

UNITED NATIONS POPULATION FUND

FINANCIAL REPORT
and
AUDITED FINANCIAL STATEMENTS
for the year ended 31 December 1988
and
REPORT OF THE BOARD OF AUDITORS

GENERAL ASSEMBLY

OFFICIAL RECORDS: FORTY-FOURTH SESSION

SUPPLEMENT No. 5G (A/44/5/Add.7)



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NOTE

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LETTERS OF TRANSMITTAL

28 April 1989

Sir,

Pursuant to financial rule 116.2 (b) of the United Nations Population Fund, I have the honour to submit the annual financial statements of the United Nations Population Fund as at 31 December 1988, which I hereby approve.

Copies of these financial statements are also being transmitted to the Advisory Committee on Administrative and Budgetary Questions.

Accept, Sir, the assurances of my highest consideration.

(Signed) Nafis SADIK
Executive Director of the
United Nations Population Fund

The Chairman of the Board of Auditors
United Nations
New York

22 June 1989

Sir,

I have the honour to transmit to you the financial statements of the United Nations Population Fund for the financial period ended 31 December 1988, which were submitted by the Executive Director. These statements have been examined and include the audit opinion of the Board of Auditors.

In addition, I have the honour to present the report of the Board of Auditors with respect to the above accounts.

Accept, Sir, the assurances of my highest consideration.

(Signed) Eufemio C. DOMINGO
Chairman, Commission on Audit,
the Philippines
and Chairman of the
United Nations Board of Auditors

The President of the General Assembly
of the United Nations
New York, N.Y.

1. FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 1988

1. The Executive Director of the United Nations Population Fund has the honour to submit herewith the annual financial report of the United Nations Population Fund (UNFPA) for the year ended 31 December 1988 and the report of the Board of Auditors. The accounts consist of four statements supported by nine schedules, accompanied by notes that are an integral part of the financial statements, and also cover the trust funds authorized by the Governing Council for population activities.

2. This submission is made in conformity with regulation 16.1 of the UNFPA Financial Regulations approved by the Governing Council of the United Nations Development Programme (UNDP) at its thirtieth session.

Executing agency accounts

3. In accordance with UNFPA financial regulation 17.1 (b), the UNFPA financial statements incorporate the data obtained from the 1988 annual accounts of the executing agencies with regard to the status of funds allocated to them for the execution of UNFPA projects in 1988.

4. As of the date of the preparation of the present financial statements, the status of information received from the executing agencies was as follows:

(a) Statements as submitted for audit were provided by the following executing agencies:

United Nations Children's Fund (UNICEF)

United Nations Development Programme/Office of Project Services (UNDP/OPS)

(b) In respect of the following executing agencies, UNFPA financial statements incorporate the information contained in the agencies' interim financial statements for the year ended 31 December 1988, which is the first year of the biennium 1988-1989:

United Nations

United Nations Environment Programme (UNEP)

Economic Commission for Africa (ECA)

Economic Commission for Europe (ECE)

Economic Commission for Latin America and the Caribbean (ECLAC)

Economic and Social Commission for Asia and the Pacific (ESCAP)

Economic and Social Commission for Western Asia (ESCWA)

International Labour Organisation (ILO)

Food and Agriculture Organization of the United Nations (FAO)

Best Hard Copy Available

United Nations Educational, Scientific and Cultural Organization (UNESCO)

World Health Organization (WHO)

United Nations Industrial Development Organization (UNIDO)

5. Should any changes be reported in the audited accounts of any of the executing agencies, they will be reported to the General Assembly and to the Governing Council at subsequent sessions. The Executive Director will submit to a subsequent session of the Governing Council copies of the audited statements and audit reports, if any, of the executing agencies and copies of any relevant resolutions adopted by their governing bodies, as required under UNFPA financial regulation 17.1 (b).

Financial status of the Fund

6. As shown in statement III, as at 1 January 1988, the balance of unexpended general resources of the Fund was \$24,062,609. During 1988, UNFPA received income of \$177,996,371 and had expenditures of \$167,212,569, which resulted in an excess of income over expenditure of \$10,783,802, as shown in statement I.

7. As at 31 December 1988, the balance of unexpended general resources of the Fund was \$31,846,411 (i.e., the opening balance as at 1 January 1988 of \$24,062,609, plus the excess of income over expenditure for 1988 of \$10,783,802, less the transfer to the operational reserve of \$3,000,000). The 1988 unspent allocations as at 31 December 1988 amounted to \$39,235,456 (schedule 8).

1988 programme expenditure and 1988 expenditure against the 1988-1989 biennial budget appropriations

8. At its thirty-fifth session held from 6 June to 1 July 1988 at Geneva, the Governing Council gave the Executive Director an approval authority for 1988 of \$173.3 million (decision 88/34, sect. B, para. 2). As shown in schedule 8, total allocations at year-end consisted of \$169,067,954 for project allocations, of which \$26,707,852 was the carry-over of unspent allocations from the previous year. Also, as shown in schedule 4, net appropriations for the 1988-1989 biennial budget of UNFPA totalled \$59,033,400, as approved by the Governing Council at its thirty-fifth session (decision 88/36, para. 20). The net expenditure for the first year of the 1988-1989 biennium was \$26,655,682, after credits of \$2,045,637 earned for programme support services were taken into account.

9. Expenditure for 1988 totalled \$167,212,569, compared to 1987 expenditure of \$140,476,802. The breakdown of 1988 expenditure is shown in statement I. It comprised \$129,832,498 for projects, \$10,724,389 paid to executing agencies, non-governmental organizations and UNFPA itself for agency support costs, and \$26,655,682 for administrative and programme support costs in 1988 under the biennial administrative and programme support services budget, which included \$9,721,180 of expenditure relating to field programme support.

10. In 1988, the ratio of project expenditures to project allocations was 76.8 per cent, compared to 80.0 per cent in 1987. United Nations executing agencies, including regional commissions, executed \$68,900,477, or 53.1 per cent of

the total project expenditures. Governments executed \$14,094,936, or 10.9 per cent of the total project expenditure. Owing to changes in accounting practices as recommended by the Board of Auditors, 1988 expenditures for government-executed projects did not include about \$10 million of advances to Governments. UNFPA itself executed \$28,563,601, or 22.0 per cent of the total project expenditure. UNFPA-executed projects included in 1988 procurement assistance in respect of government projects amounting to about \$22 million. Non-governmental organizations executed \$18,273,484, or 14.0 per cent of the total project expenditure.

Operational reserve

11. During 1988, UNFPA maintained a fully funded operational reserve of \$37 million (statement II). The operational reserve was established by the Governing Council in January 1973 at the \$20 million level to guarantee the financial viability and integrity of the UNFPA programme. By decision 81/7, section III, paragraph 5, adopted by the Governing Council at its twenty-eighth session, UNFPA was requested to increase the reserve annually to reach a level equivalent to 25 per cent of contributions by 1989. However, by decision 86/34, section IV, paragraph 4, the Governing Council authorized UNFPA to delay reaching the goal of 25 per cent until the middle of the 1990s. Furthermore, because the real income level in 1987 exceeded the projections for that year, the Executive Director decided to add \$7 million to the operational reserve from general resources to reach a level of \$37 million, or approximately 25 per cent of contributions, as at 31 December 1987. In 1988, the income situation of the Fund continued to improve, and the Executive Director transferred \$3 million from general resources to the operational reserve, bringing the balance to \$40 million as at 31 December 1988.

Liquidity position

12. As at 31 December 1988, UNFPA had bank balances in convertible currencies and time-deposit investments amounting to \$116,601,842, which included the operational reserve of \$40 million (statement II and schedule 5). The bank balances and investments were reported using the United Nations operational rate of exchange, which came into effect on 1 December 1988. At the United Nations operational rate of exchange in effect from 1 January 1989, which more closely reflected the market rate of exchange as at 31 December 1988, the value of these investments would amount to \$713,290 less than that shown in statement II.

Contributions from Governments for special population programmes

13. As authorized by the Governing Council at its seventeenth session, UNFPA received contributions from several Governments that were designated for special population programmes. Schedule 6 shows the status of the contributions received in 1988 from the Governments of Japan, the Netherlands and Norway for four special programmes, namely, the International Planned Parenthood Federation, the Population Council, the International Union for the Scientific Study of Population, and the International Committee on the Management of Population Programmes. Contributions received from Governments in 1988 of \$16,530,597 were fully disbursed.

Trust funds

14. Schedule 7 shows the statement of account as at 31 December 1988 of the trust funds established by the Executive Director for multilaterally and bilaterally funded programmes and other special population activities. In 1988, two new trust funds were established by the Executive Director from contributions by the Governments of Sweden and Luxembourg. The unexpended balance of the trust funds as at 1 January 1988 was \$3,707,583. Contributions received from Governments and other sources during 1988 were \$11,265,427 and interest income amounted to \$531,386. The total amount available for programming in 1988 was \$15,504,396. Total programme expenditure, including support costs, was \$6,101,012, leaving at year-end an unexpended balance of \$9,403,384 as the opening balance for 1989.

II. REPORT OF THE BOARD OF AUDITORS

Introduction

1. As required by General Assembly resolution 74 (I) of 7 December 1946 and article XVII of the Financial Regulations of the United Nations Population Fund (UNFPA), the Board of Auditors has audited the accounts of UNFPA for the year ended 31 December 1988.
2. The examination was made in accordance with article XII of the Financial Regulations of the United Nations and the annex thereto and with the common auditing standards adopted by the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. The examination was conducted at UNFPA headquarters in New York and at field offices in Brazil, Egypt, India and Viet Nam, which represent nearly a fifth of the total 1988 UNFPA country project allocations.
3. During the year under review, the Board of Auditors continued its normal practice of reporting the results of specific audits and issuing management letters containing detailed observations and recommendations to the Administration. This practice has helped to maintain a continuous dialogue with the Administration. Pursuant to regulation 12.9, the Board engaged the services of two commercial public audit firms.
4. The following are the most significant matters arising from our 1988 audit examination. We have discussed these matters with the Administration, whose responses are incorporated where appropriate.
5. The present report is divided into two parts covering the audit of financial statements and management issues, respectively.

Summary of recommendations

6. We recommended that the following corrective actions, presented in order of priority, should be taken:
 - (a) Comprehensive guidelines should be issued in order to clarify the delineation between administrative, programme support, and programme expenditure as presented in statement I. Such guidelines should also clarify the presentation of programme expenditure financing the costs of posts located at headquarters of executing agencies (see paras. 60-63 and para. 113);
 - (b) Accounting procedures should be established with respect to government-executed programme expenditure to allow for a timely clearance of financial advances to Governments and reconciliation of the expenditure reported with the relevant general ledger in UNFPA (see paras. 49 and 50);
 - (c) Accounting and reporting policies applicable to non-governmental organizations should be clarified and, if necessary, the relevant financial regulations and rules amended (see para. 54);

(d) The allocation of funds to projects and programmes should continue to be authorised by the Governing Council as required by current policies and financial regulations and rules (see paras. 97 and 98);

(e) Investment policies and procedures, including currency risk management and the determination of limits by banks, should be reviewed and incorporated into operational guidelines. By the same token, organisational arrangements for carrying out such policies should be streamlined (see para. 81);

(f) Financial information systems and procedures should be designed and developed with a view to co-ordinating UNFPA and United Nations Development Programme (UNDP) systems and procedures, in particular when it comes to the management of field operations and headquarters/field relations. Reference should be made to the recently signed agreement between UNFPA and UNEP on that matter (see para. 95).

Summary of findings

Financial statements

7. The value of investments shown in statement II is overstated by \$US 1.7 million. Actual total exchange gains amounted to \$6.9 million in 1987, and actual total exchange loss amounted to \$1.2 million in 1988.

8. Governments and most non-governmental organizations did not report interest income on operating funds and outstanding advances provided to them, as they should have.

9. The Board cannot reach an opinion on the fair representation of 58 per cent of programme expenditure executed by United Nations executing agencies, owing to an absence of audited "status of funds" statements available at the time it is required to issue its opinion.

10. At the close of the audit, only 11 per cent of the 1988 financial reports required from Governments in their capacity as executing agencies of UNFPA programmes had been provided, only one third of which had been audited.

11. As a result of current accounting procedures, reconciliation between the "status of funds" statements submitted by Governments and the relevant general ledger in UNFPA is not possible.

12. At the close of the audit, only 17 per cent of the 1988 financial reports required from non-governmental organizations acting as executing agencies of UNFPA programmes had been provided, only one sixth of which had been audited.

13. In addition, the concept of expenditure executed by non-governmental organizations does not conform to current financial regulations and rules.

14. As a result of an absence of audited "status of funds" statements reported by all categories of executing agencies, including Governments and non-governmental organizations, the Board cannot reach an opinion on the fair representation of 57 per cent of 1988 programme expenditure and, consequently, on programme support costs.

15. Comprehensive guidelines clarifying the delineation between administrative, programme support and programme expenditure are still lacking. As a result, the Board cannot reach an opinion on the fair representation in statement I of \$1.65 million expenditure, which might be reasonably regarded either as administrative or programme expenditure. Since this represents 6.2 per cent of reported administrative expenditure, there is a doubt as to the fair representation of this category of expenditure reported in statement I.

16. The conversion of "Operating funds provided by UNFPA to Governments", shown in statement II, at the rate ruling when the advances were made is not in accordance with note 1 (c) to the financial statements (see annex to the financial statements below).

17. As a result of an absence of documentation as to the level of expenditure incurred by Governments against a significant proportion of advances made, as well as of the inability to confirm that unspent advances as at 31 December 1988 have not been charged directly to programme expenditure, the Board is unable to comment on the reasonableness of the balance of "Operating funds provided by UNFPA to Governments" as shown in statement II.

18. In spite of the full funding principle governing the management of trust funds, two sub-trust funds incurred expenditure in excess of cash received, as shown in schedule 7 to the financial statements.

19. The accounting policy governing the recording of unliquidated obligations, as summarized in note 1 (b) to the financial statements, is not in accordance with generally accepted accounting principles. In addition, the stated policy is not strictly enforced at the field office level.

20. The project budgeting-accounting code structure does not conform to the UNDP/UNFPA account codes handbook.

Management issues

21. Basic cash management guidelines are still lacking at UNFPA, the present investment policy results in unnecessary exposure to currency risk, and the average maturity of UNFPA investments remains very short. Organizational arrangements for carrying out such policies appear unnecessarily cumbersome.

22. The administrative and programme support services budget expenditure increased substantially in 1988, with particular emphasis on programme I.

23. The ratio of operational costs to programme expenditure decreased in 1988.

24. In our opinion, the text of decision 86/35, adopted by the Governing Council of UNDP on 27 June 1986, requires a fuller disclosure of the use of project funds for headquarters-based activities than has been understood until now.

25. The new long-term plan for electronic data processing, which is to be presented to the Governing Council in 1989, is not based on a cost-benefit analysis of the proposed recommendations. Also, its preparation and content appear not to

have been co-ordinated with actions already undertaken by UNDP, both at headquarters and in the field. This is a major weakness.

26. An agreement on the provision of financial services by UNDP to UNFPA was concluded in June 1988.

27. In our view, the present framework and procedure for the allocation of funds to projects and programmes represent an improvement over previous arrangements governing that matter and should be completed and implemented.

28. A review of country project expenditure in African countries revealed that the system of "priority countries" established in 1981 was not always reflected in the allocation of programme resources.

29. Regarding the activities of the Information and External Relations Division, the same action is frequently carried out through successive projects with different titles and identification numbers or broken down into components incorporated into different projects, with the result that substantial increases in the costs of such activities are not properly disclosed.

30. Our review of contracts awarded by that Division revealed frequent and recurring disregard of contractual procedures (bidding requirements, review by the Contracts Committee).

31. Under present arrangements, programme support costs paid to executing agencies do not always correspond to actual services provided by the agencies; cases in point include implementation of projects in a country where the agency has no local representation, or programme support costs paid on top of the salaries of permanent staff located at the headquarters of the agency.

32. The nature and role of permanent staff located at the headquarters of executing agencies and charged to UNFPA projects should be clarified and such specific projects reported separately to the Governing Council.

33. One of our field visits disclosed highly questionable practices on the part of the government in the administration of UNFPA assistance.

34. Only 40 per cent of the field offices report inventory statements of non-expendable equipment.

PART I

Financial statements

Exchange gains and losses

35. We consider that unrealized exchange gains for the year ended 31 December 1988 are overstated by \$5.28 million, which represents gains of \$4.57 million, that should have been included in the income statement for the year ended 31 December 1987 and an exchange loss of \$713,290, which is the difference between the December United Nations operational rate and the January United Nations operational rate, which we understand approximates to the official year-end rate. The valuation of investments is therefore overstated by \$713,290 as at

31 December 1988. Note 7 to the financial statements refers to this unrecorded exchange loss. We recommended that the note should also include the comparative amount as at 31 December 1987 and the Administration concurred.

36. Section 7.03 of the United Nations Finance Manual states that revisions to the United Nations operational rates of exchange are generally made at the beginning of a month; however, when there is a significant fluctuation in the rate during a month, further revisions may be made. We feel it necessary to reiterate the recommendation made in the report of the Board of Auditors on the 1987 accounts 1/ that changes in exchange rates that occur during the last month of the financial year should be reviewed with a view to considering whether any further revision to the United Nations operational rates is required if there is a significant impact on the value of assets and liabilities denominated in foreign currency.

37. As explained in note 1 (c) to the financial statements, exchange rate adjustments on collection of contributions are shown separately in statement I. Such adjustments relate only to exchange gains or losses in respect of contributions pledged in United States dollars and subsequently received in another currency. In 1988, the recorded loss of \$2.3 million resulted from a donor pledging \$38.25 million, but paying only the equivalent of \$35.94 million. The pledge was made in United States dollars, but the payment in local currency fell short of the amount pledged. The adjustment did not really result from changes in exchange rates. Also, it appears that the amount "pledged", as disclosed in schedule 1. is misleading and the actual pledge was not \$38.25 million, but \$35.94 million.

38. As a result of the observations mentioned above, the actual total (realized and unrealized) exchange gains and losses proves to be a loss, as shown in the table below:

	<u>1987</u>	<u>1988</u>
	(US dollars)	
Net adjustments on revaluation currencies and gains/losses on exchange other than contributions (schedule 2)	3 310 245	6 343 331
Exchange adjustments on collection of contributions (statement I)	(1 138 178)	(2 310 481)
Adjustments arising from the lack of revision of the United Nations operational rates at year-end (see para. 35 above and note 7 to the financial statements)	<u>4 567 452</u>	<u>(5 280 742)</u>
Total	<u>6 739 519</u>	<u>(1 247 892)</u>

1/ Official Records of the General Assembly, Forty-third Session, Supplement No. 5G (A/43/5/Add.7), sect. II.

Miscellaneous income

39. Our review of miscellaneous income from accounts of executing agencies disclosed that only one United Nations executing agency credited to UNFPA the interest income it derived from the investment of its operating fund balance. We could not obtain reasonable assurances that other United Nations agencies did credit such interest income, as required by the Financial Regulations and Rules (regulation 13.6 and rule 104.6). But we did note that neither Governments nor most non-governmental organizations, acting as executing agencies, paid interest income, even though both of them carry large outstanding cash balances advanced by UNFPA. In 1988, however, some non-governmental organizations did pay interest income in an amount of \$65,000, which was not reported as such in schedule 2 to the financial statements.

Programme expenditure

40. Programme expenditure (excluding programme support costs paid to executing agencies) made up 77.6 per cent of total UNFPA expenditure in 1988. Programme expenditure may be broken down as follows (see schedule 3).

	<u>Million of \$US</u>	<u>Percentage of 1988 total programme expenditure</u>
United Nations executing agencies (excluding UNFPA)	69.0	53.1
UNFPA as its own executing agency	28.6	22.0
Governments as executing agency	14.1	10.8
Non-governmental organizations	<u>18.3</u>	<u>14.1</u>
Total	<u>130.0</u>	<u>100.0</u>

41. We noted with appreciation that the Administration concurred with the recommendation made in the previous report of the Board of Auditors and modified the layout of statement I to show the above figures separately.

42. For the reasons, and with the exceptions, reported below, the only expenditure supported by adequate documentation at headquarters is incurred by UNFPA as its own executing agency and the Board cannot comment on the fair representation of the other categories of expenditure mentioned above. This was already a basis for the qualification of the Board's opinion on the 1987 financial statements. Each of these categories will be dealt with in turn.

Programme expenditure executed by United Nations executing agencies

43. As explained in previous reports, 2/ the Board of Auditors has to rely on the work of other external auditors to gather adequate audit evidence regarding programme expenditure reported by UNFPA. The fact that audited statements submitted by United Nations executing agencies were not received before the closing of the UNFPA accounts, nor before the issuance of the audit opinion of the external auditor of UNFPA, led to qualifying the Board's opinion on the 1987 accounts. Subsequently, however, we could review the audited statements relating to 1987, all of which had been received by the end of 1988. They have not revealed any adjustment that could have materially affected the 1987 financial statements of UNFPA. These agencies are audited on a biennial basis, and except for the International Labour Organisation (ILO), their external auditors do not express an opinion on the cut-off between the two years of the biennium. Therefore, we are not in a position to confirm the accuracy of the programme expenditure reported for the year 1987 alone (except for ILO).

44. We are in a position, however, to confirm that the total figure of programme expenditure executed by United Nations executing agencies, and reported in the financial statements prepared by the Administration of UNFPA for the years 1986 and 1987 taken together, is adequately supported by the audited documentation submitted by the relevant executing agencies and is not subject to a qualified opinion. The qualified opinion expressed on the 1986 and 1987 financial statements has to stand, nevertheless, because other components of programme expenditure, such as that which is executed by Governments and non-governmental organizations, represent amounts that are material to the financial statements and for which no adequate audit evidence is available.

45. Following the recommendations included in General Assembly resolution 43/216 of 21 December 1988, the Panel of External Auditors was of the opinion that it was up to the Administration of UNFPA to obtain, in time, audited statements of programme expenditure executed by executing agencies. In 1988, the Administration issued detailed year-end closing instructions to United Nations executing agencies.

46. In 1988, however, programme expenditure incurred by United Nations executing agencies and unaudited at the close of our audit amounted to 32.6 per cent of total programme expenditure and 25.3 per cent of total expenditure reported in statement I. Major agencies concerned are the Food and Agriculture Organization of the United Nations (FAO), ILO, the World Health Organization (WHO) and the United Nations Educational, Scientific and Cultural Organization (UNESCO). The audit coverage is not broad enough to authorize the expression of an unqualified opinion on the 1988 financial statements.

Programme expenditure executed by Governments

47. In 1988, 337 government-executed projects incurred expenditure. At the close of our audit, this expenditure had been reported for 37 (11 per cent) of these projects only (13.5 per cent in 1987). In addition, only 10 of these 37 reports had been audited. Since ways of addressing similar difficulties are under

2/ ibid., Forty-second Session, Supplement No. 5G (A/42/5/Add.7), sect. II and ibid., Forty-third Session, Supplement No. 5G (A/43/5/Add.7), sect. II.

consideration in UNDP, we recommend that similar solutions should be adopted in both organizations. However, we must point out, in that respect, that the Board does not think that the audit requirements being considered at present in UNDP meet acceptable external audit standards as explained in the Board's report on the 1988 accounts of UNDP. 3/

48. In our report on the 1987 accounts of UNFPA, we pointed out that government-executed project expenditure was accounted for on the basis of the "advances" remitted to Governments, instead of being accounted for on the basis of expenditure. This was corrected in 1988, although cases of advances being recorded as expenditure as at 31 December 1988 were noted.

49. However, as a result of long delays in the clearance of such advances and their release to the income and expenditure statements, it is highly likely that government-executed project expenditure is understated; this matter is addressed at greater length in the present report in paragraphs 66 to 73.

50. In addition, our review of expenditure reported by Governments revealed a fundamental flaw. When government-executed programme expenditure is carried out, in part, by UNFPA (for example, procurement) and, in part, by the recipient government, the expenditure incurred directly at UNFPA headquarters is not reported in the status of funds submitted by the government. This runs against financial regulation 15.2, which holds that Governments, as other agencies, should report on the financial status of funds obtained from or through UNFPA. In addition, this makes it impossible to reconcile the status of funds and the general ledger in UNFPA, since the latter does not allow for differentiating whether expenditures were executed by the government or by UNFPA. We recommend that corrective action should be urgently undertaken.

51. As a result of the foregoing, the actual amount of expenditure reported as executed by Governments (\$14.1 million and 10.8 per cent of programme expenditure), and disclosed in statement I, cannot be ascertained. In addition, owing to the flaw in the recording of this expenditure, reconciliation for the previous years with the status of funds is meaningless.

Programme expenditure executed by non-governmental organizations

52. In 1988, 204 projects executed by non-governmental organizations incurred expenditure. At the close of our audit, this expenditure had been reported for 34 (17 per cent) of these projects only. Only 6 (3 per cent) of them had been audited.

53. We must reiterate the observations made in our previous report to the effect that the concept of expenditure retained to account for programme expenditure executed by non-governmental organizations does not conform to the Financial Regulations and Rules, since it includes not only disbursements and unliquidated obligations, but also outstanding advances. Such outstanding advances should be cleared at year-end or reported as receivables. In fact, most outstanding advances are not cleared and our attempt at reconciling the UNFPA general ledger with reports submitted by non-governmental organizations disclosed substantial discrepancies.

3/ Ibid., Forty-fourth Session, Supplement No. 5A (A/44/5/Add.1), sect. II.

54. It might be understood that the specific nature of non-governmental organizations calls for specific accounting policies to be applied, but we think that, as a minimum, such policies as exist (annual reports) should be strictly enforced, and that deviations from financial regulations and rules should be disclosed in the summary of accounting policies. In 1988, the Administration expanded note 1 to the financial statements to specify that expenditure relating to "projects executed by non-governmental organizations is accounted for on the basis of cash disbursements". The wording of this note, however, is misleading in that this category of expenditure is actually accounted for on the basis of advances remitted by UNFPA to non-governmental organizations, but not on the basis of disbursements incurred by non-governmental organizations. We recommend that the formulation of this note should be corrected in the future.

55. We understand that the Administration is currently preparing guidelines specifying the financial and reporting requirements applicable to projects executed by the non-governmental organizations. The Board intends to keep that matter under review and to take it up with the Administration during next year's audit.

56. As a result of the foregoing, the actual amount of expenditure reported as executed by non-governmental organizations and disclosed in statement I cannot be ascertained. Such expenditure (\$18.3 million) represents 14.1 per cent of programme expenditure and 10.9 per cent of total expenditure.

57. The situation of programme expenditure with respect to audit is summarized in the following table:

	<u>Percentage of 1988 total programme expenditure</u>	<u>Percentage of 1988 total programme expenditure audited</u>
United Nations executing agencies	53.1	20.2
UNFPA	22	22.0
Governments	10.8	0.3
Non-governmental organizations	<u>14.1</u>	<u>0.4</u>
Total	<u>100.0</u>	<u>42.9</u>

As a result, the Board cannot comment on the fairness of 57 per cent of programme expenditure (44 per cent of total expenditure) reported in statement I. In addition, as a consequence of the lack of financial statements (either audited or unaudited) for 1987 from Governments and non-governmental organizations, and owing to the inadequate recording of project expenditure executed by non-governmental organizations mentioned earlier (see para. 53), the amount of adjustments to prior years' programme expenditure that should have been shown in the footnotes to schedule 3 could not be estimated.

Programme support costs

58. Programme support costs are computed as a percentage of project expenditures executed by the relevant executing agency. Regarding United Nations executing agencies, the standard rate of 13 per cent applies; lower rates may be provided for

in project documents when the specific circumstances of the project so warrant. With regard to non-governmental organizations, the ratio of support costs is determined on a case by case basis. However, we noted that this practice had been abused in a number of cases: one non-governmental organization charged a rate of 103 per cent on the project it executed, while another, which is a commercial firm, charged a rate of 63.4 per cent. We recommend that the "Revised policy guidelines for assistance to non-governmental organizations" (UNFPA/CM/86/65 dated 14 November 1986) should be supplemented with a paragraph providing for a reasonable ceiling on the rate of programme support costs charged by non-governmental organizations.

59. As a consequence of the lack of audited status of funds statements for a part of United Nations-agency-executed programme expenditure and for nearly all project expenditure executed by Governments and non-governmental organizations, programme support costs shown in statement I (\$10.7 million) cannot be ascertained.

Delineation between programme and administrative expenditure

60. The Board already pointed out in its previous report that the delineation between "programme" expenditure and "administrative and programme support" expenditure is crucial to the fair presentation of UNFPA operations in statement I. Improvements were noted in that respect in 1988, following the recommendations of the Advisory Committee on Administrative and Budgetary Questions, namely: three projects have been terminated and the relevant expenditure is now reported as administrative expenditure, while the status of a fourth project was maintained pending further consideration. However, our review of the present situation revealed that further clarification was needed. The only guidelines on that matter (document DP/1986/42, are still in a draft form and they are limited in scope. They refer to permanent staff costs only, excluding travel, training, consultancy and sub-contract costs. Therefore, we cannot concur with the Administration's reply to our previous report that "the draft guidelines ... dealt with the subject adequately". Adequate guidelines should specify, for example, whether travel costs of headquarters staff participating in an evaluation mission are to be reported as administrative or project costs, or whether the costs related to the participation of agencies' staff in backstopping missions are project costs or programme support costs. The principles agreed upon would have to be consistent with those of UNDP where the same difficulties have yet to be addressed. Also, they would have to be applied on a consistent basis from year to year.

61. In the absence of such guidelines, it is impossible to ascertain whether "programme" expenditure and "administrative and programme support services" expenditure have been fairly reported in statement I. As a matter of fact, a significant amount of expenditure charged to interregional projects in 1988 (as in previous years, in most cases) may reasonably be considered either as "programme" expenditure or "administrative and programme support services" expenditure.

62. Cases in point include the following projects that provide for the costs of recurrent headquarters-based activities:

(a) Project INT/88/P49 (publication of Population and Populi), which is proposed to be included in the 1990-1991 administrative and programme support services budget (1988 expenditure: \$308,595);

(b) Other projects providing for other regular publications or the production of audio visual material, a list of which has been communicated separately to the Administration (1988 expenditure: \$632,260);

(c) Project INT/88/PO1 (evaluation activities) providing for the non-post costs of the staff of the Evaluation Branch, such as travel, reporting and printing costs (1988 expenditure: \$509,014);

(d) Other projects providing for training of headquarters staff and monitoring costs, a list of which has been communicated separately to the Administration (1988 expenditure: \$203,391).

63. In 1988, expenditure under such projects amounted to \$1,653,260. Since we did not have time to carry out a similar examination of regional and country projects, this figure must be considered as representing the minimum amount of expenditure, which is in doubt. Therefore, in the present situation, the Board cannot ascertain whether "administrative and programme support services" reported in statement I are understated by 6.2 per cent or not. Since this uncertainty is material to a crucial item of statement I, the audit opinion of the Board is qualified in that respect.

64. The Administration commented as follows: "Concerning comprehensive guidelines clarifying the delineation between administrative, programme support and programme expenditure, UNFPA is presently trying to establish guidelines with regard to areas other than personnel to determine which costs pertain to 'programme' and which to 'administrative'. Work on this matter had started in 1988 and it was realized that further analysis would be required to minimize gray areas to establish proper and effective guidelines. We agree that the principles agreed upon would have to be consistent with those of UNDP where the same difficulties have yet to be addressed. In so far as delineation of personnel issues is concerned, guidelines approved by the Governing Council at its thirty-third session in 1986 are being applied."

Schedule 4

65. Schedule 4 (administrative and programme support services budget), is now presented in compliance with the new format of this budget, which includes all field offices expenditure under programme IV. We noted with appreciation that, for the first time, expenditure was broken down by year instead of being shown for the two years of the biennium together. We recommend that this improvement should be maintained.

Assets and liabilities

Operating funds provided by UNFPA to Governments

66. Following recommendations made during the 1987 audit, amounts paid in advance to Governments for projects executed by them are included in the balance sheet as advances. These amounts are released to the income and expenditure statement when UNFPA is informed of the expenditure incurred. Previously, advances were charged direct to the income statement. Advances have been made in respect of 187 projects during the year ended 31 December 1988, amounting to \$14.1 million, of which \$4.04 million (28.6 per cent) were released to the income and expenditure statement.

67. Internationally, generally accepted accounting principles require that, in order to smooth out variations in income arising from changes in accounting policy, the prior year reserves should be restated to reflect the change, if the effect of the change is material to the accounts. We have been unable to ascertain the effect on the audited accounts for the two years ended 31 December 1987 if the change in accounting policy had been applied at that time. Following our recommendation, a note has been made in the accounts explaining the change in accounting policy and stating that the Administration has been unable to determine the financial effect in prior years with reasonable accuracy.

68. Unspent advances as at 31 December 1988 that are denominated in foreign currency have been converted into United States dollars at the United Nations operational rate ruling when the advance was made. All subsequent expenditure is charged to the income statement at the same rate. Our work has not indicated any material exchange gains or losses that would arise if advances were converted at the official rate only at 31 December 1988. None the less, we wish to point out that this current practice does not comply at all with UNFPA financial rule 116.1 (d) and with note 1 (c) to the financial statements.

69. No details of expenditure have been submitted for 108 of the 187 projects for which advances were made during the year. This represents 55 per cent of the value of advances made. We were informed that it was necessary to submit details of 1988 expenditure on the "Form B" prior to 28 February 1989 in order for that expenditure to be recorded in the 1988 accounts, and that the Administration intended to record as 1989 expenditures those reported after the deadline, which is strongly against cut-off rules. We recommend that these expenditures should be shown in the 1989 financial statements as adjustments to prior years.

70. We have examined some 65 per cent of the value of outstanding advances as at 31 December 1988. We noted the following:

(a) Expenditure of \$1.64 million and \$0.71 million incurred in 1988 by two Governments has been recorded in the 1989 accounting records because the relevant "Form B" was received after 28 February 1989;

(b) Advances made in respect of certain projects undertaken by two different Governments, amounting to \$124,812 and \$36,700, were not recorded in the operating fund account, but were charged directly to project expenditure. We have been unable to confirm whether there are other advances which have been accounted for in a similar way;

(c) No details of expenditures have been received in respect of all those other advances which we examined.

71. These errors result in an overstatement of the operating fund account of some \$2.3 million. We are unable to comment on the reasonableness of other unexpended advances recorded in the account, owing to:

(a) The absence of documentation as to the level of expenditure incurred against a significant proportion of advances made;

(b) The inability to confirm that advances that remained unspent as at 31 December 1988 have not been charged directly to the income statement.

72. We recommend that the Administration should continue to emphasize to the relevant Governments and field offices the importance of submitting on a timely basis details of expenditure incurred. Procedures should be established at UNFPA headquarters that enable UNFPA effectively to monitor countries that have not submitted project expenditure details and to request that these details are received prior to the closure of the accounting ledgers for year-end purposes.

73. We also recommend that the project expenditures submitted are converted into United States dollars at the United Nations operational rate of exchange prevailing at the end of the quarter to which the expenditure relates. Advances that are unspent at year-end should be converted at the December United Nations operational rate.

Accounts payable

74. In its 1987 report, the Board commented upon the excessive level of travel expenditure that existed as at 31 December 1987. We are pleased to observe that there has been a significant improvement in the situation during 1988. Unliquidated travel obligations as at 31 December 1988 are approximately \$1,152,000, compared with \$1,785,095 as at 31 December 1987, despite a 27 per cent increase in travel obligations during the year. We were informed by the UNDP travel section that it is satisfied that adequate procedures have been implemented to ensure the timely processing of uncleared travel obligations. These procedures include the delegation of verification and certification procedures in respect of travel claims from UNDP to UNFPA and the decentralization of responsibility for certain types of travel to the field offices. We were informed that their implementation of these procedures has significantly decreased the work-load of the UNDP travel section.

Contingent liabilities

75. The Panel of External Auditors recommended disclosure of the contingent liabilities resulting from the termination benefits UNFPA will have to pay to its staff in future years. Based on our estimates, such liabilities amount to some \$1.8 million with respect to repatriation grants, and \$0.2 million with respect to termination indemnities. We recommended that, in the future, such estimates should be produced by the Administration and disclosed in a note to the financial statements.

Trust funds accounts

76. Financial regulation 5.2 provides that "trust funds shall be accepted only on a fully funded basis". However, schedule 7 to the financial statements shows a debit balance of \$390,039 at the end of 1988, resulting from UNFPA expenditures on projects financed by two trust funds pending receipt of the contributions pledged by the Governments concerned. We noted that, as at 31 December 1987, a similar situation had arisen in respect of another trust fund with a debit balance of \$896,598. The outstanding contribution was received during 1988. In our previous report, we observed that no expenditure should be incurred before the funds have been made available in their entirety. The Administration concurred with our observation. In view of the re-occurrence of the situation in respect of two other trust funds this year, we wish to remind the Administration that financial regulation 5.2 should be enforced.

Accounting procedures and instructions

Cut-off rules

77. UNFPA Financial Regulations and Rules (see rule 114.1) and UNFPA guidelines to United Nations executing agencies specify the accounting policy applicable to the recording of unliquidated obligations. We noted with appreciation that the guidelines issued for the closing of the 1988 accounts had been completed in that regard. The accounting policy mandated by UNFPA is identical to that of UNDP and requires the application of the delivery principle for all categories of project expenditure with the exception of equipment and sub-contracts. This policy and the adverse consequences it has, in the opinion of the Board on the fair presentation of financial statements are addressed at length in the Board's report on the 1988 accounts of UNDP. 3/ This matter is under review in UNDP. It appears to be a case in which the solution that will eventually be adopted for UNDP project expenditure could be extended to UNFPA operations.

78. Regarding administrative expenditure incurred by field offices, we noted that 39 field offices, out of a total of 85, do not record unliquidated obligations. This results in an understatement of the expenditure reported under programme IV of the administrative and programme support services budget, although the magnitude of the understatement could not be ascertained. The instructions sent to field offices (see letter dated 22 February 1988, para. 9) erroneously limit the recording of unliquidated obligations to obligations still outstanding at the end of the biennium, instead of requiring that they be recorded at the end of each year in accordance with the annual financial reporting applied by UNFPA.

Project accounting code structure

79. Following up on previous observations, we reviewed the new "UNFPA guidelines for project formulation and appraisal" (UNFPA/CM/88/61, dated 18 August 1988), which supersede the 1986 guidelines. Our review disclosed that no changes had been introduced in the project budgeting accounting code structure, which merely duplicates the former one (see annex D to both instructions). As already pointed out, this structure does not conform, as it should, to the UNDP/UNFPA account codes handbook. As a result, the breakdown of project expenditure on which schedule 3 is based may be misleading. In that respect, we wish to reiterate the observations and recommendations included in the report of the Board on the 1987 accounts of UNFPA (see para. 63).

PART II

Management issues

Liquidity position

80. As a result of an excess of income over expenditure of \$10.8 million in the general fund and of \$6.1 million in trust funds, the liquidity position of the organization increased by 25 per cent in 1988:

<u>United States dollars</u>	<u>31 December 1986</u>	<u>31 December 1987</u>	<u>31 December 1988</u>
Operational reserve	30 000 000	37 000 000	40 000 000
General fund balance	15 489 054	24 062 609	31 897 766
Trust fund balances	<u>2 430 926</u>	<u>3 707 583</u>	<u>9 352 029</u>
Total	<u>47 919 980</u>	<u>64 770 192</u>	<u>81 249 795</u>

The level of the operational reserve has been retroactively increased by \$3 million, thus approximately reaching in 1988 the target ratio of 25 per cent of pledges that the Governing Council had set for 1995. The liquidity position stood at 49 per cent of total 1988 expenditure at year-end. The liquidity position figures stated above significantly differ from those disclosed in document DP/1989/43 (UNFPA annual financial review, 1988), under table 7 "liquidity position" (\$116.6 million for 1988). The reason for this discrepancy is that the "liquidity position" reported in document DP/1989/43 actually represents gross liquid assets (i.e., not netted against liquid liabilities).

Investment management

81. In its report on the 1987 accounts of UNFPA, the Board of Auditors commented on the investment policy of UNFPA. We reviewed that matter again in 1988 and wish to reiterate the following observations.

(a) We still think that the implementation of investment management would be best addressed if it was entrusted to the specialized unit in UNDP, instead of being divided between three different institutions (UNFPA, the United Nations and UNDP). At the present time, safety of transactions and cash management require a costly co-ordination. In that connection, it is worth recalling that UNDP faces the same type of cash management problems as UNFPA does, and that UNDP already handles the accounting of UNFPA, its bank accounts and its very short-term investments;

(b) Basic cash management guidelines are still lacking in UNFPA. Major points to be addressed include: forecasts of cash receipts and payments, forecasts of inflows and outflows by currency, the definition of an exchange and investment strategy to limit the gaps between inflows and outflows, and the drafting of procedures with respect to cash management (number of major banks to deal with, bidding for exchange transactions, credit risk limits by banks expressed in dollars and in percentage of total assets, the definition of a reporting procedure by both operation by operation and overall to assess the outcome of the strategy implemented). Such guidelines should be defined together with the UNDP Treasury and implemented by the latter under the overall supervision of UNFPA;

(c) In the absence of such guidelines, we must underline that the current cash management policy results in unnecessary exposure to exchange risks, with a view to taking advantage of expected market changes in highly volatile foreign exchange markets. In our opinion, such exposure to exchange risk, which cannot be avoided, should be limited to a minimum in an organization such as UNFPA;

(d) With regard to credit risk management, we observed, for example, that the absence of predetermined limits by banks had led to a situation where a minor bank held 40 per cent of total UNFPA time deposits as at April 1989;

(e) Although the average maturity of UNFPA investments increased slightly, we still believe it could be extended with a view to maximizing interest income. It is recalled that cash and investments represented 70 per cent of total 1988 expenditure at the end of 1988. By April 1989, the investment with the longest maturity did not exceed four months.

Operational costs

82. Operational costs include administrative and programme support services budget expenditure and programme support costs paid to executing agencies.

Administrative and programme support services budget expenditure

83. Budgetary procedures were substantially improved in 1988, in line with previous recommendations of the Board: budgetary allotments, staffing tables, and a document summarizing the biennial budget "as approved by the Governing Council" are now issued regularly and provide the basis for budgetary control. The implementation of such procedures appears satisfactory at headquarters. Weaknesses were noted, however, in the performance of the certifying function at the field level; they were documented in separate communications to the Administration. In our opinion, they should be addressed within the context of the implementation of the UNFPA/UNDP agreement on financial relationships between the two organizations (see paras. 78 and 95).

84. Changes in administrative and programme support services (APSS) budget expenditure are summarized in the table below:

	<u>Gross expenditure</u>			<u>Changes</u>	
	(United States dollars)			(Percentage)	
	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1987/1986</u>	<u>1988/1987</u>
Programme I	2 191 225	2 320 248	3 359 629	5.9	44.8
Programme II	5 921 473	6 442 981	7 402 034	8.8	14.9
Programme III	8 169 112	8 452 647	8 218 476	3.5	-2.8
Total, headquarters	16 281 810	17 215 976	18 980 139	5.7	10.2
Programme IV (field offices)	7 447 716	8 664 015	9 721 180	16.3	12.2
Grand total	<u>23 729 526</u>	<u>25 879 991</u>	<u>28 701 319</u>	<u>9.1</u>	<u>10.9</u>

Within the context of an overall increase of 10.9 per cent, programmes I and II at headquarters increased significantly more than the field programme (programme IV), while programme III at headquarters (Programme planning, appraisal and monitoring) decreased. Such changes do not appear to be in line with the recommendations of the Governing Council and the Administration stated policy to strengthen the field

offices and the Fund's technical and monitoring capabilities. On the basis of budgetary estimates for 1990-1991, it appears that the trend identified above will continue during the next biennium.

85. Changes in total operational costs, as defined above, were as follows:

	<u>1986</u>	<u>1987</u>	<u>1988</u>
	(United States dollars)		
Gross APSS expenditure	23 729 526	25 879 991	28 701 319
Less: credit and income	<u>1 560 366</u>	<u>1 477 288</u>	<u>2 045 637</u>
Net APSS expenditure	22 169 160	24 402 703	26 655 682
Programme support costs	8 313 826	9 086 538	10 724 389
Headquarters posts charged to projects	<u>611 600</u>	-	-
Total operational costs	<u>31 094 486</u>	<u>33 489 241</u>	<u>37 380 071</u>
Changes		+7.7 per cent	+11.6 per cent

Cost-effectiveness

86. The table below has been extracted from 1988 UNFPA financial statements to show the changes in the ratio of operational costs to total programme expenditure.

	<u>1986</u>	<u>1987</u>	<u>1988</u>
	(United States dollars)		
Programme expenditure	101 283 847	106 987 561	129 832 498
Total operational costs	31 094 486	33 489 241	37 380 071
Total operational costs/ projects expenditure	30.7 per cent	31.3 per cent	28.9 per cent

The ratio of operational costs to programme expenditure decreased in 1988, as a result of a significant increase in programme delivery. However, the trends shown above are based on conservative figures, since operational costs may be underestimated as a result of a share of such costs being reported as programme expenditure (see paras. 60-63).

Project funded services at headquarters

87. In its decision 86/35, the Governing Council decided that the biennial budget should contain a pro forma indication of the expected project-funded services at headquarters, as well as "detailed information on the use of project funds for

headquarters-based activities". Details included: "project symbol, title, duration and budget; title and duration of posts with a duration of more than six months, plus all related or other expenditures, namely, short-term consultancy services, office rental, travel costs and the like; and a clear explanation of why such activities cannot be financed from the biennial budget". For the first time in 1988, an annex to the "revised budget estimates for the 1988-1989 biennium" (see DP/1988/39) was provided as per Governing Council decision 86/35. As detailed above in the present report (see para. 62), in our opinion, this annex was not comprehensive, which results from the fact that the Administration has interpreted decision 86/35 as requiring that only those projects that provide for posts with a duration exceeding six months should be disclosed. If one were to adhere to this interpretation, the annex produced in 1988 by the Administration would be comprehensive, as far as we could ascertain. However, this interpretation does not appear to be borne by the text of decision 86/35 that we quoted above. Therefore, we recommended that decision 86/35 should be strictly complied with in the future.

88. The Administration commented as follows: "Keeping in mind the background of discussions that led to Governing Council decision 86/35, UNFPA interprets that it requires the reporting of only those projects with posts with a duration of more than six months, plus all related or other expenditures, namely, short-term consultancy services, office rental, travel costs and the like. If, however, the Governing Council provides a different interpretation in line with that reflected in the report of the Board, UNFPA shall in future modify the information to be annexed to the budget document accordingly".

Management information services

89. We carried out a review of the electronic data processing (EDP) function and systems, which encompassed an examination of the current organization and activities of the Management Information Services Unit, an analysis and appraisal of long-range and short-term planning procedures and a review of automated transfer of accounting data between UNFPA and UNDP.

Electronic data processing costs

90. EDP costs are not identified as such in the administrative and programme support services budget. It is therefore extremely difficult to take a comprehensive view of such costs that do not constitute an item regularly and closely monitored. We recommended that appropriate action should be taken to that effect.

91. Moreover, it is not possible to assess the actual costs incurred by UNDP to provide EDP services to UNFPA. In order to match costs and services rendered, we also recommended that a detailed breakdown of the tasks performed on the UNDP mainframe should be made available. It will help clarify the negotiation between the two organizations to determine the annual "subvention" paid to UNDP.

Electronic data processing systems

92. The review of the current EDP systems showed a great variety of hardware and software in use in UNFPA. We identified four different systems currently in use for project management using non-compatible operating systems. As a result, the present EDP system is not entirely cost-effective and calls for streamlining. The

main drawbacks identified in the area of project budgeting systems have been pointed out to the Administration. The Administration concurred in our views and explained that it had prepared a "strategy for office automation, including the development of a management information system" to be presented to the Governing Council in June 1989 for approval.

93. While this new "strategy" is an improvement over the preceding one (which was rejected by the Governing Council in 1988), it still shows some of the weaknesses identified in the previous long-term plan. Cases in point include:

(a) The absence of co-ordination of this plan with the actions already taken by UNDP, both at headquarters and in the field. Such co-ordination is particularly required in the areas of personnel and finance where UNDP is implementing UNFPA decisions and procedures. As an example, we wish to point out that the need to develop a new field office accounting system is highly questionable, since such software is already available in UNDP. Incidentally, the implementation of this software has given rise to problems detailed in the Board's report on the 1988 accounts of UNDP, and it would obviously make sense to learn from that experience to develop an improved software common to both organizations;

(b) No cost-benefit analysis associated with the new long-term plan is available. The Administration limited itself to indicating that the benefits derived from the implementation of the proposed system are "expected to be of substantial significance to UNFPA" in that the staff will remain relatively stable while programmable resources will increase considerably. In that connection, however, we noted that biennial budget estimates for 1990-1991 (see DP/1989/41) anticipate a 13.4 per cent volume increase in staff costs for a 20.7 per cent increase in income. Regarding costs, they are difficult to assess in the absence of a comprehensive review of current EDP costs and of different alternatives with respect to hardware and software.

UNFPA/UNDP relationship

94. Pursuant to the request of the Advisory Committee on Administrative and Budgetary Questions, we reviewed the June 1988 agreement on the provision of financial services. We also reviewed the relationships with UNDP on personnel administration.

Financial services

95. We noted with appreciation that the June 1988 agreement addressed several of the weaknesses identified in our previous reports, namely:

(a) The agreement includes the formal delegation of responsibility from the Executive Director to the UNDP Director of Finance for the preparation of the financial statements (except for certain schedules) and maintenance of accounting records;

(b) The agreement clarifies the respective roles of UNFPA and UNDP in respect of budgetary control and accounting: UNFPA is responsible for substantive budgetary control and for certifying all of its obligations and payments except for travel-related expenditure and common staff costs certified by UNDP; UNDP is responsible for formal control over accounting entries;

(c) Regarding the "subvention" for services rendered charged by UNDP to UNFPA, the agreement provides for regularly reviewing the application of the methodology for the determination of that "subvention" at the beginning of each budgetary cycle. We believe that such a review is very much in order and that a special task force should be appointed to that effect;

(d) The shortcomings of the present cash management arrangements have been detailed above in the present report (see para. 81);

(e) At the field level, the implementation of the agreement calls for the issuance of specific instructions, particularly with respect to: the performance of the certifying function; the taking into consideration of UNFPA field office allotments and allocations by the financial and accounting staff in UNDP; the proper recording of unpaid items; and the mischarging of expenditure.

All such shortcomings in current procedures have been documented in separate communications to the Administration. It must be noted that most of these weaknesses in budgetary control have also been observed in UNDP field offices and that corrective action should be undertaken jointly.

Personnel management

96. In previous reports, the Board commented on the absence of a formal agreement delineating responsibilities between UNFPA and UNDP with respect to personnel management. One of the weak points in present informal arrangements is that recruitments, appointments, promotions and other personnel decisions suffer from excessively long delays and result in transitional measures that are not in accordance with staff and financial rules. Another weakness is the limited role assigned to the Personnel Branch. As an example, it is worth mentioning that control of staff attendance, overtime and leaves is performed by UNDP, whereas such tasks would obviously be carried out more efficiently "on the spot". The Administration confirmed that a comprehensive report, which will provide the framework for negotiations between the two organizations, had been prepared by a consultant and it is expected that an agreement with UNDP on that matter will be reached in the near future.

Programme Management

Authorization of the allocation of funds to projects

97. Following previous recommendations by the Board, a new procedure for authorizing the allocation of funds to projects was approved by the Governing Council in 1988 upon the recommendation of the Executive Director. In our opinion, this new procedure marked a substantial improvement over the preceding one in that it provided for a well defined "programme ceiling". The "programme ceiling" constituted an authorized level of project allocation for each year and is approved by the Governing Council before the beginning of the year to which it applies. The "programme approval authority" was also more clearly defined, as was the method for computing it over the successive years of the work plan. The implementation of that new procedure in 1988, however, was not entirely satisfactory, as a result of the following:

(a) The new procedure is not yet reflected in the Financial Regulations and Rules, which should be amended accordingly;

(b) Estimates of "new programmable resources" appear subject to wide variations from one year to the next without apparent justifications. "New programmable resources" are defined as income minus operational costs and additions to the operational reserve. But the increase in operational costs is estimated to jump from 11.6 per cent in 1988 (as against 1987) to 27.8 per cent in 1989 (as against 1988);

(c) Carry-forwards from the previous year are not estimated;

(d) Project allocations substantially exceed the programme ceiling during the course of the year, which runs against financial rule 108.1 (allocations may not exceed the authorized level at any time). It should be noted, however, total 1988 allocations at year-end fell within the 1988 programme ceiling.

Regarding this last point, the Administration explained that it intended to modify financial rule 108.1 to accommodate the current practice. The Board already advised, and still advises, against such a change that would imply a real risk of expenditure exceeding the programme ceiling at year-end, particularly considering that expenditure frequently exceeds allocations (although by immaterial amounts until now).

98. Whatever the difficulties, which were to be expected, in the implementation of the newly approved framework for the authorization of allocation of funds to projects, the Board was concerned to learn that still another framework, entirely different from the existing one, is to be submitted to the Governing Council at its June 1989 session (see document DP/1989/34). Under this proposed framework, the Executive Director would be allowed a "programme expenditure authority" that would not constitute in any way an authorized level of programme allocation determined by the Governing Council since:

(a) Accumulated balances "carried forwards" from previous years would no longer be included in the spending authority granted to the Executive Director;

(b) The Governing Council would authorize a level of actual expenditure to be reached at the year-end, instead of determining the overall limit on project allocations throughout the year. Consistent with the proposed changes, yet "programme ceiling" for 1990 is submitted for the approval of the Governing Council.

In that connection, we wish to stress that the proposed framework represents a departure from articles VII and VIII of the Financial Rules and Regulations of UNFPA that define the proposed utilization of resources and the procedures to allocate funds to programme activities.

Index of resource utilization

99. As pointed out by the Board in its previous report, the index of resource utilization is a crucial, even though imperfect, ratio to monitor programme implementation. For the first time in 1988, the Administration produced a "resource utilization rate", which is defined as the ratio of year-end expenditure to total programmable resources as estimated at the beginning of the year. We wish

to reiterate that, for such information to be meaningful, great attention must be paid to the definition of the ratio (i.e., the components of "total programmable resources" and the date when this figure is estimated) and to its consistent application over time, since changes in its constituent parts are likely to result in significant variances in the reported figures.

Allocation of funds to "priority countries"

100. A "priority countries" system was set up eight years ago and revised in 1988. Several sub-Saharan African "priority countries" with a population of 5 million or more were still allocated less than \$1 million each in 1988. Moreover, for five of them (Chad, Côte d'Ivoire, Guinea, Madagascar and Senegal) the 1989 allocations were substantially lower than in 1988: 26 per cent below for Senegal and 88 per cent below for Chad as at February 1989. As allocations by country at the beginning of the year are usually significantly higher than actual expenditure at year-end, the present trend of UNFPA programme expenditure in such countries appears not to be in line with the "priority countries" system in general and in sub-Saharan Africa in particular.

101. The Administration explained that 1989 allocations had subsequently been raised for Senegal and Madagascar and that a new \$4.5 million programme (1989-1993) was to be submitted to the Governing Council in June 1989 for Chad. Such examples, however, appear to cast some doubt on the meaning of a "priority" system, set up eight years ago, which is not always reflected in the allocation of programme resources by country.

Information and External Relations Division

102. We carried out a specific review of the activities of the Information and External Relations Division, the outcome of which is detailed below.

Management and projects

103. The same action is frequently carried out under successive projects with different titles, identification numbers and duration without any known justification for such changes; this thoroughly confuses the information communicated to the Governing Council and makes it difficult to keep track of any given activity over time. All the more disturbing, we observed that such discontinuity might conceal substantial cost increases: audit of visual and media services (74 per cent increase from 1987 to 1988) and population related publications (27 per cent increase over the same period) are revealing cases in point.

104. By the same token, an activity may be spread over different projects which also results in inaccurate reporting. As an example, we noted that the project titled "1988 state of world population report" disclosed that only 61 per cent of total expenditure related to the production of this report, the remaining 39 per cent being "scattered" over several different project budgets. As a result, the 47 per cent increase in the costs of this report between 1987 and 1988 was not reported. A number of similar examples extracted from the report of the Executive Director on allocations to projects in 1988 were reported separately to the Administration. A sample checking of expenditures charged to projects disclosed several overexpenditures and numerous mischargings.

105. While the Administration had undertaken previously to strengthen the management of interregional projects, of which projects of the Information and External Relations Division are a substantial part, no specific measures had been taken at the time of our audit.

Circulation of publications of the Information and External Relations Division

106. The Division does not assess the impact of the publications it circulates all over the world with a view to adjusting their content and the size of print-runs. Following previous observations, a consultant was commissioned to carry out a survey of the readership of the reviews entitled Population and Populi. The rates of reply were so low (3 per cent and 4 per cent) that no meaningful conclusion could be drawn, except for the poor interest it elicited among addressees.

Co-ordination with the Population Division of the Department of International Economic and Social Affairs of the United Nations Secretariat

107. Despite the establishment of a United Nations Population Fund/Department of International Economic and Social Affairs Steering Committee in November 1987, co-ordination with the Department remains poor. As an example, we wish to point out that the 1987 Population Award was attributed on the basis of statistics which differed substantially from those published by the Department. Since statistics of the Department are recognized within the international scientific community and since UNFPA is a United Nations organization, we noted with surprise that the Administration limited itself to explain that "there are several instances where government and United Nations statistics do not necessarily coincide".

Contracts issued on behalf of the Information and External Relations Division

108. A review of contracts awarded by the Division disclosed recurring disregards of UNFPA financial rules: cases in point include contracts over \$5,000 awarded without bids, and the award of a contract exceeding \$40,000 without it having been previously reviewed by the Contracts Committee. Also, the Division erroneously considers established commercial firms, such as Turner Broadcasting System Inc. or the New Internationalist Publications Limited, as non-governmental organizations, with a view to circumventing contractual procedures (invitation to bid, review by the Contracts Committee). The respective contracts amount to \$300,000 in the first case, and to \$750,000, since 1981, in the second case. The Administration saw fit to explain that "the bidding procedure in such a case is inappropriate", and did not provide us with the relevant information to ascertain the full extent of this practice. We consider such an explanation itself to be "inappropriate".

109. The Administration commented as follows: "We take note of the Board's comment that there have been cases when the Information and External Relations Division had not fully complied with the existing contractual procedures. This may be due to the fact that the current contracting procedures may not be geared to meeting the unique requirements of contracts related to publications and audi-visual productions. UNFPA will, therefore, review the practices and procedures in effect in other United Nations organizations, with a view to developing its own contractual procedures governing publications and audi-visual productions, if this is found to be appropriate".

Relationship with executing agencies

United Nations agencies

110. Our visits to the field offices revealed that relationships with executing agencies at the field level, and sometimes at the level of headquarters relations, raised a number of questions with respect to the payment of support costs. Such observations have been detailed in separate communications to the Administration. We believe it is appropriate to summarize the substance of such communications in the present report for future consideration.

111. Even for projects or parts of projects that are not executed by the government or UNFPA, the field office is frequently deeply involved in actual execution. The field office thus provides a wide range of services from processing locally incurred project expenditure to delivery of equipment. The main reason for this situation is the presence of a UNFPA office in the country, while most agencies do not have such offices; this would appear to call into question the standard 13 per cent fee for programme support costs that the executing agencies receive from UNFPA.

112. In addition, it appears that, in a number of cases, equipment might have been procured through the specialized unit at UNFPA headquarters, particularly when such equipment is related to family planning or population activities where the unit has a long record of experience. Such a procedure would be both more expeditious and more economical. In one case, where a substantial equipment component was involved, we calculated that direct procurement by the UNFPA unit would have resulted in \$470,000 savings, which is over three times the annual costs of the field office in that country.

113. Regarding headquarters to headquarters relations, our review of interregional projects disclosed that at least 15 such projects, a list of which was communicated separately to the Administration, consisted exclusively in paying for posts and travel costs of permanent staff located at the headquarters of executing agencies: 28 permanent Professional posts were thus provided by UNFPA to the Department of Technical Co-operation for Development, the Food and Agriculture Organization of the United Nations, the International Labour Organisation, the United Nations Educational, Scientific and Cultural Organization and the World Health Organization at a cost of \$4 million in 1988. The existence of such arrangements raises two questions:

(a) Not only is UNFPA paying for the costs of Professionals who support and supplement the regular staff of the agency, but it also pays to most of these agencies the 13 per cent "programme support costs" generated by such project expenditure. Such "piling up" of support costs, in our opinion, is highly questionable and should be discontinued immediately.

(b) The reporting of such expenditure as programme expenditure also appears questionable. Some of these projects are primarily (but not exclusively) research projects. For the most part, however, they are funding technical backstopping activities, which should be either carried out by UNFPA itself, or funded from the regular support costs accruing to the agencies. The Administration explained that such projects were part of its mandate to build up the capabilities of the United Nations system in the population and family planning fields and to promote co-ordination in planning and programming (see Economic and Social Council

resolution 1763 (LIV) of 18 May 1973). However, the Administration also replied that "it had been necessary for UNFPA and the respective agencies to have such projects because the level of programme support costs that is paid to agencies for their implementation of regional and country projects is not sufficient to enable agencies to fund the technical posts ... While agencies are aware of the desire of UNFPA to end the funding of agency headquarters staff, the specialized agencies have pointed out that their assumption of these posts under the regular budget is increasingly difficult due to cutbacks in their respective regular budgets". This reply does not appear to be entirely consistent with the preceding one. Nevertheless, the result of this practice is that neither the precise nature of such costs relating to projects that are regularly renewed over long periods of time, nor the need to continue such activities beyond a certain point in time are ever made quite clear. In our opinion, this could justify the reporting of such projects separately to the Governing Council in the same fashion as other project-funded services mentioned in Governing Council decision 86/35 (see para. 87 above).

Governments

114. We would suggest that government-executed projects should follow the direct payment procedure instead of the "advances" procedure whenever practical and especially when local financial management capabilities are inadequate and inflation high. To respond to the legitimate request for autonomy on the part of the counterpart governmental agencies, projects could include a financial management training component to allow governmental agencies to take over financial management of the project in a second stage. The reasons for such recommendations are that:

(a) There are very serious weaknesses in the financial management and reporting of the use of advances by Governments (see paras. 50 and 66 to 73 above);

(b) In countries with high inflation rates and where there is a related strong depreciation of the local currency, UNFPA suffers from losses on outstanding advances that are recorded by the recipients in the local currency.

Misappropriation of technical assistance

115. Our visit to one field office revealed that there were serious doubts as to whether equipment provided under UNFPA projects was used in accordance with the provisions of project documents and delivered to final users. This led the Administration to suspend procurement under one project.

116. In addition, it appeared that local staff employed by UNFPA in the same country, either as field office staff or as project staff (trainers, consultants), were not paid directly by UNFPA and that salaries and daily subsistence allowances were remitted through the local government, which retained very substantial portions of such payments. As a result, several million dollars of administrative and country programme expenditure were not spent in accordance with the mandate of UNFPA. We understand that an agreement is being sought by UNFPA and UNDP with the government concerned. Also, we understand that similar practices are followed in other countries. In that connection, we wish to point out that the present arrangements do not appear compatible with the objectives of United Nations technical assistance.

Non-expendable property

117. No appropriate schedule to the financial statements reports the value of non-expendable property as recommended by the Board of Auditors in its report on the 1987 accounts of UNFPA, 1/ although the Administration had undertaken to implement this recommendation. In addition, note 1 (d) to the financial statements, which specifies that an inventory is maintained of all non-expendable equipment, is somewhat misleading in that 40 per cent only of the field offices reported their inventory statement. The Administration did not issue the specific instructions required by financial rule 114.16 (c), and it is not clear whether the Administrative Branch is now responsible for field office as well as headquarters inventories. Even though the improvement in inventory-taking at headquarters was noted, corrective action should be taken for field inventories.

Cases of fraud and presumptive fraud

118. The Board was informed of one minor case of fraud committed by a staff member who subsequently resigned.

Comments on matters dealt with in the 1987 report

119. Changes introduced in 1988 to comply with the recommendations contained in the 1987 report of the Board of Auditors have been commented upon under the appropriate heading in the present report. The Administration complied with such recommendations, except as mentioned in paragraphs 53, 60, 76, 79, 81 and 98.

Acknowledgement

120. The Board of Auditors wishes to express its appreciation for the co-operation and assistance extended by the Executive Director of the United Nations Population Fund, her officers, and members of their staff.

(Signed) Eufemio C. DOMINGO
Chairman, Commission on Audit of
the Philippines

(Signed) André CHANDERNAGOR
Court of Accounts of France
(Cour des Comptes)

(Signed) J. K. GHANSAH
Acting Auditor General of Ghana

III. OBSERVATIONS OF THE ADMINISTRATION OF UNFPA ON THE COMMENTS
AND RECOMMENDATIONS OF THE BOARD OF AUDITORS

Introduction

1. The report of the Board of Auditors on the 1988 accounts and financial statements is contained in section II above. For ease of reference, the response of the Administration of UNFPA is presented below, following in the same order the pertinent paragraphs as they appear in the report of the Board of Auditors.
2. In general, we agree with most of the observations and, wherever needed, are following up on the recommendations. We greatly appreciate all the constructive comments that have been made in the past by the Board of Auditors, including those provided in the present report.

Financial statements

Exchange gains and losses (paras. 35-38)

3. As stated in the Board's report, we have agreed to include a note in the financial statements disclosing any material differences arising from the use of the United Nations operational rate of exchange as at 31 December 1988 and 1 January 1989. For comparative purposes, we also agreed to include the comparative amount as at 31 December 1987, using the United Nations operational rate of exchange as at 1 January 1988.

4. UNFPA investments denominated in currencies other than United States dollars are stated at year-end using the United Nations operational rate of exchange in existence as at 31 December 1988, as required by UNFPA Financial Rule 116.1 (d). This policy has been applied consistently from year to year. However, we concur with the observation made by the Board of Auditors that if there are exchange rate changes that occur during the last month of the financial year and that have significant impact on the value of assets and liabilities denominated in foreign currency, the United Nations operational rates should be reviewed to determine whether any further changes are required. As the auditors are aware, the United Nations operational rates of exchange are established by the United Nations Comptroller. As this is a matter that also affects the UNDP financial statements, we, in consultation with UNDP, shall bring the suggestion of the auditors to the attention of the United Nations Comptroller.

Miscellaneous income (para. 39)

5. We agree with the auditors' observation that Governments and non-governmental organizations, acting as executing agencies, should report interest income earned on operating funds and outstanding advances provided to them by UNFPA. As we are revising and updating our procedures, the suggestions of the Board of Auditors will be taken into account. With respect to miscellaneous income from accounts of United Nations executing agencies, we have included a revised "Miscellaneous income/expenditures schedule" in our instructions to executing agencies on the year-end closure of accounts. Agencies will be requested in 1989 as in 1988 to disclose and credit to UNFPA the interest income they might have derived from operating fund balances provided by UNFPA.

Programme expenditure

Programme expenditure executed by United Nations/ executing agencies (paras. 43-46)

6. At its thirty-sixth session (5 to 30 June 1989), the Governing Council recognized that the audit opinion on the accounts of UNFPA may remain qualified so long as audit confirmation of programme expenditures incurred by those organisations of the United Nations system which have adopted biennial auditing procedures has not been received by the Board of Auditors at the time the Board issues its opinion on the accounts. In order to resolve the problem, the Council requested the Executive Director, by its decisions 89/49 and 89/61, to submit to the Governing Council at its thirty-seventh session (1990), after review by the Advisory Committee on Administrative and Budgetary Questions, appropriate amendments to the United Nations Population Fund Financial Regulations which would provide that, beginning with the biennium 1990-1991, audited financial statements for the United Nations Population Fund shall be submitted to the General Assembly and to the Governing Council on a biennial basis and that, beginning in 1990, the Board of Auditors shall submit through the Advisory Committee on Administrative and Budgetary Questions to the General Assembly and to the Governing Council a report on their findings and recommendations resulting from the audit examination of substantive matters, including management issues, carried out in respect of the first year of each biennium.

7. Regarding the accounting of unliquidated obligations, as we have informed you before, UNFPA intends to follow the accounting practices put into effect by UNDP. The matter is still under review by UNDP and the executing agencies so as to determine whether any significant abuse of existing procedures existed.

Programme expenditure executed by Governments (paras. 47-51)

8. We have informed the Governing Council that UNFPA intends to follow, whenever applicable to UNFPA, the UNDP accounting, auditing and reporting procedures for government-executed projects approved by the Governing Council (see Council decision 88/18, para. 4). We shall continue, in consultation with the Governments concerned, as urged by the Council, to obtain adequate coverage of funds disbursed by Governments in their capacity as executing agencies for UNFPA-funded projects.

9. UNDP audit guidelines for projects executed by Governments are in the process of being finalized, taking into account suggested observations by the Board in order to meet audit standards acceptable for external audit purposes. We plan to adopt these guidelines, with the necessary modifications, and issue revised instructions accordingly.

Programme expenditure executed by non-governmental organizations (paras. 52-57)

10. The Governing Council recommended at its thirty-sixth session that UNFPA further strengthen its co-operation with non-governmental organizations. Given the specific nature of non-governmental organizations, appropriate accounting policies and procedures must be applied. As noted in the report of the Board of Auditors, we are currently preparing guidelines on accounting, auditing and reporting requirements applicable to non-governmental organizations-executed projects. Should the Financial Regulations need revisions and amendments, we shall proceed accordingly and request approval of the Governing Council, as necessary.

Programme support costs (paras. 58 and 59)

11. We take note of the Board's recommendation that the "Revised policy guidelines for assistance to non-governmental organisations" (UNFPA/CM/86/65 dated 14 November 1986) be supplemented with a paragraph providing for a reasonable ceiling on the rate of programme support costs charged by NGOs. We shall review this recommendation with a view to studying the pros and cons of its applicability.

Delineation between programme and administrative expenditure (paras. 60-64)

12. We are pleased to note the Board's observation concerning the improvements already made by UNFPA in the delineation between "programme" and "administrative" expenditures and we agree that further clarification is needed. We are presently trying to establish comprehensive guidelines clarifying the delineation between administrative, programme support and programme expenditure, with regard to areas other than personnel to determine which costs pertain to "programme" and which to "administrative". Work on this matter had started in 1988 and it was realized that further analysis would be required in order to minimize gray areas and to establish proper and effective guidelines. We agree that the principles agreed upon would have to be consistent with those of UNDP where, conceptually, the same difficulties may exist. With respect to the delineation on personnel issues, it should be noted that the guidelines approved by the Governing Council at its thirty-third session in 1986 (decision 86/35, para. 8) are being applied.

13. With respect to the example cited by the Board concerning travel costs of headquarters staff participating in an evaluation mission, the UNFPA practice since 1975 has been that these costs are seen and accounted for as project related. This matter has been discussed at length by the Governing Council, the last time in 1981, and no objection was raised by the Council ever since.

14. The second question raised by the auditors, whether the costs related to the participation of agencies' staff in backstopping missions are project costs or programme support costs, requires a more multi-faceted answer. According to current practice of UNFPA, which we believe to be similar to that of UNDP, backstopping missions of executing agencies are project related, since they refer to a specific, identifiable project. In the opinion of UNFPA, and as currently practised by most United Nations agencies, programme support costs are paid to agencies for the indirect costs of executing projects that cannot be directly related to a specific project. At the same time, it should be seen that it is not UNFPA, but the specific executing agency that determines the actual use of programme support costs. Moreover, negotiations on the definition and the amount of programme support costs will start soon, when a UNDP-supported study group on the subject has presented its recommendations.

15. With regard to interregional projects and the question raised in paragraphs 61 and 62 of the report of the Board of Auditors, whether they possibly contain administrative components, UNFPA reiterates the facts stated previously, orally and in writing:

(a) The two regular publications, Population and Populi, were financed from project funds as approved by specific decisions of the Governing Council;

(b) Other publications and audio-visual productions, totalling expenditure in 1988 of \$632,260, were financed from project funds as per Governing Council approval of 1988;

(c) Evaluation activities of \$509,014, which include experts and headquarters staff travel, have already been referred to above;

(d) Only the cost of \$203,391, mainly for staff training in the area of women in development and monitoring activities could be reasonably seen as belonging either to the programme or to the administrative area.

16. In paragraph 63 of the Board's report, the auditors thus conclude that \$1.6 million of project expenditures might be administrative related, leading to a potential understatement of administrative expenditures of 6.2 per cent. UNFPA is of the view that only the above-mentioned \$203,391 of expenditures for interregional projects could possibly be seen as administrative related, resulting in a potential under-reporting of administrative expenditures of seven-tenths of 1 per cent. This amount is not materially significant and thus does not justify a qualified audit opinion.

Schedule 4 (para. 65)

17. We will continue to present schedule 4 in the new improved format of the budget, as recommended by the Board.

Assets and liabilities

Operating funds provided by UNFPA to Governments (paras. 66-73)

18. We agree with the auditors' suggestion that the unspent balances in operating funds provided by UNFPA to Governments, which are denominated in foreign currencies, should be translated into United States dollars at the United Nations operational rate of exchange ruling as at 31 December.

19. In regard to cut-off rules, we welcome the comments of the Board of Auditors and, accordingly, we will reflect 1988 expenditures that were processed after the closing and that are material, as adjustments to prior years in the 1989 financial statements. We shall continue to remind Governments and field offices of the importance of submitting accurate and timely details of project expenditure incurred prior to the closure of the accounting ledgers.

Accounts payable (para. 74)

20. We take note of the auditors' comments which refer to factual information.

Contingent liabilities (para. 75)

21. Disclosure of contingent liabilities resulting from termination benefits in the notes to the financial statements will be considered for future years.

Trust funds accounts

22. We concur with the Board's observation in paragraph 76 that no expenditures should be incurred before trust funds have been made available in their entirety. In this connection, we have recently issued a circular informing the staff to abide by the financial regulations.

Accounting procedures and instructions

Cut-off rules (paras. 77 and 78)

23. We disagree with the auditors' observation that expenditures reported under programme IV of the administrative and programme support services budget may have been understated because field offices did not record unliquidated obligations. As a matter of fact, all field offices are requested to report unpaid items before the closing of the accounting ledgers. In most field offices in 1988, local expenditures were actually cash disbursements. As the auditors are aware, the accounting policy mandated by UNFPA is identical to that of UNDP and requires the application of the delivery principle for all categories of expenditure, with the exception of equipment and sub-contracts. In 1988, all international procurement for field offices was carried out by the Procurement Unit at headquarters. Decentralized procurement of goods and services for UNFPA field offices was authorized only on 25 January 1989 (circular UNFPA/CM/89/10/Add.1). In the future, we agree that any material amount reflecting local unpaid items should be disclosed in the notes to the financial statements and that all valid obligations which conform with the provisions of financial rule 114.1 shall be recorded.

Project accounting code structure (para. 79)

24. We agree with the Board's comments. Corrective actions have already been taken to bring up to date the project accounting code structure in both the UNDP/UNFPA account codes handbook and in the UNFPA computerized project allocation file.

Management issues

Liquidity position (para. 80)

25. The Board's comments are correct and factual. On the issue of the level of the operational reserve, as recommended by the Advisory Committee on Administrative and Budgetary Questions at its thirty-sixth session, the Governing Council reviewed the level of the operational reserve and agreed that its current level of approximately 25 per cent of projected annual contributions could and should be prudently reduced. The Council decided that, with effect from 1989, the level of the operational reserve shall be set at \$45 million and that the level of the reserve should be reviewed by the Council at its thirty-eighth session.

Investment management (para. 81)

26. Owing to pressure on the United Nations of carrying out all of its present responsibilities with fewer staff, the United Nations has requested UNFPA to consider the possibility of accepting responsibility for the placement of its own funds for investment. Furthermore, in the light of the recommendations contained in the reports of the Board of Auditors for the years 1987 and 1988 regarding the implementation of investment management, we recently had consultations with UNDP and the United Nations with a view to entrusting the UNDP Treasury Section with the responsibility of placing investment on behalf of UNFPA. In this manner, following the Board's suggestions, a single unit would act on our behalf on matters dealing with investment and cash management. As a result of these institutional arrangements, we are reviewing and revising the agreement that we have with UNDP

for accounting and financial services, as well as corresponding financial regulations and rules that need modifications.

Operational costs

Administrative and programme support services budget expenditure (paras. 83-85)

27. We are pleased to note, as stated in the Board's report, that budgetary procedures were substantially improved in 1988. We are aware of the weaknesses in the performance of the certifying function at the field level. We agree that corrective measures should be addressed within the context of the UNFPA/UNDP agreement, particularly on financial services, by the offices of the UNFPA representatives.

28. With respect to changes in the administrative and programme support services budget expenditures, the auditors note increases in programmes I and II. The observation is factually correct, but the likelihood of continued over-proportionate increases in these two programmes does not exist since the increases from 1987 to 1988 were exclusively due to organisational rearrangements at headquarters. As such, they are a one-time event.

Cost-effectiveness (para. 86)

29. The auditors observe correctly a decrease from 1987 to 1988 in the ratio of operational costs to project expenditures. The decrease amounts to 9.2 per cent and results from a significant increase in programme delivery. The Executive Director will continue to strive for increased programme delivery, while trying to keep administrative costs low. However, it should be noted that a 12-month period is too short to show clear trends, notably since efforts in increased programme delivery normally require a lead time of about two years to show results.

Project-funded services at headquarters (paras. 87 and 88)

30. Keeping in mind the background of discussions that led to Governing Council decision 86/35, UNFPA interprets that it requires the reporting of only those projects with posts with a duration of more than six months, plus all related or other expenditures, namely, short-term consultancy services, office rental, travel costs and the like. If, however, the Governing Council provides a different interpretation in line with that reflected in paragraph 87 of the auditors' report, UNFPA shall in future modify the information to be annexed to the budget document accordingly.

Management information services

Electronic data processing costs (paras. 90 and 91)

31. Most EDP costs, although not lumped together under one heading, can be obtained from the administrative and programme support services budget document, while others are part of larger components dealing with the same type of services. However, we agree that the administrative and programme support services budget document should have a management information services (MIS) heading where all related inputs are summarized. We will request UNDP to provide a detailed breakdown of the tasks performed for UNFPA on the UNDP mainframe.

Electronic data processing systems (paras. 92 and 93)

32. The UNFPA paper entitled "Strategy for office automation, including the development of a management information system" was prepared in consultation with UNDP/MIS. Application development in various areas mentioned in the above paper, which was approved by the 1989 session of the Governing Council, takes into consideration the work done in those areas by UNDP. The Funds Control System, for instance, is actually developed by UNDP for the Office for Project Services (OPS) and UNFPA has already started its adaptation to UNFPA's specific requirements. In the same manner, the Field Office Accounting System (FOAS), developed by the Division of Management Information Services, has undergone some evaluation in UNFPA. It has been found that there are specific requirements that the FOAS at the present does not meet. UNFPA intends to use the same structure and existing procedures in the field office accounting system and therefore intends to adapt the FOAS to its needs with additional enhancements.

33. In conjunction with the paper entitled "Strategy for office automation, including the development of a management information system", another paper, "Technical supplementary notes" was prepared and distributed as an unofficial document. The paper provides a description of the various activities to be undertaken, their anticipated costs and forecasted benefits. Some of these applications are totally new and will provide the type of information that is required for increasing the effectiveness of the Fund's operation. Other applications that exist and that are to be enhanced will make the financial data available on a more timely and accurate basis, will eliminate multi-sources of data that may not normally agree and will reduce the time-lag between the availability of such figures between headquarters and the field offices.

UNFPA/UNDP relationship

Financial services (para. 95)

34. We have noted the views of the Board of Auditors on the weaknesses in budgetary control and, jointly with UNDP, we will undertake to take corrective measures to implement the agreement at the field level.

Personnel management (para. 96)

35. UNFPA has made progress with UNDP towards concluding an agreement on the delineation of personnel responsibilities between the UNFPA Personnel Branch and the UNDP Division of Personnel. A comprehensive report, which will provide the framework for negotiations between the two organizations, has been prepared by an outside consultant. It is expected that an agreement with UNDP on this matter will be reached in the near future. It is hoped that its outcome would enable the UNFPA Personnel Branch to be fully responsible for issues such as planning, recruiting and managing of UNFPA human resources.

Programme management

Authorization of the allocation of funds to projects (paras. 97 and 98)

36. We concur with the audit observation that pertinent financial regulations and rules should be revised. Since the Governing Council approved in June 1989 the new planning procedures contained in DP/1989/34, they will be modified accordingly.

37. We agree that the proportion of operational costs (administrative and programme support services expenditure plus programme support costs) as compared to programme expenditure has increased in recent years. This mainly results from the transfer of certain headquarters and field programme support costs to the administrative and programme support services budget, as approved by the Governing Council. We are of the opinion that, with the decentralization of approval and the strengthening of field offices, along with increased technical capabilities of the Fund to improve the effectiveness and quality of programmes, the operational costs vis-à-vis the programme expenditures may continue to rise temporarily in the short run. However, in the long term, with the projected increase in resources, this trend may reverse its course. Reasons for variations are described, for example, in the Biennial budget estimate for the administrative and programme support services for the 1990-91 biennium (see DP/1989/41, paras. 9-18).

38. With regard to the auditors' observation on the issue that carry-forwards from the previous years are not estimated and reflected in the Work Plan, we would like to indicate that this shortcoming has been corrected in the most recent presentation of the Work Plan (DP/1989/34). For example, table I of DP/1989/34 includes carry-forwards of resources from 1989 to 1990 to be used.

39. We share the concern of the External Auditors that the expenditure should not exceed the resources available for programming. Therefore, as mentioned in document DP/1989/34, the Administration will continue to set a programme ceiling to monitor the level of allocations to achieve maximum resource utilization by the end of each year. The programme allocation ceiling will be set so as to reflect more closely the programme dynamics in various regions and various countries, taking into account revised income projections. With a view to reflecting the new planning system in our rules, Financial Rule 108.1 will be revised accordingly.

40. The Governing Council approved in June 1989 the proposed framework for the authorization of allocation of funds to projects (decision 89/46 B). As endorsed by the Council, the Fund will continue to use the programme ceiling level as an internal management tool as mentioned above. In addition, partial use of "carry-forwards" from the previous year is included in the UNFPA Work Plan as approved by the Council that contains the distribution of programmable resources between country and intercountry activities. The new procedure approved by the Governing Council facilitates maximum utilization of programme resources and is still in line with UNFPA Financial Regulation 8.1, which stipulates that the Executive Director shall plan for the delivery of UNFPA assistance to projects at rates expected to achieve the approval levels in the UNFPA Work Plan. As indicated in the previous paragraph, the subsidiary rule 108.1 on estimates of resources and project allocation levels will be revised accordingly.

Index of resource utilization (para. 99)

41. We concur with the audit observation that the date of estimating total programmable resources and consistent application of such are important.

Allocations of funds to "priority countries" (paras. 100 and 101)

42. We wish to reiterate that financial allocation of resources to individual countries is determined by two complementary sets of criteria: first, the priority countries as a group should together receive 80 per cent of country programme resources and the remaining 20 per cent by other countries, as a group; and second, within each group, the actual levels of funding to individual countries are determined by a set of eight criteria that were approved by the Governing Council in June 1981. This combined approach helps UNFPA to allocate, on a per capita basis, larger amounts of funds to priority countries, as well as enables the Fund to concentrate the bulk of its resources on a group of priority countries. Thus, the priority countries system is undoubtedly a resource allocation strategy.

43. The Governing Council, at its thirty-fifth session, held from 6 June to 1 July 1988, underlined that the goal of allocation of 80 per cent of country programme resources to priority countries should be achieved during the next three-to-five years, with the least disruption caused to ongoing programmes. In order to implement this instruction correctly, UNFPA decided that the new system is applicable effective 1 January 1989.

44. It should be noted that of all allocations to countries in sub-Saharan Africa in 1988, 82.4 per cent were to priority countries. In addition, we wish to point out that the 80 per cent target is a world-wide goal and not meant for individual regions only. Therefore, an analysis to measure the achievements of a priority system based only on selective or individual countries would be inaccurate.

Information and External Relations Division

Management of projects (paras. 103-105)

45. The "State of the world population report" is a programme whose dimensions are defined each year in response to changing needs. This programme consists of various interrelated activities composed of several projects. Therefore, projects with different titles and identification numbers are required to keep track of any given activity over time. There is absolutely no intention of concealing any expenses. Cost increases are largely due to additional activities, since the report is now issued in several languages along with an exhibition and accompanying publicity kits.

Circulation of publications of the Information and External Relations Division (para. 106)

46. We do not agree that the Information and External Relations Division does not assess the impact of the publications. By surveys of 1985 and 1988, all readers were asked their opinion on the publications Population and Populi. Further analysis will be made when the 1988 survey is evaluated, thus resulting in expected improvements of the publications in future.

Co-ordination with the Population Division of the Department of International Economic and Social Affairs of the United Nations Secretariat (para. 107)

47. The UNFPA/Department of International Economic and Social Affairs Steering Committee was set up to enhance co-operation between the Fund and the various units

of the Department. UNFPA has always had extensive collaboration with two Department units, namely, all sections of the Population Division and certain branches of the Statistical Office. It was recognized that these, because of the nature of their work programme, would remain the principal points of contact; it was felt that it would be useful to broaden the Fund's interaction with other units of the Department - for example, with the Development Analysis Branch, the Projections and Perspective Studies Branch, and the National Accounts and Special Projects Branch (in the Statistical Office). The underlying rationale for expanding the relationship was the mutual recognition of intrinsic interrelationships between population trends and economic and social development patterns. UNFPA can utilize the economic work done by the Department; for its part, the Department can draw on the findings of UNFPA-sponsored research and operational experience in carrying out its work.

48. One of the objectives of the Steering Committee was to identify activities for ongoing joint co-operation and, as appropriate, for jointly financed projects. The former is exemplified in the co-operation the Department has extended to the UNFPA effort to build up the data bases in its management information services (MIS); the latter is exemplified in the approval and implementation of INT/88/P66 - "Complementarity and conflict among population and other policies: development of policy models and their application".

49. Concerning the population award, we wish to reiterate that the annual population growth rate figure was the one contained in the formal nomination papers which represented official government statistics. There are several instances where government and United Nations statistics do not necessarily coincide because the government figures may be more recent and updated.

Contracts issued on behalf of the Information and External Relations Division (paras. 108 and 109)

50. We reiterate that UNFPA will review the practices and procedures in effect in other United Nations organizations, with a view to developing its own contractual procedures geared to meeting the unique requirements of contracts related to publications and audio-visual productions.

Relationship with executing agencies

United Nations agencies (paras. 110-113)

51. The field office's involvement in the entire UNFPA-funded programme is essential to monitor and facilitate the implementation of the programme and ensure that both executing agencies and the Government adhere to project objectives and the Work Plan. For executing agencies which do not have resident representation, some of the burdens are undertaken by the Country Director's office.

52. The standard executing agency fee of 13 per cent for programme support costs is a charge agreed to by the Governing Council, and the issue is currently being re-examined by an expert group.

53. Procurement of equipment is done on a case-by-case basis, although sometimes the judgement perhaps has not always been on the cost-effective criteria, but on other factors.

54. We wish to inform the Board of Auditors that the package of interregional projects, including those located at the headquarters of executing agencies, had been approved by the Governing Council in June 1988. In addition, a report on the implementation of this programme was reviewed by the Governing Council in June 1989.

Governments (para. 114)

55. We take note of the suggestion of the Board of Auditors concerning direct payment procedure instead of the "advance" procedure and will consult with UNDP on this matter.

Misappropriation of technical assistance (paras. 115 and 116)

56. In the case where equipment provided under one UNFPA project was used not entirely in accordance with the provisions of the project document, the procurement was temporarily suspended and was resumed after corrective action was taken.

57. The payment of salaries and daily subsistence allowance to local staff is in line with the present practice agreed upon with the service department. We understand that UNDP is in the process of negotiating with the Government concerned to modify this agreement. UNFPA will then follow the new arrangements reached.

Non-expendable property (para. 117)

58. We note the comment made by the Board of Auditors on the omission of the value of non-expendable property in the financial statements reports. We are now in the process of adjusting the work arrangement in the Division, which should enable us to comply with the Board's recommendation in the future. The actual transfer of responsibility of the inventory of field non-expendable property from the Finance Branch to the Administrative Branch has not yet occurred owing to a shortage of staff. It is expected that this will take place in the near future and, consequently, improvements in the taking of field inventories will be forthcoming.

IV. AUDIT OPINION

We have examined the following appended financial statements, numbered I to IV, properly identified, and relevant schedules of the United Nations Population Fund for the financial period ended 31 December 1988. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances, except as explained in paragraphs 57 and 59 of our report.

In our opinion, except for programme expenditure and programme support costs expenditure, which were not supported by adequate audit evidence, and subject to the revaluation of administrative and programme support services expenditure that might result from a clarification of the delineation between administrative and programme expenditure, as explained in paragraph 63 of our report, the financial statements present fairly the financial position of the organisation as at the end of the period and the results of its operations for the period then ended.

The financial statements have been prepared in accordance with the stated accounting policies, which have been applied on a basis consistent with that of the preceding financial period except for the change in accounting policy, with which we concur, in respect of advances to Governments, as explained in note 1 to the financial statements. As described in paragraph 77 of our report and in note 1 to the financial statements, stated accounting policies differ in some respect from generally accepted accounting principles. Transactions were in accordance with the Financial Regulations and legislative authority.

(Signed) Eufemio C. DOMINGO
Chairman, Commission on Audit,
the Philippines

(Signed) André CHANDERNAGOR
Senior President
Court of Accounts of France
(Cour des Comptes)

(Signed) J. K. GHANSAH
Acting Auditor General of Ghana

V. CERTIFICATION OF THE FINANCIAL STATEMENTS

28 April 1989

I certify that, to the best of my knowledge, information and belief, all material transactions have been properly charged in the accounting records and are properly reflected in the appended financial statements, numbered I to IV, and supporting schedules, numbered 1 to 9.

(Signed) M. Douglas STAFFORD
Director
Division of Finance
United Nations Development Programme

VI. FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1988

STATEMENT I

UNITED NATIONS POPULATION FUND

Statement of income and expenditure for the year ended 31 December 1988

(United States dollars)

1987		1988
INCOME		
Contributions from Governments		
149 299 557	Pledges for current years (schedule 1)	167 333 800
(233 361)	Additions and adjustments to pledges for prior years (net) (schedule 1)	37 236
<u>(1 138 178)</u>	Exchange adjustments on collection of contributions (note 1 (c))	<u>(2 310 481)</u>
147 928 018		165 060 555
3 737	Donations	862
<u>8 118 602</u>	Miscellaneous income (schedule 2)	<u>12 934 954</u>
<u>156 050 357</u>	TOTAL INCOME (statement IV)	<u>177 996 371</u>
EXPENDITURE		
Programme expenditure		
60 845 001	By United Nations executing agencies (schedule 3)	68 900 477
31 273 963	By Governments (schedule 3)	14 094 936
10 276 122	By United Nations Population Fund (schedule 3)	28 563 601
<u>14 592 475</u>	By non-governmental organizations (schedule 3)	<u>18 273 484</u>
<u>106 987 561</u>		<u>129 832 498</u>
Agency support costs		
7 292 878	By United Nations executing agencies (schedule 3)	8 356 177
1 063 713	By Governments (schedule 3)	705 269
290 442	By United Nations Population Fund (schedule 3)	1 099 942
<u>439 505</u>	By non-governmental organizations (schedule 3)	<u>563 001</u>
<u>9 086 538</u>		<u>10 724 389</u>
<u>24 402 703</u>	Administrative and programme support services biennial budget expenditure (net) (schedule 4)	<u>26 655 682</u>
<u>140 476 802</u>	TOTAL EXPENDITURE (statement IV)	<u>167 212 569</u>
<u>15 573 555</u>	EXCESS OF INCOME OVER EXPENDITURE (statement III)	<u>10 783 802</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT II

UNITED NATIONS POPULATION FUND

Statement of assets and liabilities as at 31 December 1988

(United States dollars)

1987		1988
ASSETS		
Cash and investments		
6 917 797	Convertible currencies	1 028 435
<u>47 552 847</u>	Investments (schedule 5)	<u>75 573 407</u>
<u>54 470 644</u>	(statement IV)	<u>76 601 842</u>
Advances and accounts receivable		
169 246	Non-convertible currencies pending United States dollar credit from UNDP (note 2)	249 228
4 068 819	Operating funds provided by UNFPA to executing agencies (note 4)	5 295 370
-	Operating funds provided by UNFPA to Governments (note 1 (e))	10 062 916
2 070 963	Due from UNDP	-
498 734	Accounts receivable and deferred charges	256 688
<u>181 455</u>	Accrued interest	<u>808 361</u>
<u>6 989 217</u>		<u>16 672 563</u>
<u>1 247 466</u>	Pledges receivable from Governments for current and prior years (schedule 1 and note 3)	<u>604 586</u>
<u>37 000 000</u>	Investments of the operational reserve (schedule 5)	<u>40 000 000</u>
<u>99 707 327</u>		<u>133 878 991</u>
LIABILITIES, RESERVES AND UNEXPENDED RESOURCES		
Liabilities		
2 254 468	Accounts payable	3 648 239
3 916 299	Operating funds payable by UNFPA to executing agencies (note 4)	6 704 381
28 766 368	Unliquidated obligations of executing agencies (note 4)	38 120 390
-	Due to UNDP	4 156 186
<u>3 707 583</u>	Due to UNFPA trust funds (schedule 7)	<u>9 403 384</u>
<u>38 644 718</u>		<u>62 032 580</u>
37 000 000	Operational reserve (note 5)	40 000 000
<u>24 062 609</u>	Unexpended balance of general resources (statement III)	<u>31 846 411</u>
<u>99 707 327</u>		<u>133 878 991</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT III

UNITED NATIONS POPULATION FUND

Statement of general resources as at 31 December 1988

(United States dollars)

1987		1988
15 489 054	Balance as at 1 January 1988	24 062 609
<u>15 573 555</u>	Add: Excess of income over expenditure (statement I)	<u>10 783 802</u>
31 062 609		34 846 411
<u>7 000 000</u>	Less: Transfer to operational reserve (note 5)	<u>3 000 000</u>
<u>24 062 609</u>	Balance as at 31 December 1988 (statement II and note 6)	<u>31 846 411</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT IV

UNITED NATIONS POPULATION FUND

Statement of changes in the financial position for the year
ended 31 December 1988

(United States dollars)

1987		1988
SOURCE OF FUNDS		
156 050 357	Total income for the year (statement I)	177 996 371
	Increase in operating funds	
2 079 630	payable to executing agencies	2 788 082
	Decrease in pledges receivable	
284 189	from Governments	642 880
-	Increase in other liabilities	16 443 594
-	Decrease in funds provided to UNDP	2 070 963
-	Increase in funds payable to UNDP	<u>4 156 186</u>
<u>158 414 176</u>	<u>Total funds provided</u>	<u>204 098 076</u>
APPLICATION OF FUNDS		
140 470 802	Total expenditure for the year (statement I)	167 212 569
7 082 002	Decrease in liabilities	-
289 229	Increase in other receivables	464 842
1 650 882	Increase in funds provided to UNDP	-
	Increase in operating funds	
	provided to Governments for	
	executing UNFPA projects	10 062 916
	Increase in operating funds	
	provided to executing agencies	1 226 551
1 286 694	Increase in operational reserve	<u>3 000 000</u>
<u>7 000 000</u>		
<u>157 785 609</u>	<u>Total funds used</u>	<u>181 966 878</u>
<u>628 567</u>	<u>INCREASE IN CASH AND INVESTMENTS</u>	<u>22 131 198</u>
	Cash and investments at beginning	
53 842 077	of year a/	54 470 644
<u>628 567</u>	Increase in cash and investments	<u>22 131 198</u>
	Cash and investments at end of	
<u>54 470 644</u>	year a/ (statement II)	<u>76 601 842</u>

The accompanying notes are an integral part of the financial statements.

a/ Excluding the investments of the operational reserve.

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SCHEDULES TO THE FINANCIAL STATEMENTS

SCHEDULE 1

UNITED NATIONS POPULATION FUND

Status of voluntary contributions pledged as at 31 December 1988

(United States dollars)

Donor	Balance due as at 1 January 1988 for 1987 and prior years	Additions and adjustments for 1987 and prior years	Pledges for 1988	Pledges for 1989 and future years			Payments received	Unpaid pledges as at 31 December 1988	Composition of balance due	
				Local currency	United States dollars	Total			For 1988 and prior years	For 1989 and future years
Afghanistan	-	-	2 000	-	2 760	4 760	2 000	2 760	-	2 760
Albania	-	-	1 833	12 000	2 000	3 833	-	3 833	1 833	2 000
Algeria	-	-	30 000	-	-	30 000	-	30 000	30 000	-
Angola	-	-	500	-	-	500	-	500	500	-
Australia	-	-	469 040	680 000	591 304	1 060 344	469 040	591 304	-	591 304
Austria	-	-	150 000	-	150 000	300 000	150 000	150 000	-	150 000
Bahamas	-	-	2 200	-	-	2 200	2 200	-	-	-
Bangladesh	18 087	-	18 087	-	18 087	54 261	18 087	36 174	18 087	18 087
Barbados	-	-	3 000	-	3 000	6 000	3 000	3 000	-	3 000
Belgium	634 006	64 531	687 517	24 900 000	689 751	2 075 805	1 386 054	689 751	-	689 751
Benin	-	-	500	-	-	500	-	-	-	-
Bhutan	-	-	2 600	-	2 600	5 200	2 600	2 600	-	2 600
Bolivia	20 600	-	5 000	-	4 000	29 600	-	29 600	25 600	4 000
Botswana	-	-	1 000	-	-	1 000	1 000	-	-	-
Brazil	-	-	10 000	-	10 000	20 000	10 000	10 000	-	10 000
Bulgaria	-	-	20 588	50 000	29 412	50 000	-	50 000	20 588	29 412
Burkina Faso	8 835	(303)	-	-	-	8 532	-	8 532	8 532	-
Burma	-	-	7 874	-	7 874	15 748	7 874	7 874	-	7 874
Burundi	5 084	134	-	-	-	5 218	5 218	-	-	-
Cameroon	7 067	(241)	-	1 000 000	3 413	10 239	-	10 239	6 826	3 413
Canada	-	-	10 871 926	-	-	10 871 926	10 871 926	-	-	-
Central African Republic	-	-	-	900 000	3 072	3 072	-	3 072	-	3 072
Chile	5 000	-	5 000	-	5 000	15 000	5 000	10 000	5 000	5 000
China	-	-	600 000	-	650 000	1 250 000	600 000	650 000	-	650 000
Colombia	(234)	a/	40 000	a/	40 000	79 766	41 768	37 998	-	37 998
Comoros	3 534	(121)	-	-	-	3 413	-	3 413	3 413	-
Cook Islands	-	2 168	-	-	-	2 168	2 168	-	-	-
Cyprus	-	-	750	-	750	1 500	750	750	-	750
Czechoslovakia	-	-	-	250 000	26 596	26 596	-	26 596	-	26 596
Democratic People's Republic of Korea	-	-	9 132	30 000	13 636	22 768	9 132	13 636	-	13 636
Democratic Yemen	4 200	-	2 783	-	2 783	9 766	-	9 766	6 983	2 783
Denmark	-	-	11 221 366	-	-	11 221 366	11 221 366	-	-	-
Ecuador	44 000	-	22 000	-	-	66 000	-	66 000	66 000	-
Egypt	-	-	81 078	188 100	81 078	162 156	81 078	81 078	-	81 078
El Salvador	-	-	5 000	-	-	5 000	5 000	-	-	-
Equatorial Guinea	-	-	-	-	23 208	23 208	-	23 208	-	23 208

SCHEDULE 1 (continued)

Donor	Balance due as at 1 January 1988 for 1987 and prior years	Additions and adjustments for 1987 and prior years	Pledges for 1988	Pledges for 1989 and future years			Payments received	Unpaid pledges as at 31 December 1988	Composition of balance due	
				Local currency	United States dollars	Total			For 1988 and prior years	For 1989 and future years
Fiji	-	-	1 460	2 000	1 460	2 920	-	2 920	1 460	1 460
Finland	-	-	10 396 040	63 000 000	15 365 854	25 761 894	10 396 040	15 365 854	-	15 365 854
France	-	-	346 457	4 400 000	750 853	1 097 310	346 457	750 853	-	750 853
Germany, Federal Republic of	-	-	22 450 343	39 000 000	22 674 419	45 124 762	22 450 343	22 674 419	-	22 674 419
Ghana	-	-	5 000	-	5 000	10 000	5 000	5 000	-	5 000
Greece	-	-	5 000	-	5 000	10 000	5 000	5 000	-	5 000
Guatemala	6 961	(109)	-	-	1 000	7 852	1 961	5 891	4 891	1 000
Guyana	421	-	484	5 072	508	1 413	905	508	-	508
Bahiti	-	2 000	-	-	-	2 000	2 000	-	-	-
Honduras	-	-	10 000	20 000	10 000	20 000	10 000	10 000	-	10 000
Hungary	-	-	20 986	1 100 000	20 370	41 356	20 986	20 370	-	20 370
Iceland	2 600	-	2 137	-	2 500	7 237	-	7 237	4 737	2 500
India	-	-	435 098	6 000 000	400 802	835 920	435 098	400 802	-	400 802
Indonesia	-	-	150 000	-	150 000	300 000	150 000	150 000	-	150 000
Italy	-	-	2 859 749	4 000 000 000	3 112 840	5 972 589	2 859 749	3 112 840	-	3 112 840
Jamaica	(1 813)	a/	1 832	10 000	1 832	1 851	-	1 851	19	1 832
Japan	-	-	38 250 000	-	-	38 250 000	38 250 000	-	-	-
Jordan	-	-	22 000	-	22 000	44 000	22 000	22 000	-	22 000
Kenya	10 588	(731)	2 480	50 000	2 732	15 069	2 500	12 569	9 837	2 732
Kuwait	25 000	-	5 000	-	5 000	35 000	5 000	30 000	25 000	5 000
Lao People's Democratic Republic	500	-	500	-	500	1 500	-	1 500	1 000	500
Lesotho	-	-	1 186	2 800	1 186	2 372	-	2 372	1 186	1 186
Liberia	53 000	-	2 000	-	-	55 000	-	55 000	55 000	-
Luxembourg	25 408	(468)	13 850	500 000	13 850	52 640	19 907	32 733	18 883	13 850
Madagascar	15 754	-	3 000	-	3 000	21 754	2 960	18 794	15 794	3 000
Malawi	-	-	607	-	-	607	607	-	-	-
Malaysia	15 000	-	15 000	-	15 000	45 000	30 000	15 000	-	15 000
Maldives	-	-	1 000	-	1 200	2 200	1 000	1 200	-	1 200
Mali	500	-	-	-	-	500	-	500	500	-
Malta	-	-	637	-	-	637	637	-	-	-
Mauritius	-	6 881	-	-	-	6 881	6 881	-	-	-
Mexico	(3 725)	a/	4 167	1 700	567	1 183	471	567	-	567
Mongolia	-	-	616	-	-	616	616	-	-	-
Morocco	4 000	6 296	6 014	-	6 000	22 310	12 310	10 000	4 000	6 000
Nepal	-	-	3 750	3 750	3 750	7 500	3 750	3 750	-	3 750
Netherlands	-	-	20 986 099	46 200 000	23 692 308	44 678 407	20 986 099	23 692 308	-	23 692 308
New Zealand	-	-	265 500	-	-	265 500	265 500	-	-	-
Nicaragua	-	-	500	-	-	500	-	500	-	-
Niger	-	-	1 500	-	-	1 500	-	1 500	1 500	-
Nigeria	-	-	-	200 000	25 641	25 641	-	25 641	-	25 641
Norway	-	-	17 963 684	134 936 000	20 759 385	38 723 069	17 963 684	20 759 385	-	20 759 385
Oman	10 000	-	-	-	-	10 000	-	10 000	10 000	-
Pakistan	818	-	500 000	-	500 000	1 000 818	500 000	500 818	818	500 000
Paraguay	1 000	-	1 500	1 500	1 500	4 000	1 500	2 500	1 000	1 500

SCHEDULE 1 (continued)

Donor	Balance due as at 1 January 1988 for 1987 and prior years	Additions and adjustments for 1987 and prior years	Pledges for 1988	Pledges for 1989 and future years			Payments received	Unpaid pledges as at 31 December 1988	Composition of balance due	
				Local currency	United States dollars	Total			For 1988 and prior years	For 1989 and future years
Papua New Guinea	1 705	154	-	-	-	1 859	-	1 859	1 859	-
Paraguay	45 000	-	-	-	20 000	65 000	45 000	20 000	-	20 000
Peru	25 000	-	-	-	-	25 000	-	25 000	25 000	-
Philippines	(2 052) a/	-	61 680 a/	1 000 000	47 393	107 021	64 413 b/	42 608	-	42 608
Poland	-	-	6 183	3 000 000	6 148	12 331	6 183	6 148	-	6 148
Portugal	20 000	-	23 000	-	23 000	66 000	-	66 000	43 000	23 000
Saint Kitts and Nevis	1 039	-	1 000	-	-	2 039	1 033	1 006	1 006	-
Saint Vincent and the Grenadines	-	500	500	-	-	1 000	1 000	-	-	-
Saint Lucia	500	500	500	-	-	1 500	1 500	-	-	-
Sao Tome and Principe	-	2 152	-	-	-	2 152	2 152	-	-	-
Saudi Arabia	-	-	30 000	-	30 000	60 000	30 000	30 000	-	30 000
Senegal	124 253	-	5 000	-	-	129 253	-	129 253	129 253	-
Seychelles	(300) a/	-	300 a/	-	-	-	-	-	-	-
Sierra Leone	109	(45)	-	-	-	64	-	64	64	-
Solomon Islands	1 500	-	-	-	-	1 500	500	1 000	1 000	-
Somalia	778	(476)	392	100 000	392	1 086	-	1 086	694	392
Spain	-	-	203 805	27 000 000	238 938	442 743	203 805	238 938	-	238 938
Sri Lanka	-	-	10 000	-	10 000	20 000	10 000	10 000	-	10 000
Sudan	10 834	-	25 313	112 500	25 568	61 715	25 313	36 402	10 834	25 568
Swaziland	-	-	-	2 000	847	847	-	847	-	847
Sweden	-	-	13 389 147	85 000 000	14 166 667	27 555 814	13 389 147	14 166 667	-	14 166 667
Switzerland	-	-	4 400 000	7 300 000	5 069 444	9 469 444	4 400 000	5 069 444	-	5 069 444
Thailand	-	-	50 000	-	50 000	100 000	50 000	50 000	-	50 000
Togo	10 601	37	10 239	-	-	20 877	10 638	10 239	10 239	-
Trust Territory of the Pacific Islands	-	-	1 000	-	1 000	2 000	2 000 b/	-	-	-
Tunisia	239	6	20 498	17 249	19 736	40 479	20 743	19 736	-	19 736
Turkey	-	-	20 000	-	10 000	30 000	20 000	10 000	-	10 000
Uganda	45 000	(44 550)	1 863	-	-	2 313	450	1 863	1 863	-
Union of Soviet Socialist Republics	-	-	502 998	326 000	532 680	1 035 678	502 998	532 680	-	532 680
United Kingdom of Great Britain and Northern Ireland	-	-	9 496 776	5 500 000	10 128 913	19 625 689	9 496 776	10 128 913	-	10 128 913
United Republic of Tanzania	4 167	(941)	4 167	-	-	7 393	3 226	4 167	4 167	-
Vanuatu	-	-	-	-	5 000	5 000	-	5 000	-	5 000
Viet Nam	1 500	-	1 500	-	1 500	4 500	3 000	1 500	-	1 500
Yemen Arab Republic	9 390	-	2 850	-	3 078	15 318	9 390	5 928	2 850	3 078
Yugoslavia	-	-	369	-	-	369	369	-	-	-
Zaire	21 500	-	1 000	-	1 000	23 500	-	23 500	22 500	1 000

SCHEDULE 1 (concluded)

Donor	Balance due as at 1 January 1988 for 1987 and prior years	Additions and adjustments for 1987 and prior years	Pledges for 1988	Pledges for 1989 and future years			Payments received	Unpaid pledges as at 31 December 1988	Composition of balance due	
				Local currency	United States dollars	Total			For 1988 and prior years	For 1989 and future years
Zambia	509	-	-	-	-	509	509	-	-	-
Zimbabwe	1 437	(167)	2 328	5 200	2 751	6 349	2 328	4 021	1 270	2 751
Total	<u>1 238 900</u> a/	<u>37 236</u>	<u>167 333 800</u> a/	<u>-</u>	<u>120 365 805</u>	<u>288 975 741</u>	<u>168 013 137</u>	<u>120 962 604</u>	<u>604 586</u>	<u>120 358 018</u>

(statement I)

(statement II and note 3)

a/ Includes 1988 pledges received in 1987.

b/ Includes the following amounts received in 1988 for 1989 pledges:

	<u>Local currency</u>	<u>United States dollar equivalent</u>
Colombia	-	2 002
Philippines	100 971	4 785
Trust Territory of the Pacific Islands	-	1 000
		<u>7 787</u>

SCHEDULE 2

UNITED NATIONS POPULATION FUND

Miscellaneous income and expenditure for the year ended
31 December 1988

General resources

(United States dollars)

1987		1988
4 360 170	Interest income from investments	5 258 100
401 061	Miscellaneous income from accounts of executing agencies - net	575 145
3 310 245	Net adjustments on revaluation of currencies and gains/losses on exchange other than contributions	6 343 331
-	(note 1 (c)) Savings in liquidating obligations of prior biennium	540 433
<u>47 126</u>	Other income - net	<u>217 945</u>
<u>8 118 602</u>	Total income - net	<u>12 934 954</u>
	(statement I)	

SCHEDULE 3

UNITED NATIONS POPULATION FUND

1988 expenditure by United Nations agencies, Governments and non-governmental organizations

(United States dollars)

	Personnel services	Sub-contracts	Training (fellowships)	Equipment and supplies	Miscellaneous	Total programme expenditure	Agency support costs	Total
United Nations (Department of International Economic and Social Affairs)	576 164	30 221	82 155	24 136	5 506	710 82	90 114	808 296
United Nations (Department of Technical Co-operation for Development)	7 946 179	575 138	4 778 260	5 884 643	1 100 775	20 284 995	2 624 464	22 909 459
ECE	266 155	-	25 062	-	4 544	295 761	38 449	334 210
ESCAP	879 693	67 697	272 952	109 204	84 470	1 414 016 <u>a/</u>	183 822 <u>b/</u>	1 597 838
ECLAC	1 292 700	42 624	162 576	252 497	67 271	1 817 668	236 297	2 053 965
ECA	2 475 237	23 034	574 280	156 843	151 918	3 381 312 <u>c/</u>	439 981 <u>d/</u>	3 821 293
ESCWA	585 217	-	-	12 600	10 864	608 681	79 129	687 810
ILO	4 608 773	262 052	1 165 008	1 301 438	38 419	7 375 690 <u>e/</u>	958 840 <u>f/</u>	8 334 530
FAO	1 616 968	223 620	185 979	230 303	75 373	2 332 243	260 686	2 592 929
UNEP	19 210	-	-	-	-	19 210	-	19 210
UNESCO	3 267 529	560 754	2 139 009	1 122 111	541 057	7 630 460	919 162	8 549 622
WHO	4 987 521	4 311 499	4 844 422	7 071 702	542 410	21 757 554	2 405 982	24 163 536
UNICEF	52 051	-	-	93 084	3 333	148 468	-	148 468
UNIDO	(2 017)	-	1 993	-	1 722	1 698	221	1 919
UNDP-Office for Projects Services	<u>238 587</u>	<u>89 114</u>	<u>408 957</u>	<u>346 584</u>	<u>31 297</u>	<u>1 114 539</u>	<u>119 030</u>	<u>1 233 569</u>
United Nations executing agencies, total	28 809 967	6 185 753	14 640 653	16 605 145	2 658 959	68 900 477	8 356 177	77 256 654
Governments	2 369 063	2 064 065	2 731 003	6 198 226	732 579	14 094 936	705 269	14 800 205
UNFPA	2 691 225	1 097 974	969 847	22 943 490	861 065	28 563 601 <u>g/</u>	1 099 942	29 663 543
Non-governmental organizations	<u>3 906 984</u>	<u>2 231 140</u>	<u>5 001 925</u>	<u>5 305 620</u>	<u>1 827 815</u>	<u>18 273 484</u>	<u>563 001</u>	<u>18 836 485</u>
Total	<u>37 777 239</u>	<u>11 578 932</u>	<u>23 343 428</u>	<u>51 052 481</u>	<u>6 080 418</u>	<u>129 832 498 <u>h/</u></u>	<u>10 724 389 <u>h/</u></u>	<u>140 556 887</u>

(schedule 8)

(Footnotes on following page)

(Footnotes to table)

a/ Reduced by \$3,005 relating to adjustment of prior year's programme expenditure.

b/ Reduced by \$390 relating to adjustment of prior year's agency support costs.

c/ Increased by \$138,106 relating to adjustment of prior year's programme expenditure.

d/ Increased by \$17,954 relating to adjustment of prior year's agency support costs.

e/ Reduced by \$246,290 relating to adjustment of prior year's programme expenditure.

f/ Reduced by \$32,018 relating to adjustment of prior year's agency support costs.

g/ Includes UNFPA procurement assistance in respect of Government projects amounting to \$22 million.

h/ Statement I.

SCHEDULE 4

UNITED NATIONS POPULATION FUND

Administrative and programme support services budget appropriations for the biennium
1988-1989 and expenditure for the year ended 31 December 1988

(United States dollars)

Programme	Appropriations for 1988-1989 <u>a/</u>	Disbursements 1988	Expenditure in 1988		Unencumbered balance as at 31 December 1988
			Unliquidated obligations as at 31 December 1988	Total expenditure <u>b/</u> 1988	
I. Executive direction and management	7 581 700	3 226 523	133 106	3 359 629	4 222 071
II. Administrative and information support services	15 426 900	7 050 745	351 289	7 402 034	8 024 866
III. Programme planning, appraisal and monitoring	18 347 700	7 846 905	371 571	8 218 476	10 129 224
IV. Field programme support	<u>21 877 100</u>	<u>9 403 943</u>	<u>317 237</u>	<u>9 721 180</u>	<u>12 155 920</u>
<u>Gross appropriations and expenditure</u>	<u>63 233 400</u>	<u>27 528 116</u>	<u>1 173 203</u>	<u>28 701 319</u>	<u>34 532 081</u>
<u>Less: Credits and income</u>	<u>4 200 000</u>			<u>2 045 637</u>	<u>2 154 363</u>
<u>Net appropriations and expenditure</u>	<u>59 033 400</u>			<u>26 655 682</u>	<u>32 377 718</u>

(statement I)

a/ Revised appropriations as approved by the Governing Council at its thirty-fifth session (see decision 88/36).

b/ Includes all field offices expenditure that was integrated into the administrative and programme support services budget by the Governing Council at its thirty-fourth session.

SCHEDULE 5

UNITED NATIONS POPULATION FUND

Investments as at 31 December 1988

(United States dollars)

Type	Currency	Interest rate	Amount
Current accounts	Deutsche mark	variable	35 766
	Italian lire	variable	2 486
	Japanese yen	variable	179 625
	Netherlands guilders	variable	159 931
	Swedish kronor	variable	<u>142 483</u>
			<u>520 291</u>
Interest-bearing accounts	United States dollars	8.8750	21 226 000
	United States dollars	8.2500	<u>170 000</u>
			<u>21 396 000</u>
Time-deposit accounts	Deutsche mark	5.1250	5 683 140
	Japanese yen	4.6250	23 055 107
	Norwegian kroner	14.5000	2 484 615
	Pounds sterling	12.6250	4 834 254
	United States dollars	8.5000	34 500 000
	United States dollars	9.2500	12 500 000
	United States dollars	8.8800	10 000 000
	United States dollars	8.4100	450 000
	United States dollars	8.9375	<u>150 000</u>
		<u>93 657 116</u>	
	TOTAL		<u>115 573 407</u>

SCHEDULE 6

UNITED NATIONS POPULATION FUND

Status of contributions from Governments for special population programmes as at 31 December 1988

(United States dollars)

	International Planned Parenthood Federation	Population Council	International Union for the Scientific Study of Population	International Committee on the Management of Population Programmes	Total
Contributions received from Governments and disbursed in 1988					
Japan	13 730 000	-	-	-	13 730 000
Netherlands	2 353 791	123 762	74 257	-	2 551 810
Norway	-	<u>93 295</u>	<u>93 295</u>	<u>62 197</u>	<u>248 787</u>
TOTAL	<u>16 383 791</u>	<u>217 057</u>	<u>167 552</u>	<u>62 197</u>	<u>16 530 597</u>

SCHEDULE 7

UNITED NATIONS POPULATION FUND

TRUST FUNDS

Statement of account for the year ended 31 December 1988

(United States dollars)

Trust funds	Unexpended balance as at 1 January 1988	Contributions received in 1988	Interest income	Total funds available	Programme expenditure	Support costs		Total expenditure	Unexpended balance as at 31 December 1988
						Executing agencies	UNFPA		
UNFPA multilateral/bilateral and other trust funds									
Arab Gulf Fund	(54 143)	120 000	444	66 301	78 758	-	3 938	82 696	(16 395)
Australia	(4 673)	218 790	7 984	222 101	(4 197)	-	(210)	(4 407)	226 508
Bahrain	1 966	-	149	2 115	-	-	-	-	2 115
Belgium	67 060	853 291	13 383	933 734	712 489	-	35 624	748 113	185 621
Canada	467 817	1 195 702	63 292	1 726 811	795 310	81 585	8 387	885 282	841 529
Colombia	49 532	-	3 573	53 105	15 037	1 053	-	16 090	37 015
European Community	59 264	(25 817)	3 514	36 961	-	-	-	-	36 961
Finland	235 044	335 796	22 471	593 311	143 506	-	7 175	150 681	442 630
Italy	(896 598)	2 537 590	53 762	1 694 754	453 476	451	22 500	476 427	1 218 327
Luxembourg	-	910 777	10 143	920 920	-	-	-	-	920 920
Management Development Unit	494 968	269 250	33 814	798 032	456 274	-	22 814	479 088	318 944
Microcomputer Data-base on Women, Population and Development	6 110	45 113	1 118	52 341	40 626	5 281	-	45 907	6 434
Netherlands	1 166 542	245 571	86 571	1 498 684	520 253	10 922	21 750	552 925	945 759
Norway	1 298 252	2 484 615	110 944	3 893 811	1 411 521	125 942	22 164	1 559 627	2 334 184
Organization of Petroleum Exporting Countries	169 405	50 000	14 613	234 018	3 000	-	150	3 150	230 868
Sweden	-	-	-	-	330 658	42 986	-	373 644	(373 644) c/
Syrian Arab Republic	57 416	-	3 698	61 114	39 778	-	1 989	41 767	19 347

SCHEDULE 7 (concluded)

Trust funds	Unexpended balance as at 1 January 1988	Contributions received in 1988	Interest income	Total funds available	Programme expenditure	Support costs		Total expenditure	Unexpended balance as at 31 December 1988
						Executing agencies	UNFPA		
United Kingdom of Great Britain and Northern Ireland	-	1 874 459	58 482	1 932 941	618 574	-	30 929	649 503	1 283 438
United Nations a/	<u>2 982</u>	<u>-</u>	<u>115</u>	<u>3 097</u>	<u>2 885</u>	<u>-</u>	<u>144</u>	<u>3 029</u>	<u>68</u>
	3 120 944	11 115 137	488 070	14 724 151	5 617 948	268 220	177 354	6 063 522	8 660 629
<u>Other trust funds</u>									
Rafeal M. Salas Endowment Fund*	130 500	290	9 890	140 680	-	-	-	-	140 680
United Nations Population Award	<u>456 139</u>	<u>150 000</u>	<u>33 426</u>	<u>639 565</u>	<u>37 490</u>	<u>-</u>	<u>-</u>	<u>37 490</u>	<u>602 075</u>
TOTAL	<u><u>3 707 583</u></u>	<u><u>11 265 427</u></u> b/	<u><u>531 386</u></u>	<u><u>15 504 396</u></u>	<u><u>5 655 438</u></u>	<u><u>268 220</u></u>	<u><u>177 354</u></u>	<u><u>6 101 012</u></u>	<u><u>9 403 384</u></u>

(statement II)

* Previously known as the Endowment Fund.

Total contributions received in 1988:

a/ Balance of the United Nations Trust Fund for Special Economic Assistance Programme for Liberia transferred to UNFPA to cover monitoring and reporting costs of project LIR/85/P02.

b/ Private donations 290

Contributions (schedule 9) 11 265 137

Total 11 265 427

c/ Unpaid pledges in respect of 1988 amount to \$300,000.

SCHEDULE 8

UNITED NATIONS POPULATION FUND

Unspent allocations as at 31 December 1988

(United States dollars)

	Revised 1988 allocations	1988 expenditure	1988 unspent allocations	Future years' allocations	Total unspent allocations
United Nations (Department of International Economic and Social Affairs)	913 611	716 182	195 429	1 561 182	1 756 611
United Nations (Department of Technical Co-operation for Development)	22 932 174	20 284 995	2 647 179	31 298 084	33 945 263
ECE	330 788	295 761	35 027	417 645	452 672
EBCAP	1 573 198	1 414 016	159 182	3 057 494	3 216 676
ECLAC	1 843 617	1 817 668	25 949	1 855 128	1 881 077
ECA	3 834 730	3 381 312	453 418	4 388 865	4 842 283
ECSWA	768 800	608 681	160 119	790 638	950 757
ILO	10 168 558	7 375 690	2 792 868	15 592 480	18 385 348
FAO	3 316 713	2 332 243	984 470	5 618 831	6 603 301
UNEP	26 260	19 210	7 050	260 580	267 630
UNESCO	10 354 300	7 630 460	2 723 840	17 684 073	20 407 913
WHO	29 394 273	21 757 554	7 636 719	30 914 949	38 551 668
UNICEF	160 975	148 468	12 507	-	12 507
UNIDO	6 564	1 698	4 866	-	4 866
UNDP, Office for Project Services	<u>1 156 658</u>	<u>1 114 539</u>	<u>42 119</u>	<u>1 618 194</u>	<u>1 660 313</u>
United Nations Executing Agencies total	86 781 219	68 900 477	17 880 742	115 058 143	132 938 885
Governments	27 327 657	14 094 936	13 232 721	37 250 794	50 483 515
UNFPA	34 591 589	28 563 601 ^{a/}	6 027 988	27 358 938	33 386 926
Non-governmental organisations	<u>20 367 489</u>	<u>18 273 484</u>	<u>2 094 005</u>	<u>18 769 702</u>	<u>20 863 707</u>
TOTAL	<u><u>169 067 954</u></u>	<u><u>129 832 498</u></u>	<u><u>39 235 456</u></u>	<u><u>198 437 577</u></u>	<u><u>237 673 033</u></u>
		(schedule 3)	(note 6)	(note 6)	

^{a/} Includes UNFPA procurement assistance in respect of Government projects amounting to \$22 million.

SCHEDULE 9

UNITED NATIONS POPULATION FUND

TRUST FUNDS

Status of contributions pledged as at 31 December 1988

(United States dollars)

Government/organisation	Balance due as at 1 January 1988	Additions and adjustments	Total	Payments received in 1988	Unpaid pledges as at 31 December 1988	Composition of balance due	
						For 1988 and prior years	For 1989 and future years
<u>UNFPA multilateral/ bilateral and other programmes</u>							
Arab Gulf Programme for United Nations Development Organisation	-	120 000	120 000	120 000	-	-	-
Australia	-	218 790	218 790	218 790	-	-	-
Belgium	-	853 290	853 290	853 290	-	-	-
Canada	118 321	1 144 965	1 263 286	1 240 816	22 470	22 420	-
European Community	-	(25 817)	(25 817)	(25 817)	-	-	-
Finland	-	335 796	335 796	335 796	-	-	-
Italy	-	2 537 590	2 537 590	2 537 590	-	-	-
Japan	-	150 000	150 000	150 000	-	-	-
Luxembourg	-	910 777	910 777	910 777	-	-	-
Netherlands	-	312 883	312 883	312 883	-	-	-
Norway	-	2 551 928	2 551 928	2 551 928	-	-	-
Organisation of Petroleum Exporting Countries	-	50 000	50 000	50 000	-	-	-
Sweden	-	900 000	900 000	-	900 000	300 000	600 000
United Kingdom of Great Britain and Northern Ireland	-	2 009 084	2 009 084	2 009 084	-	-	-
Total	<u>118 321</u>	<u>12 069 286</u>	<u>12 187 607</u>	<u>11 265 137</u>	<u>922 470</u>	<u>322 470</u>	<u>600 000</u>
<u>International Conference on Population in Mexico (1984)</u>							
Peru	25 000	(25 000)	-	-	-	-	-
Yemen Arab Republic	25 000	(25 000)	-	-	-	-	-
Total	<u>50 000</u>	<u>(50 000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Grand Total	<u>168 321</u>	<u>12 019 286</u>	<u>12 187 607</u>	<u>11 265 137</u>	<u>922 470</u>	<u>322 470</u>	<u>600 000</u>

(schedule 7)

ANNEX

Notes to the financial statements

Note 1. Summary of significant accounting policies

The financial statements reflect the application of the following significant accounting policies:

(a) Income

In accordance with UNFPA financial rule 116.1 (a), income (including pledges from Governments, investment income and miscellaneous income, but excluding contributions to trust funds) is recorded on an accrual basis. Details of contributions pledged for future years are shown in schedule 1.

(b) Expenditure

Expenditure relating to staff entitlements and projects executed by non-governmental organisations is accounted for on the basis of cash disbursements. That relating to projects executed by Governments is accounted for on the basis of expenditure reports furnished by the Government. This represents a change in accounting policy as disclosed in note 1 (e). In accordance with UNFPA financial rule 116.1 (a), all other expenditure is accounted for on an accrual basis. Project expenditure, other than that relating to projects executed by non-governmental organisations, includes unliquidated obligations raised by the executing agencies in respect of goods and services provided for in the project budgets for 1988 and contracted for by the end of that year.

(c) Exchange rates

UNFPA financial rule 104.1 provides that pledges shall be converted at the United Nations operational rate of exchange in effect on the date of the pledge. UNFPA financial rule 104.2 provides that payments of voluntary contributions shall be recorded as income expressed in United States dollars at the United Nations operational rate of exchange in effect on the date of payment.

Exchange rate adjustments of (\$2,310,481) arising on collection of contributions pledged in a particular currency but paid in a different currency are shown in statement I. All other exchange adjustments have been recorded as miscellaneous income in accordance with UNFPA financial rule 104.3 and in 1988 amounted to a net gain of \$6,343,331 as shown in schedule 2.

In accordance with UNFPA financial rule 116.1 (d), the assets and liabilities held in currencies other than United States dollars have been revalued at the United Nations operational rate of exchange in effect at 31 December 1988.

(d) Capital expenditure

The full cost of non-expendable equipment used for administrative purposes is charged to the UNFPA biennial budget in the year in which it is purchased. An inventory is maintained of all non-expendable equipment (defined as items of equipment valued at \$400 or more a unit, and with a serviceable life of at least

five years, and items of equipment included in any special lists, for which formal inventory records are maintained).

(e) Change in accounting policy

Effective 1 January 1988, expenditure on government-executed projects has been recognized upon receipt of expenditure reports. This policy differs from that applied in previous years whereby expenditure was recognized at the date the funds were advanced. The effect of this change is that advances of \$10,062,915 to Governments have not been included in expenditure as reported in statement I. The comparative figure for 1987 cannot be determined without undue expense and delay.

Note 2. Non-convertible currencies pending United States dollar credit from UNDP

The amount of \$249,228 represents non-convertible currencies, held by UNDP on behalf of UNFPA, converted into United States dollars at the United Nations operational rate of exchange in effect on the date of receipt.

Note 3. Contributions pledged by Governments

Contributions pledged by Governments for current and prior years that had not been paid by 31 December 1988 were as follows:

	<u>United States dollars</u>
1984 and prior years	181 877
1985	21 794
1986	81 731
1987	138 960
1988	<u>180 224</u>
Total	(statement II) <u>604 586</u>

Note 4. Operating funds provided or payable to, and unliquidated obligations of, executing agencies

As at 31 December 1988, net operating funds of \$1,409,011 were payable to executing agencies. This balance consisted of an amount of \$5,295,370 provided by UNFPA to agencies and an amount of \$6,704,381 payable by UNFPA to other agencies. These balances, after taking into account unliquidated obligations, are consistent with the operating fund balances reported by the executing agencies.

The unliquidated obligations of \$38,120,390 shown separately in statement II consist of \$36,812,260 in respect of United Nations executing agencies, \$1,175,980 in respect of Governments as executing agencies and \$132,150 in respect of non-governmental organizations.

Note 5. Operational reserve

At its twenty-eighth session (decision 81/7, sect. III, para. 5), the Governing Council decided that the level of the operational reserve for each year should be established at 25 per cent of the estimated contributions for that year, rounded off to the nearest \$1 million, this target to be fully achieved as soon as possible and not later than by the end of 1989.

However, at its thirty-third session (decision 86/34, sect. IV, para. 4), the Governing Council authorized the Executive Director to delay the implementation of Council decision 81/7, section III, paragraph 5, until the middle of the 1990s, if the income between 1986 and 1990 reached only the assumptions of the lower scenario of the work plan of the Fund for 1987-1990.

During 1988, the income situation of the Fund having improved, the Executive Director decided to transfer \$3 million from general resources to the operational reserve, bringing the balance to \$40 million as at 31 December 1988, as shown in statement II. This represents approximately 25 per cent of the contributions for 1988.

Note 6. Unspent allocations

The balance of general resources shown in statement III excludes 1988 unspent allocations of \$39,235,456 and allocations for future years amounting to \$198,437,577, issued to executing agencies and non-governmental organizations, as shown in schedule 8.

Note 7. Investments in currencies other than United States dollars

The investments reported in the balance sheet and schedule 5 include the United States dollar equivalent of investments in other currencies using the United Nations operational rate of exchange in effect for the month of December 1988. At the United Nations operational rate of exchange in effect from 1 January 1989, which more closely reflects the market rate of exchange as at 31 December 1988, the value of these investments would amount to \$713,290 less than that shown in the accounts; (whereas in 1987 it was \$4,567,452 greater than that shown in the accounts).

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