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SUMMARY RECORD OF THE 5th MEETING

Chairman: Mr. MAYCOCK (Barbados)

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

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The meeting was called to order at 3.15 p.m.

AGENDA ITEM 108: FINANCIAL REPORTS AND AUDITED FINANCIAL STATEMENTS, AND REPORTS OF THE BOARD OF AUDITORS (continued) (A/39/5, vols. I, II and III, and Corr.1, and Add.1-7, Add.8 and Corr.1 and Add.9, A/39/510)

- (a) UNITED NATIONS;
- (b) UNITED NATIONS DEVELOPMENT PROGRAMME;
- (c) UNITED NATIONS CHILDREN'S FUND;
- (d) UNITED NATIONS RELIEF AND WORKS AGENCY FOR PALESTINE REFUGEES IN THE NEAR EAST;
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1. Ms. CONWAY (Ireland), speaking on behalf of the 10 member States of the European Community, said that the Ten had noted with interest, and all too often with concern, the content of the reports of the Board of Auditors before the Committee. They generally agreed with the remarks and recommendations contained in the report of ACABQ (A/39/510). They found the inclusion of observations by the executive heads of UNDP, UNICEF and UNFPA on the reports of the Board of Auditors to be useful, although they were not necessarily satisfied with their comments.

2. The reports of the Board of Auditors indicated that the stewardship exercised by the executive heads of the organizations could and should be improved. Moreover, certain observations recurred repeatedly from report to report and year to year. In many cases, the criticisms related to the failure to observe elementary requirements of budgetary management and financial control, fundamental failings which should never have arisen and which should be corrected quickly and permanently by the responsible managers. The Ten took note of the response by managers that the relevant operating instructions or guidelines had been appropriately amended but also noted that many of the auditors' observations were prompted precisely because long established instructions and guidelines had been ignored. What was required was not simply new guidelines but vigilance and thoroughness in their implementation. The United Nations Office at Geneva was particularly at fault in that respect.

(Ms. Conway, Ireland)

3. Of particular concern were the auditors' comments on procurement practices in the United Nations, the International Trade Centre, UNICEF, UNRWA and UNHCR. The Ten fully endorsed the recommendations of ACABO contained in paragraph 9 of document A/39/510; compliance by all concerned with proper procurement practices was an important part of the ongoing effort to have the United Nations function more effectively.

4. The auditors had remarked in a number of instances on the inadequacy or non-existence of proper planning and evaluation procedures. It was noteworthy that such comments often related to activities in the field of technical co-operation. Good management, particularly in that field, demanded both proper planning and evaluation, and the Ten expected all managers to reflect on and benefit from the auditors' comments, whether or not they themselves were the target of criticism.

5. UNDP and UNFPA had introduced a standard of official air travel for their staff and eligible family members which was less economical than that provided for under General Assembly resolution 37/241. The explanation that such an arrangement was justified by special service exigencies was unconvincing, and the Ten fully concurred with the views of the Board of Auditors on the subject and urged all organs and institutions whose budgets were derived from voluntary contributions to implement before the end of the year accommodation standards for official travel by air at least as economical as those applied by the United Nations in accordance with the letter and intent of resolution 37/241. If the situation in UNDP and UNFPA had not already been remedied, the Board of Auditors should submit a detailed report to the General Assembly at its fortieth session on the implementation of those provisions. That report should also be drawn to the attention of the Governing Council of UNDP in line with resolution 38/30.

6. The Ten had noted the well-founded concern of the Board of Auditors about the methods used for the recruitment of consultants by United Nations organs and would comment on that question, including the use as consultants of former staff members who were now in receipt of United Nations pensions, under agenda item 109.

7. The provision in General Assembly resolution 38/30 that the governing bodies of the organizations concerned should be invited to consider each year the remedial action taken by executive heads in response to the comments made by the Board of Auditors was still valid. The work of the auditors was at least partially wasted if their published reports were given only perfunctory attention by those in the best position to judge. Greater efforts must be made to ensure that the governing bodies of all the organizations should give proper attention at the earliest possible opportunity to the reports and especially to the managerial follow-up to the auditors' observations.

8. Stressing the importance which the Ten attached to the proper and efficient management of the funds at the disposal of the United Nations, she said that it was the responsibility of legislative bodies such as the General Assembly to make use of information such as that contained in the reports of the Board of Auditors to rectify such weaknesses and abuses. The reports before the Committee made it clear that there was ample scope for corrective action.

9. Mr. KHALEVINSKY (Union of Soviet Socialist Republics) said that the financial reports and the reports of the Board of Auditors indicated that many financial rules and regulations had not been fully complied with or had simply been ignored. At the same time, several of the Board's previous recommendations were being repeated without, for the most part, an adequate explanation being given for their non-implementation. UNITAR had, for example, incurred expenditures without the corresponding allotments. In reply to the observations of the Board of Auditors on the UNITAR accounts for 1982, the Administration had simply repeated its reply to the Board's observations on the 1981 accounts, stating that a budget control system had been established which required the issuance of allotments prior to incurring obligations (A/39/5/Add.4, p. 3, para. 11). However, the violations of financial rules raised doubts about the assurances given by the Administration with regard to the organization of proper budgetary control over the allocation of UNITAR funds. Furthermore, the Board's recommendation on the need for audit coverage of royalties due from a publishing firm had not been implemented (A/39/5/Add.4, p. 5, para. 14).

10. The report of the Board of Auditors in document A/39/5, volume I, also noted excess expenditures or expenditures without allotments in a number of programmes in which consultants had to be used (paras. 26-27). Moreover, it referred to recommendations concerning procurement practices, travel, project management and technical co-operation systems, computer operations, the work of the Internal Audit Division and compliance with the financial rules on physical inventories of property which had been only partially implemented or were still being considered. Recommendations were also repeated in other reports. He regretted that, in most cases, the Administration gave no detailed account of the reasons for the delay in implementation. The reports of UNDP, UNICEF and UNFPA were, however, a welcome exception in that respect, and his delegation fully supported the observations made by ACABO in their connection (A/39/5/10, para. 2).

11. The administrators of the United Nations funds, programmes and organizations concerned should be given special responsibility for ensuring the precise and complete observance of all existing regulations and instructions concerning administrative, financial and budgetary activities. The time had also come to settle the question of implementing the Board's recommendations. A list should be drawn up of the recommendations made by the Board with an indication of the specific reasons for their non-implementation or partial implementation or the lengthy delay in their implementation. The administration concerned should also submit annually to the Fifth Committee through ACABO information on the progress made in implementing all the Board's recommendations. That information should be an integral part of the financial accounts of United Nations organizations. The Board should be reminded of the need to make broad use of the right given to it under General Assembly resolution 32/16, which requested it to include in all its future audit reports to the General Assembly a chapter drawing attention to any failures by the organizations concerned to take the necessary measures to rectify inadequate financial management practices already commented on by the Board of Auditors to the extent that the comments had been endorsed by the Assembly.

12. He noted that the report on UNICEF did not evaluate the work of that organization's internal auditors. As for UNDP, he felt that greater attention should be given to internal control and, in particular, to how effectively the

(Mr. Khalevinsky, USSR)

internal audit service was used, the results it achieved and the areas of the Programme that were insufficiently served by it.

13. Unliquidated obligations now exceeded \$56 million. Paragraph 26 of document A/39/7 made it clear that their growth had become more pronounced since the adoption of resolution 36/116 B, under which the balance of appropriations, contrary to financial regulations 4.3 and 4.4, were not returned to Member States. His delegation was convinced that the time had come to review the provisions of that resolution and to bring back into effect regulations 4.3 and 4.4, whereby surpluses arising at the end of each biennium must be returned to Member States.

14. His delegation was also concerned that the salaries of certain staff members in the International Trade Centre were irregularly charged against the regular budget, although they should have been financed by other sources (A/39/5, vol. II, p. 7, para. 10). He would like to have information on the amount of expenditure involved, which should be returned to the United Nations.

15. His delegation agreed with the United States delegation that there should be a harmonious and complementary relationship between the internal and external auditors. However, it felt that the evaluation of programmes and the measurement of effectiveness was in fact one of the functions of auditors.

16. Mr. WEDICK (Canada) said that his delegation concurred with the Advisory Committee's comments on the reports of the Board of Auditors. For external auditing to be fully effective, the Board's work should be complemented by internal auditing. The Internal Audit Division should operate as the eyes and ears of management to appraise on a continuing basis the diverse operations and controls within the Organization and to determine whether acceptable procedures were followed and established standards met. In view of the need to improve cost-effectiveness, it was in everyone's interest for internal auditing to be given full recognition. Although progress had been made, further attention to the internal audit function was required.

17. Since the biennium 1976-1977, the regular and extrabudgetary activities of the United Nations had increased by some 86 per cent and 120 per cent respectively. Over the same period, the Internal Audit Division's responsibilities had also increased, although the Division had not been granted any corresponding increase in resources, thus raising questions about its capacity to discharge its mandate. The Internal Audit Division played an integral role in management, reviewing compliance with rules and regulations and also the management of staff, money and materials. Unless the Internal Audit Division was provided with sufficient resources, its usefulness as a vital extension of management would be seriously curtailed.

18. In that connection, his delegation was concerned by the Board's observations in a number of cases where executing agencies had failed to maintain minimum standards of efficiency in project planning, execution and evaluation. The Committee had, for example, been advised that even a general audit at one of the regional commissions took three years.

19. His delegation therefore fully supported the Board's recommendation for a comprehensive review of the Internal Audit Division's resources in which the

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(Mr. Wedick, Canada)

following fundamental questions should be examined. Were audits being conducted within an acceptable time frame and were they sufficiently comprehensive? Were adequate resources available to permit the Division to complete its annual audit plan? Was the requisite training in the latest auditing standards and techniques being provided? What was the nature of the relationship throughout the United Nations between the Division and management in fully utilizing internal audit procedures to ensure adequate financial control?

20. The goal of such a review should be to enhance the internal audit, which should be in a position to assist management in the discharge of its responsibilities by furnishing it with analyses and recommendations. Internal auditors should be concerned with every phase of the Organization's activities in which they could be of service to management.

21. Mr. ORTEGA (Mexico) said that his delegation welcomed the various improvements noted by the auditors, in particular in the areas of the establishment and management of trust funds, procurement systems and procedures, and travel, and was gratified by the increased capacity of the Internal Audit Division to provide the Administration with independent, objective and constructive appraisals of financial systems and procedures. It was clear that important reforms in the financial management of the Organization were taking place.

22. Nevertheless, it appeared that a number of problems requiring particular attention persisted, notably with respect to project management. The difficulties included delays in the provision of inputs, the late or non-provision of suitable project personnel, and the provision of unsuitable project equipment. Such shortcomings undermined the very basis of project execution. His delegation wished to stress that it was far more important to ensure that technical co-operation projects were effectively carried out than to monitor relatively trivial matters. The Advisory Committee might have devoted more attention to that point. It was also not clear why the Advisory Committee considered that the Board's comments, which related to the United Nations system as a whole, should be brought to the attention of the Governing Council of UNDP alone.

23. His delegation was pleased that the financial situation of UNDP at 31 December 1983 had been less critical than expected, owing to a slight increase in contributions received and a drastic reduction in programme expenditure. It was, however, disquieting that the Board had unearthed a number of shortcomings in the execution of UNDP projects. It was to be hoped that there was no connection between those shortcomings and the sharp reduction in expenditures. His delegation had noted the Board's comments concerning the standard accommodation of UNDP staff members and their families on official travel and agreed with the Board that the cost-effectiveness of UNDP travel arrangements required further examination. Improvement of the financial management of UNDP should be conducted within the framework of the tripartite participation which was a fundamental element of the 1970 Consensus.

24. Finally, with reference to an earlier remark by one delegation that donor countries had entrusted billions of dollars to executing agencies and in turn expected results, he said that it was not clear to his delegation what was meant by the concept of "donor countries". What was clear was that all Member States had

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(Mr. Ortega, Mexico)

placed their trust in the executing agencies. The instances in which those agencies had not maintained minimum levels of efficiency were decreasing, and it was for all Member States to ensure their effectiveness.

25. Mr. MELTKE (German Democratic Republic) said it was clear that although progress had been made in the observance of financial rules and regulations, insufficient account had been taken of recommendations of the Board and comments of Member States. The inclusion of comments by the executive heads of UNDP, UNICEF and UNFPA was useful, and the practice should be extended to include the other agencies.

26. His delegation trusted that difficulties relating to the timely submission of budget proposals and co-operation between the budget division and submitting officers would be eliminated by the following biennium. The efforts made by the Secretariat to ensure that documents were available in good time were welcome, although at the opening of the session there had been difficulties.

27. His delegation supported the Board's comments relating to travel and agreed with the criticisms of technical co-operation activities contained in paragraphs 62 to 75 of its report (A/39/5, vol. I). It had noted the assurances by the Administration that remedial action would be taken, and it endorsed the Advisory Committee's proposal that the Board's observations on technical co-operation activities should be brought to the attention of the Governing Council of UNDP.

28. His delegation had noted with deep concern that the rules on the employment of consultants had, in certain cases, been violated. The provisions of the relevant administrative instruction should be adhered to and the authority of the Contracts Committee respected.

29. The revelation in the Board's report relating to the International Trade Centre (A/39/5, vol. II, pp. 6-10) that the salaries of certain staff members had been charged against the regular budget indicated a breach of the financial rules. It was to be hoped that a review of the distribution of posts at Headquarters between the regular budget and the support costs budget would soon remedy the situation. It was also clear from the same report that there was considerable scope for savings in travel expenditures, while similar problems were referred to in the reports on UNFPA and UNDP.

30. His delegation trusted that the Board's recommendations would be consistently taken into account by United Nations organs.

AGENDA ITEM 115: SCALE OF ASSESSMENTS FOR THE APPORTIONMENT OF THE EXPENSES OF THE UNITED NATIONS: REPORT OF THE COMMITTEE ON CONTRIBUTIONS (continued) (A/39/11 and Corr.1)

31. Mr. DITZ (Austria) noted that the Committee on Contributions had concluded in its report (A/39/11 and Corr.1) that for the time being no alternatives could be used in place of national income as a possible measure of the capacity of States to pay. Even if the Fifth Committee did not like that conclusion, it should resist the temptation of setting a task which an expert body, after thorough investigation, had found it impossible to perform.

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(Mr. Ditz, Austria)

32. What the Committee on Contributions had done, however, was to refine the current methodology by proposing an increase in the low per capita income allowance and introducing a mechanism to avoid excessive variations in individual rates of assessment. While the advantages of such a limitation scheme were fairly evident, the disadvantages needed to be pointed out. The new scheme, for instance, limited not only increases but also decreases in individual rates of assessment. Moreover, its inherent inflexibility would prevent the Committee on Contributions from taking into account such mitigating circumstances as unusual economic difficulties of Member States. It might therefore be advisable to introduce the proposed scheme on a provisional basis until its performance had been evaluated.

33. His delegation could sympathize with the desire to find an alternative way to assess Member States. The Committee on Contributions had explained why the most promising of the alternatives under study - the concept of accumulated wealth - could in fact not be used. Its exploration of the other concept - that of social and economic indicators - had been more fruitful. In the light of the tables presented in annex II, his delegation found that option much more appealing than it had originally thought possible and therefore agreed with the Committee's proposal to continue to examine it. The same held true for the application of the so-called pseudo-exchange rates which, if suitable data eventually became available, could provide, together with the social and economic indicators, the basic building-blocks of a new assessment method.

34. One further fundamental issue was of increasing concern to his delegation. Member States enjoyed equal rights and obligations under the Charter but contributed to the expenses of the Organization according to their capacity to pay. A widening gap was developing between the concerns of the very small number of States which provided the bulk of the financial resources and the aspirations of the majority of States which largely shaped the programme of work. In view of the dangers of that situation, the Committee on Contributions should address itself to the question of how to broaden the precariously small resource base of the United Nations.

35. Mr. RAKAU (German Democratic Republic) said that the report of the Committee on Contributions had confirmed his delegation's reservations about the use of economic and social indicators. While theoretically interesting, those criteria were impractical and would place an extra burden on the developing countries. His delegation had no objection to the further study of social and economic indicators, but it believed that national income remained the most comprehensive and practical yardstick and should continue to be used.

36. Regarding problems of inflation and exchange-rate conversion, his delegation had many reservations concerning adjustments based on price-adjusted exchange rates (PARE) and conversions based on the use of purchasing power parities (PPPs), and doubted whether it was within the Committee's competence to discuss such questions.

37. His delegation had been surprised to note that the Committee attached fundamental importance to maintaining the 10-year base period. In its view, a very long base period made it still more difficult to calculate the relative capacity to pay and might lead to unfair rates of assessment for some countries. Although it would join a consensus on maintaining the 10-year base period, it inclined towards

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(Mr. Rakau, German Democratic Republic)

supporting a shorter base period, provided that such a period was used over successive cycles. It firmly rejected an extension of the base period.

38. The low per capita income allowance formula had proved its worth. His delegation agreed with those members of the Committee on Contributions who had warned that caution should be exercised when increasing the per capita limit; but it would find unacceptable any change in the allowance formula that would redistribute the burden of relief. All countries with a per capita income above the limit should bear their proportionate share of the relief burden.

39. Any of the methods to avoid excessive variations of individual rates of assessment between two successive scales would jeopardize the principle that the relative capacity to pay was the fundamental basis for the scale of assessments. Instead of setting artificial limits, such as those proposed in scheme III, the Committee on Contributions should be more flexible in taking account of any special economic difficulties of Member States when it drew up the scale of assessments; it would then be unnecessary to take account of such factors as social and economic indicators or the problems related to inflation and exchange-rate fluctuations.

40. As for the guidelines for the collection and presentation of data by Member States, his delegation understood neither the approach adopted nor the conclusion drawn in paragraph 57 of the Committee's report. The Committee's proposed approach would result in the granting of additional deductions to those countries which financed the import of raw materials by the exporting of commodities. Moreover, it was clear that additional deductions were not needed if due account was taken of unusual economic difficulties like foreign debt and monetary reserve problems.

41. His delegation urged the Committee to adopt the following proposal by consensus. The scale of assessments should be based on comparable and universally applicable economic criteria; Member States should refrain from proposing additional counterbalances; the capacity to pay, calculated on the basis of a comparison of national incomes, should be the fundamental criterion for determining the rates of contribution; the rates of assessment for the least developed and most seriously affected countries should remain at their present level; an increase in the low per capita income allowance formula and a limit of \$US 2,200 should be endorsed, on condition that there were no changes in the operation of the formula and no redistribution of the burden of relief; the statistical base period should continue to be 10 years for the next two scales of assessment.

The meeting rose at 4.40 p.m.