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FINANCIAL REPORTS AND ACCOUNTS, AND REPORTS OF THE
BOARD OF AUDITORS

Report of the Advisory Committee on Administrative and
Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions discussed with the Board of Auditors its report to the General Assembly on the financial reports and accounts of the United Nations, 1/ the International Trade Centre UNCTAD/GATT, 2/ the United Nations Development Programme, 3/ the United Nations Children's Fund, 4/ the United Nations Institute for Training and Research, 5/ the voluntary funds administered by the United Nations High Commissioner for Refugees, 6/ the Fund of the United Nations Environment Programme, 7/ the United Nations Fund for Population Activities, 8/ the United Nations University, 9/ and the United Nations Habitat and Human Settlements Foundation. 10/ The Advisory Committee was informed that the Board's report on the accounts of the United Nations Relief and Works Agency for Palestine Refugees in the Near East, would be submitted to the General Assembly at its thirty-fourth session.

* A/33/150.

1/ Official Records of the General Assembly, Thirty-third Session,
Supplement No. 5 (A/33/5), vol. I, sect. IV.

2/ Ibid., vol. III, sect. IV.

3/ Ibid., Supplement No. 5A (A/33/5/Add.1), sect. IV.

4/ Ibid., Supplement No. 5B (A/33/5/Add.2), part one, sect. IV.

5/ Ibid., Supplement No. 5D (A/33/5/Add.4), sect. IV.

6/ Ibid., Supplement No. 5E (A/33/5/Add.5), sect. IV.

7/ Ibid., Supplement No. 5F (A/33/5/Add.6), sect. IV.

8/ Ibid., Supplement No. 5G (A/33/5/Add.7), sect. IV.

9/ Ibid., Supplement No. 5 (A/33/5), vol. IV, sect. IV.

10/ Ibid., Supplement No. 5H (A/33/5/Add.8), sect. IV.

A. United Nations

2. The Advisory Committee has examined the financial reports and accounts for the biennium 1976-1977 and the related report of the Board of Auditors, in respect of the United Nations regular budget and trust funds and special accounts. 11/ This is the second time that the Board has prepared its report on a biennial basis in accordance with procedures approved by the General Assembly at its twenty-ninth session.
3. The report of the Board on the accounts of the United Nations can be divided into three major parts: (a) introduction, (b) evaluation of financial management and control, and (c) further audit observations.
4. In its introduction the Board indicates that it has "adopted a number of procedures during the biennium to give more substance to the principle of joint and several responsibility as described in the Board's terms of reference in paragraph 1 of the annex to the Financial Regulations. Among these was the formation in 1976 of the Audit Operations Committee consisting of the Directors of External Audit from the three member countries under the chairmanship of a Director-General, made available by one member country with the full concurrence of the other members". According to the Board "this has made possible a fully integrated approach, both in terms of the joint development of audit plans and programmes and in the composition of audit teams from the three member countries". During its discussions with the Board, however, the Advisory Committee was informed that full integration has not yet been attained.
5. In paragraph 4 of its report the Board states that "the most significant development in the last two years has been the move away from a detailed checking of individual transactions to an evaluation of the relative strengths and weaknesses of the systems of financial control". The Board explains that "this shift in emphasis from transaction-based to systems-based auditing is in accordance with generally accepted auditing standards..."
6. The Committee understands that the systems approach is designed to assess the adequacy of financial mechanisms. The role of transaction auditing in the systems approach, as is implied by paragraph 5 of the Auditor's report, involves testing financial systems to determine the significance of any weaknesses. As financial systems are improved and maintained irregularities in financial transactions should decrease. The Advisory Committee trusts, however, that in addition to the auditing of transactions by the internal auditors, the Board itself will not only examine and test systems, but will also continue to scrutinize the manner in which financial directives and procedures are carried out.
7. The Committee notes from paragraph 6 of the Board's report that over 50 management letters containing specific observations and recommendations on individual audits have been issued to the appropriate authorities. According to

11/ Ibid., Supplement No. 5 (A/33/5), vol. I, sect. IV.

the Board "this has provided a continuous dialogue with the Administration on problems and concerns as they arose". The Board has also continued the development of an audit manual specifically for use in the United Nations, and has provided for the training and development of audit staffs of the three members in the systems-based audit approach through seminars and on-the-job training.

8. In paragraphs 9 to 18 of its report the Board discusses the in-depth evaluation which it undertook of the systems of financial management and control at United Nations Headquarters and the United Nations office at Geneva. The Board's findings and recommendations were contained in a special report which was issued in July 1977 and which is reproduced together with the responses of the Administration as an annex to the Board's audit report. The recommendations are analysed and excerpted in paragraph 16 of the audit report. The Advisory Committee discussed the Board's report and the Administration's responses at meetings with the Board and representatives of the Secretary-General in October 1977 and June 1978. The Committee notes that consultations between the Board and the Administration are taking place and trusts that the Secretary-General will take appropriate corrective action. In paragraph 17 of its report the Board summarizes the action which has already been taken by the Administration on its recommendations.

9. The Committee notes the statement in paragraph 15 of the Board's report that "prompt action is needed by the General Assembly for the Administration to act effectively on the principal recommendations contained in the special report".

10. Upon inquiry, the Committee was informed that the "prompt action" required centred on the recommendations of the Board related to Organization of the Financial Function. These are as follows:

"(22) The Controller should be in a position to provide functional leadership, guidance and central direction on all financial functions, including:

(a) Giving guidance on, reviewing and approving all financial and financially-related systems including those in Headquarters and in offices away from Headquarters;

(b) Becoming directly involved in appointments, professional development and appraisals of all financial officers and persons performing significant financial duties.

(29) A comprehensive financial manual should be developed, setting out the financial management and control policies, responsibilities and procedures of the United Nations.

(37) There should be in the Office of Financial Services, reporting to the Controller, a senior financial officer with the undivided time and appropriate skills, knowledge, responsibilities, authority, experience and staff resources to devote to developing, designing, installing and evaluating financial management and control systems." 12/

12/ Ibid., annex.

11. The Advisory Committee shares the views of the Board on the role of the Controller. It notes that the Administration does not oppose the main thrust of the Board's recommendation (quoted in the preceding paragraph). In the opinion of the Committee, however, the present Financial Regulations approved by the General Assembly and the Rules formulated by the Secretary-General in pursuance thereof already provide the requisite authority and guidance for the Board's general objective to be met (particularly Regulations 1.1, 6.1, 10.1 and 10.2 and Rules 101.1, 106.1, 110.1, 110.2, 110.3 and 110.4). The Advisory Committee calls upon the Secretary-General and the Controller to take immediate action to ensure full implementation of the Financial Regulations and Rules of the United Nations.

12. In document A/C.5/32/66 the Secretary-General submitted requests for additional posts and consultants to enable him to act on the two proposals made by the Board in paragraphs 29 and 37 of its Special Report quoted above. Action on the Secretary-General's requests was deferred by the General Assembly until its thirty-third session (decision 32/451). The Advisory Committee's observations and recommendations on the Secretary-General's requests will be before the General Assembly at its thirty-third session (A/33/8/Add.1). In this connexion the Committee understands that the Administrative Management Service (AMS) is currently surveying the Budget and the Accounts Divisions. The recommendations which the Secretary-General may wish to make on the basis of the findings of AMS may be germane to the question of over-all resource requirements for the implementation of the Board's recommendations.

13. Further audit observations are made by the Board in paragraphs 19 to 56 of its report. In its observations on regular budget activities the Board states, in paragraph 19 of its report, that detailed audit work "revealed a number of instances where budgetary authority is unclear, allotment control is ineffective, and financial systems fail to establish and measure the accountability of managers".

14. Examples of these problems are cited by the Board in paragraphs 22, 24 and 25 of its report. In paragraph 26 the Board indicates that "there has been a continuing dialogue with the Administration on the specifics of these examples and we are satisfied that appropriate measures are being taken with respect to the individual cases". However, in the same paragraph the Board states that "these examples are by no means all-inclusive; but they serve to illustrate that present financial systems, and in particular, the present process of monitoring budget execution, are a cause for serious concern".

15. The Advisory Committee understands that the "process of monitoring budget execution" refers, to a large extent, to the question of allotment control. Problems have arisen in this area owing to the need for a review of the basis on which funds are allotted within the appropriations. In attempting to deal with these problems it must be borne in mind that funds for the programme budget are appropriated by the General Assembly by section and not by programmes (for a section is not always co-terminal with a programme) and subprogrammes. The Financial Regulations give the Secretary-General flexibility in the allocation of resources among programmes and subprogrammes within sections. How much central control in this regard is necessary and practical and what authority should be delegated to department heads and programme managers are questions which are being considered

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in the context of a review of the allotment system which is now being carried out by the Office of Financial Services.

16. The Advisory Committee trusts that the review will include consultations with the Board of Auditors. The results of the review will be made known to the Advisory Committee at its autumn session. In its meeting on administrative and budgetary co-ordination held with the specialized agencies and the International Atomic Energy Agency (IAEA), the Advisory Committee obtained information on their allotment procedures. The Advisory Committee will bear that information in mind when it considers the question of allotment control in the United Nations.

17. The Advisory Committee notes that the problem referred to by the Board in paragraph 25 (c) of its report (conference servicing charges to UNCTAD) will no longer arise since in the 1978-1979 budget all conference servicing requirements for Geneva have been consolidated in section 23B.

18. In paragraph 29 of its report the Board indicates that its audit revealed "that the lack of clear and precise definitions, guidelines and procedures has created serious deficiencies in the management and control of general trust funds". Examples are given by the Board in paragraphs 31 to 34 of its report.

19. In paragraph 28 the Board states that "the need to define extrabudgetary funds and to develop more precise guidelines and procedures for the administration and financial control of such funds has long been recognized by the Administration and other affiliated bodies within the United Nations system". In November 1977 the Consultative Committee on Administrative Questions (CCAQ), after several years of study (see comments made by the Advisory Committee in 1976 in para. 5 of document A/31/140), approved a definition of trust funds and other special accounts. In addition, as indicated by the Board, the Administration is in the process of reviewing, revising and expanding the present administrative arrangements for the management of trust funds. The Advisory Committee understands that a Bulletin on this subject will be issued shortly by the Secretary-General. This Bulletin is intended to resolve many of the points referred to by the Auditors. The Committee points out, however, that guidelines and definitions will not, by themselves, solve the problem referred to by the Auditors. Once policy guidelines and directives are in place the key to proper management of trust funds and special accounts is the diligent and effective application of the relevant procedures.

20. With regard to the problems of charging administrative support costs to trust funds, referred to in paragraph 34 (a) of the Board's report, the Advisory Committee has been informed by representatives of the Secretary-General that charges to trust funds for overheads are, at present, negotiated on an individual basis. The Committee notes that the question of overheads paid by UNDP to its executing agencies is under discussion in the UNDP Governing Council. As noted by the Administrative Committee on Co-ordination in paragraph 4 of document DP/WGOC/22, the question of reimbursement of support costs will be dealt with by the General Assembly, as parent body of the Governing Council, and by the governing bodies of the other organizations, in the context of the broader question of the extent to which the organizations' regular budgets should bear the cost of support of extrabudgetary activities. The Advisory Committee will submit a report to the General Assembly at its thirty-third session on overhead reimbursement.

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21. The Committee trusts that the Secretary-General will offer additional clarifications in the Fifth Committee on the specific points raised by the Board of Auditors in its report.

B. International Trade Centre UNCTAD/GATT

22. The Advisory Committee has examined the report of the Board of Auditors on the accounts of the International Trade Centre UNCTAD/GATT for the biennium 1976-1977 ended 31 December 1977. 13/

23. In paragraphs 11 and 12 of its report the Board recommends the establishment of specific guidelines and procedures in the area of financial controls for trust funds. The observations of the Advisory Committee in paragraphs 19 to 20 above are also relevant to the points raised by the Board in connexion with ITC Trust funds.

C. United Nations Development Programme

24. The Advisory Committee has examined the report of the Board of Auditors on the United Nations Development Programme accounts for the year ended 31 December 1977. 14/

25. In paragraph 4 of its report the Board recalls that the Administration has initiated an in-depth "Integrated Systems Improvement Project" (ISIP) to design, develop, and implement an integrated financial management system including uniform reporting practices from participating and executing agencies. This in-depth review and evaluation of the systems of financial management and control of UNDP has not, as yet, been completed, although the preliminary findings to date have been drawn to the attention of the Administrator. The Board states that it has taken into consideration, in its audit observations, the existence of this major project to improve the over-all financial control systems.

26. The Advisory Committee has been informed that the first phase of ISIP has been completed and is being reviewed by a Steering Committee which will also decide upon implementation of the second phase. The Advisory Committee assumes that the Board, in future audits of UNDP, will devote attention to the progress of ISIP and to the application and usefulness of its results.

D. United Nations Children's Fund

27. The Advisory Committee has no comments on the report of the Board of Auditors on the accounts of the United Nations Children's Fund (including the Greeting Card Operation) for the year ended 31 December 1977. 15/

13/ Ibid., vol. III, sect. IV.

14/ Ibid., Supplement No. 5A (A/33/5/Add.1), sect. IV.

15/ Ibid., Supplement No. 5B (A/33/5/Add.2), part one, sect. IV.

E. United Nations Institute for Training and Research

28. The Advisory Committee has no comments on the report of the Board of Auditors on the accounts of the United Nations Institute for Training and Research for the year ended 31 December 1977. 16/

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

29. The Advisory Committee has examined the report of the Board of Auditors on the accounts of the voluntary funds administered by the United Nations High Commissioner for Refugees for the year ended 31 December 1977. 17/

30. The Committee notes the recommendation of the Board, in paragraph 8 of its report, that a formal purchase order system should be established, and the indication in paragraph 9 of the report that the Administration will review the need for such a system. The Advisory Committee trusts that this review will be carried out expeditiously and the results communicated to the Board in time for its next audit.

31. The Advisory Committee notes the observations and recommendations of the Board in paragraphs 10 to 12 of its report on control of expenditure related to travel and the use of outside expertise. As stated in paragraph 13 of the Board's report, the Administration has agreed to the Board's recommendation that the relevant administrative instructions should be reviewed to assess their effectiveness in controlling expenditures for travel on official business and the use of consultants and contractors; the Administration will consult with the United Nations Office at Geneva on possible amendments to the Administrative instructions.

G. Fund of the United Nations Environment Programme

32. The Advisory Committee has examined the report of the Board of Auditors on the accounts of the Fund of the United Nations Environment Programme for the biennium 1976-1977 ended 31 December 1977. 18/

33. In paragraph 4 of its report the Board states that its review of programme activities disclosed that actual performance during the biennium was significantly below the level of activity that had been budgeted for. The unencumbered balance on the Programme Activities for the biennium was \$32,697,830 against an approved appropriation of \$69,700,000.

16/ Ibid., Supplement No. 5D (A/33/5/Add.4), sect. IV.

17/ Ibid., Supplement No. 5E (A/33/5/Add.5), sect. IV.

18/ Ibid., Supplement No. 5F (A/33/5/Add.6), sect. IV.

34. Both the Board and the Administration express concern over this large unencumbered balance (paras. 4 and 5 of the Board's report). However, the Board states (in para. 4 of its report) that the "reason for this variance is that appropriations reflect commitments rather than estimated expenditures for the financial period". The position of the Administration (see para. 5 of the Board's report) is that "appropriations are ceilings on commitments and a comparison of appropriation against expenditure figures may be misleading".

35. The Advisory Committee points out that the unencumbered balance of nearly \$32.7 million represents funds which were neither spent nor committed. As stated in paragraph 12 of the Financial Report and Accounts for the Fund of UNEP for the biennium 1976-1977, "the unencumbered appropriations for the programme and programme support costs and fund programme and programme reserve activities lapse at the end of 31 December 1977 in accordance with programming and biennial budgetary procedures". Consequently, the reason for the variance is that the actual level of project activity and thus of expenditure and commitments fell short of expectation. In the opinion of the Advisory Committee this is the point which should be addressed by the Administration. In this connexion the Committee notes the indication of the Administration (referred to in para. 5 of the Board's report) that it "will continue its efforts to achieve an optimum level of appropriations, commitments and expenditures".

36. The Advisory Committee notes paragraph 12 of the Board's report in which it is indicated that "contrary to the terms of project agreements, some implementing organizations failed to submit to UNEP statements of account on completed projects", and that "in the circumstances there was no assurance that any unspent balances of advances granted to the implementing organizations for the execution of projects were promptly refunded to UNEP". The Committee agrees with the Board's recommendation that "a study of the financial accountability of implementing organizations should be undertaken with a view to formulating policies and procedures to ensure that project funds are properly accounted for by implementing organizations on a timely basis".

37. In paragraph 14 of its report the Board comments on the high level of internal projects in the Fund Programme and the fact that this tends to undermine the co-ordinating and catalytic role that UNEP was established to play. The Advisory Committee, which commented on this problem in its report on co-ordination questions in the activities of UNEP (A/31/227, para. 67), agrees with the Board's observation; the Committee notes that the Administration has expressed the intention to reduce the share, in the Fund programme, of projects that are initiated and executed by UNEP.

H. United Nations Fund for Population Activities

38. The Advisory Committee has no comments on the report of the Board of Auditors on the United Nations Fund for Population Activities for the year ended 31 December 1977. 19/

19/ Ibid., Supplement No. 5G (A/33/5/Add.7), sect. IV.

I. United Nations University

39. The Advisory Committee has examined the report of the Board of Auditors on the accounts of the United Nations University for the biennium 1976-1977 ended 31 December 1977. 20/

40. In paragraphs 5 to 8 of its report the Board discusses the budget document as a financial management tool. The Board questions the effectiveness of the present University budget for purposes of financial control and concurs with comments made by the Advisory Committee in its report on the University's 1978 budget estimates as contained in a working paper submitted to the Council of United Nations University, at its ninth session. In that report the Advisory Committee commented on the fact that increases contemplated for 1978, which in total, represented a 50 per cent growth over the 1977 budget, were, to a large extent, not based on firm expectations of income. The Committee noted that the Rector had included contingency plans to reduce expenses by \$1 million or \$2 million should developments warrant such a cut-back. The Advisory Committee stated its belief that, in the circumstances in which the United Nations University finds itself, the best procedure would have been for the Rector to propose a core budget on the basis of assured income only which would take into account possible shortfalls attributable, for example, to unforeseen fluctuations in the rate of return from investment. The Advisory Committee considered that such a core budget could have been accompanied by estimates of possible additional revenue with an indication of how the extra funds would be spent in accordance with established priorities.

41. As can be seen from paragraph 8 of the Board's report, the Administration has indicated that future budget submissions will be in line with the recommendations made by the Advisory Committee on Administrative and Budgetary Questions and the Board.

42. The Advisory Committee notes the Board's comments in paragraph 9 of its report with regard to the need for an experienced budget officer and trusts that the United Nations Office of Financial Services will provide the necessary assistance referred to in paragraph 10 of the Board's report.

43. In paragraphs 12 to 14 of its report the Board points to weaknesses in the University's allotment controls. As can be seen from paragraph 14 of the report, the Administration has indicated that allotment control procedures are in the process of being formalized. The Advisory Committee trusts that these will be reported on in the context of the University's 1979 budget estimates.

44. Paragraphs 15 to 19 of the Board's report deal with the financial reporting systems of the University. In paragraph 16 the Board lists what it considers to be the essential elements in a proper financial reporting system. In the opinion of the Advisory Committee whatever system is developed should be pragmatic and tailored to the needs and financial situation of the University. In this regard the

20/ Ibid., Supplement No. 5 (A/33/5), vol. IV, sect. IV.

Committee trusts that the budget officer referred to in paragraph 9 of the Board's report will prove of assistance in this area, and that the United Nations Office of Financial Services will work closely with the University to achieve the desired objectives.

45. In paragraph 20 of its report the Board points out that procedures have not yet been formalized for the acceptance, recording and investment of donations from private sources. The Board's observation is based on developments with regard to housing subsidies, a Library Trust Fund and donations of automobiles, referred to in paragraphs 21 to 26 of the report. The Advisory Committee trusts that the issuance in the near future of the Secretary-General's Bulletin on trust funds (see para. 19 above) will help the University to clarify its procedures for the receipt, recording and management of trust funds.

J. United Nations Habitat and Human Settlements Foundation

46. The Advisory Committee has examined the report of the Board of Auditors on the accounts of the United Nations Habitat and Human Settlements Foundation for the biennium 1976-1977 ended 31 December 1977 and has no comments to make thereon. 21/

21/ Ibid., Supplement No. 5H (A/33/5/Add.8), sect. IV.