management and control system of the Office of the United Nations High Commissioner for Refugees (UNHCR), in particular, relating to the effectiveness and efficiency of operations and administration, had begun to show positive effects. As a result of some reorganization and on the basis of the findings and recommendations of the Board of Auditors, corrective action had already been taken in the area of project activities, especially with regard to food delivery, outstanding unliquidated obligations and procedures relating to calls for bids. While there was still room for improvement, UNHCR did not doubt that the Auditors' comments and recommendations would assist it in the discharge of its mandate.

64. Mr. UPTON (United Kingdom) asked what action had been taken in respect of an unliquidated balance of some \$1.4 million relating to the disposal of food aid. The matter involved a shipment of maize which had been declared unfit for human consumption and sold with the authority of the donor.

65. Mr. DA CUNHA (Deputy Regional Representative, New York Regional Office, Office of the United Nations High Commissioner for Refugees) drew attention to the fact that, as indicated in paragraph 67 of the report of the Board of Auditors, the amount stated was not correct, the Auditors having based their calculations on an erroneous exchange rate. In actual fact the amount in question was some \$58,000. The correction had been communicated to the Auditors, who had accepted it. Further, the contract of the individual who might have been responsible for the loss had not been renewed.

66. Mr. AHTISAARI (Under-Secretary-General for Administration and Management) said that he wished to emphasize that the Secretariat attached great importance to the work of the Board of Auditors, which provided valuable assistance in pointing to more effective and sounder ways to manage the resources entrusted to the Organization. Nevertheless, as a number of delegations had noted, the Board's recommendations did not produce any results if they were not implemented by the different parts of the Secretariat to which they were addressed. The Administration had therefore given priority to the review and analysis of the Auditors' findings and to the implementation of their recommendations. The replies to the management letters sent by the Board of Auditors were centrally reviewed with a view to ensuring that due attention was given to the Board's comments, that a common interpretation of regulations, rules and policies was maintained, and that appropriate remedial action was taken. The Committee could be assured that the Board's recommendations received the immediate attention of the Secretariat, notwithstanding the observations by certain delegations to the effect that the

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Secretariat was quick to promise remedial measures but somewhat slower at actual implementation.

67. In view of the comments made by a number of delegations on budgetary control, the Secretariat had sought clarification from the Board of the Auditors of the meaning of paragraph 61 (b) of its report on the United Nations, to the effect that cases had been identified involving "incurring of expenditures without authorization, contrary to United Nations financial rule 110.1 (b) (i)". The Board of Auditors had stated that the reference was to cases in which allotments had been overspent. The Board had not intended to imply that expenditures had been incurred without the issuance of an allotment. In the Board's opinion, over-expenditures of allotments should be considered as "incurring of expenditures without authorization".

68. In that connection, he said that in some cases the data cited by the External Auditors did not correspond to the data shown in the Organization's records. For example, in paragraph 72 of its report, the Board quoted figures on the level of unliquidated obligations at ECA which were much higher than the amounts duly recorded in the final accounts for the biennium 1986-1987. Immediate action in the area of allotment control had been initiated in the shape of five different measures in order to comply with the Board's recommendations.

69. Firstly, the administrative instruction regarding the exercise of the certifying and approving functions had been revised in August 1988, with a view to reiterating clearly the duties and responsibilities of certifying and approving officers. Secondly, in order to emphasize the direct line of responsibility to the Controller, the delegation of authority to certifying and approving officers had been streamlined. Thirdly, under the provisions of financial rule 114.1, any official who took any action contrary to the Financial Rules, or to the administrative instructions issued in connection therewith, might be held personally responsible and financially liable for the consequences of such action. Those provisions had been invoked in certain cases, and, in other cases, delegations of authority had been withdrawn. Fourthly, the issuance of allotments had been streamlined through the computerization of the preparation of allotments as well as through computer transmission and facsimile communication to offices away from Headquarters. Fifthly and lastly, in the context of the integrated management information system, a complete overhaul of the financial accounting system was being pursued with a view to making it virtually impossible to record obligations and incur expenditures if the allotment balance was insufficient.

70. Referring to the high level of unliquidated obligations identified by the Board under certain accounts, he said that every effort was being made to ensure that all obligations that were no longer required were duly liquidated before the end of the financial period and that only those unliquidated obligations fulfilling the requirements of financial regulation 4.3 were maintained as valid beyond the end of the financial period.

71. Several questions had been raised concerning the adequacy of internal controls in respect of the payment of dependency allowances. In that connection, the annual

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reporting requirements on the income of spouses and the status of children claimed as dependants, and the documentary evidence required in the case of secondary dependants, had been reviewed, and were the subject of revised instructions and/or scrutiny by the Organization. In addition, as recommended by the Auditors, efforts had been undertaken to clear the backlog in the processing of allowances by assigning additional temporary staff. As a result the distribution and processing of forms for prior years had been brought up to date and the 1988/1989 cycle was on schedule. Finally, computerization of that particular system was being actively pursued in the context of the new integrated management information system proposed for the Department of Administration and Management.

72. Some delegations had noted the observation by the Auditors that an amount of \$1.7 million had been paid for freight forwarding services one year after the expiration of the contract. In that connection, he said that it was normal practice for a forwarding agent to use various shippers around the world. The Auditors had been informed when they had made that observation that the amount of \$1.7 million related to shipments that had been in transit when the contract had expired. Since the shipments had been initiated when the contract had still been in effect, the costs incurred were duly payable. The forwarding agent had billed the United Nations after the completion of those services. Actual payments to the agent for its services had been limited by contract and had not been exceeded.

73. As concerned the lease of a building on Park Avenue to house the United Nations Archives, extensive studies had been undertaken and a working group had been established to evaluate all options in the light of the "buy-out" offer. The rent of the Park Avenue premises was \$7.50 a square foot (about \$80 a square metre) as against \$25 to \$30 for similar space in the same area. Therefore, with seven years of the lease remaining, the lower cost per square foot had been a decisive factor in the rejection of the "buy-out". It should also be noted that, while the offer initially appeared attractive, it had subsequently been established that the move from the premises and the renovation of other areas in the United Nations Secretariat building would have made the operation very costly. Furthermore, the working group had identified very few potential sites within the United Nations, and all of them would have required significant investments. The conclusion had been that the offer was insufficient to offset the other costs which would have been incurred if the Archives had been relocated.

74. As recommended by the Board of Auditors, the reorganization and restructuring of the United Nations Postal Administration (UNPA) were being pursued on a priority basis. It was a question of dividing the present New York office into two separate offices, a central office and a New York office, each with clearly defined functions and responsibilities. The central office would handle all central policy and management issues as well as the design, programme and production aspects of UNPA. The New York office would service customers in North America. It was thus expected that the central office would be able to devote more time to eliminating the weaknesses highlighted by the auditors.

75. The Administration agreed that UNPA's marketing function needed to be further strengthened. Each office would continue to promote sales by direct mail,



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advertising and attendance at stamp shows, which were major marketing tools in the philatelic market. A Professional staff member was responsible for sales promotions both at Geneva and at New York. The need to develop formal marketing plans and undertake marketing research was acknowledged. It was also true that in the past the cost-accounting of products had been deficient. In the future, production plans would be introduced to prevent such cost overruns as those mentioned by the Board of Auditors.

76. Since UNPA's response to the auditors' comments on the catalogue and other items had incorporated the views of the Commercial, Purchasing and Transportation Service, there was no need for the Service, to which those functions had now been transferred, to make a separate reply. It should also be pointed out that the transfer had produced beneficial results and that the problems identified by the auditors had not recurred.

77. A number of delegations had referred to the findings of the Board of Auditors concerning the multinational programming and operational centres (MULPOCs) of the Economic Commission for Africa (ECA). In fact, the Administration had been concerned about the seriousness of the points made by the Board in relation to ECA. Soon after the receipt of the audit report on-the-spot review had been carried out by officials from Headquarters. They had recommended a number of remedial measures which had been accepted by the Administration and the Executive Secretary of ECA. Those measures were being implemented.

78. The reappraisal of the MULPOCs recommended by the Board of Auditors had been considered by the Executive Secretary of ECA, who was taking the necessary steps to implement the recommendation as soon as possible. The Secretariat felt that, following the reappraisal, the MULPOCs would be better equipped to play their essential role in economic co-operation and integration in the subregions of Africa.

79. The measures recommended for the improvement of budgetary control in the MULPOCs had also been accepted and were being implemented. With regard to the auditors' observation that \$150,000 had not been accounted for, the omission was due to delays in reporting the expenditures to ECA headquarters by the MULPOC offices concerned. The full amount had been accounted for.

80. With regard to the total regular budget support for the MULPOCs during 1986-1987, the relevant information appeared in section 13 (Economic Commission for Africa) of the proposed programme budget for the biennium in question. The posts available to the MULPOCs were indicated in the first report of the Advisory Committee on Administrative and Budgetary Questions on the proposed programme budget for the biennium 1986-1987. The total cost of the MULPOC posts financed from the regular budget, including those redeployed from ECA, amounted to \$3,008,800, of which \$2,505,600 related to Professional posts and \$503,200 to General Service posts. In addition, the MULPOCs had access to the services of five regional advisers provided for under section 24 of the budget. In summary, the total regular budget support for the MULPOCs in 1986-1987 totalled \$4,393,384.

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81. With regard to the question raised on the Pan-African Documentation and Information System (PADIS), the Secretariat agreed with the recommendation contained in paragraph 180 of the report of the Board of Auditors. The team which had recently visited ECA had completed an initial appraisal of the activities of PADIS. The team had recommended inter alia that the system should be incorporated in the ECA secretariat as a substantive unit. It had also made recommendations concerning the delineation of the activities to be funded by the regular budget of the United Nations, on the one hand, and by UNDP and other voluntary contributions, on the other. The final results of the review of PADIS would be reflected in the proposed programme budget for the biennium 1990-1991. Lastly, with regard to the low implementation rate of PADIS programmes, the figure of 10 per cent calculated by the auditors had been based on an initial estimate of the resources which would be available to PADIS during the biennium 1986-1987. That estimate had subsequently been revised downward and, on the basis of the resources actually programmed, the implementation rate of the programmes would be much higher, namely 87 per cent.

82. Mr. GUPTA (India) asked why the envisaged centralized roster for experts and consultants had not yet been established and said that it was astonishing that in 60 cases the requesting departments or offices had submitted only one candidate in 1987, thus preventing the competitive recruitment of consultants.

83. Mr. AHTISAARI (Under-Secretary-General for Administration and Management) said that it sometimes happened that an insufficient number of candidates was put forward. Of course, a sufficient number of experts was not always available, but initiative on the part of the requesting departments was very important in that respect. More than one candidature should indeed be considered. The Department was trying to apply the relevant rules. New efforts were going to be made to establish and enlarge the roster.

84. Mr. LADJOUZI (Algeria) asked whether the Administration intended to resolve the financing problems of the MULPOCs and PADIS which lay behind the recommendation of the Board of Auditors that the centres and PADIS should be re-evaluated. He wondered whether their continued existence was in question.

85. Mr. AHTISAARI (Under-Secretary-General for Administration and Management) said that the re-evaluation did not mean that the existence of the MULPOCs and PADIS was at all in question; it was concerned only with improving their efficiency within the limits of available resources.

86. Mr. UPTON (United Kingdom) said that the auditors' conclusions concerning the budgetary control of the MULPOCs and the ECA payrolls were disturbing. It was to be hoped that the problems of non-compatibility of computer systems would not be mentioned again in the future. He asked whether delegations might have an opportunity to put questions to the representatives of the United Nations Environment Programme (UNEP) and the United Nations Centre for Human Settlements (Habitat).

87. Mr. MICHALSKI (United States) said that it was surprising that the report of the Board of Auditors did not contain more detailed replies by the Administration which would make it unnecessary for delegations to put questions. In his opinion, the Administration should make an effort along those lines.

88. Mr. AHTISAARI (Under-Secretary-General for Administration and Management) said that a meeting had recently taken place with the Board of Auditors concerning the improvement of co-ordination with the Administration. In any event, it was the Board which decided which replies by the Administration should appear in its report.

89. Mr. LADJOUZI (Algeria) said that the Board of Auditors should clarify the meaning of paragraph 91 of its report, in which it strongly recommended that the achievements of the MULPOCs should be thoroughly evaluated with a view to deciding whether the experiment should be continued or whether the mandate, number and structure of the centres should be completely reorganized.

The meeting rose at 6.30 p.m.