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FINANCIAL REPORTS AND AUDITED FINANCIAL STATEMENTS,
AND REPORTS OF THE BOARD OF AUDITORS

Implementation of the recommendations of the Board of Auditors and of
the Advisory Committee on Administrative and Budgetary Questions

Report of the Secretary-General

1. In paragraph 6 of its resolution 43/216 of 21 December 1988, the General Assembly requested the Secretary-General and the executive heads of the United Nations organizations and programmes concerned to take appropriate measures within their competence in light of the comments, observations and recommendations of the Board of Auditors 1/ and the Advisory Committee on Administrative and Budgetary Questions, 2/ including those relating to financial reporting, budgetary controls, unliquidated obligations, cash management, trust funds, and the hiring of consultants, experts and temporary assistance, and to report thereon to the Assembly at its forty-fourth session. In paragraph 7 of resolution 43/216, the Secretary-General and the executive heads of the United Nations organizations and programmes concerned were requested to report to the Assembly on specific measures taken to implement previous recommendations of the Board of Auditors. As the areas identified by the Board of Auditors in its report on the biennium 1984-1985 3/ as requiring further action had been reiterated in its report on the biennium ended 31 December 1987, the present report responds to both requests. A note by the Secretary-General transmitting the responses of the other executive heads, in pursuance of the request in paragraph 7 of the resolution, is contained in document A/44/544.

Budgetary control

2. In paragraph 9 of its report, 4/ the Board of Auditors recommended that procedures for authorizing and incurring expenditures provided in the Financial

* A/44/150,

Regulations and Rules should be more strictly followed to ensure more effective control. In this respect it is recalled that, during the biennium covered by the audit review (1986-1987), the normal practice of issuing allotment advices on an annual basis had been temporarily suspended. Measures designed to deal with the financial crisis had been instituted and allotments were issued to cover shorter periods, as the availability of funds permitted. In the end, these measures resulted in overall savings of some \$125 million, but at some points during the biennium they led to a few cases in which expenditures temporarily exceeded allotments. Principally, this was because the offices concerned had to honour payroll and other contractual obligations and to maintain essential building services. Those situations were regrettable, but allotments are once again being issued on an annual basis, and frequent reviews of expenditure reports are being undertaken to ensure that certifying officers comply with the expenditure ceilings that the allotments represent.

Unliquidated obligations

3. In paragraphs 10 and 11 of its report, the Board of Auditors made recommendations on the treatment of unliquidated obligations, stating that:

(a) The criteria for raising and recording unliquidated obligations should be reconsidered to make them consistent with the delivery principle for goods and services, including acquisitions of equipment, as required by financial regulation 4.3;

(b) Unliquidated obligations relating to technical co-operation activities should be analysed after 12 months, and those which remain valid should be reclassified as accounts payable.

4. Extreme caution is being exercised in the review of existing unliquidated obligations and in the creation of new ones to ensure their compliance with established criteria for recording and reporting, as prescribed for the United Nations Development Programme (UNDP), the United Nations Population Fund (UNFPA) and trust fund projects, and for the regular programme of technical co-operation. It should be noted that these criteria do not run contrary to financial regulation 4.3, as elaborated in financial rule 104.1. A meticulous review has been undertaken of the 1987 obligations outstanding as at 31 December 1988, and the remaining balances have been recorded as accounts payable on statement XV of the financial statements of the United Nations. Adherence to this treatment of prior years' unliquidated obligations will be uniform at all United Nations offices and at the regional commissions.

5. In so far as the "delivery" principle is concerned, in its application to the acquisition of equipment the United Nations intends to maintain the status quo ante, in accordance with a recommendation of the Advisory Committee on Administrative and Budgetary Questions, while applying stricter financial controls over the establishment and monitoring of unliquidated obligations.

International Narcotics Control Board

5. In paragraph 13 of its report, the Board of Auditors recommended that the wording of paragraph 11 of Economic and Social Council resolution 1196 (XLII), which authorizes "the International Narcotics Control Board (INCB) or the Head of its Secretariat acting on behalf of the Board under its general or special instruction to transfer credits from one item to another in the budget" should be reconsidered with a view to bringing INCB in line with regular budgetary control procedure.

7. It should be noted that regular budgetary control has been exercised without exception, notwithstanding the provisions of that resolution, since no transfers of credits between non-compatible objects of expenditure have taken place without prior consultation with the Programme Planning and Budget Division of the United Nations Secretariat and the issuance of appropriate revisions to the allotment advices concerned.

Multinational Programming and Operational Centres (MULPOCs)

8. As recommended by the Board in paragraph 14 of its report, a review has been initiated by the Executive Secretary of the Economic Commission for Africa (ECA) and the Under-Secretary-General for Administration and Management. A review team has already visited the five MULPOCs and several African countries, and is currently preparing its report. It is intended to submit the report to the meeting of the Council of Ministers of ECA, to be held at Addis Ababa in April 1990, for recommendation. Subsequently, the report will be submitted to the General Assembly at its forty-fifth session through the Economic and Social Council.

Utilization of programme support funds

9. Paragraph 15 of the Board's report contains the recommendation that the provisions of ST/AI/286 should be strictly followed and that a review of existing procedures should be undertaken to ensure an equitable distribution among programme and project management functions and central administrative functions. These recommendations were taken into account in the preparation of the budget estimates for the biennium 1990-1991.

Programme performance reports

10. The Board of Auditors made a number of recommendations in paragraph 16 of its report, which were aimed at improving the quality and completeness of the programme performance reports. The Secretary-General has already addressed this subject in his report to the General Assembly at its current session on monitoring, evaluation and management information (A/44/233). Efforts to refine the methodology for monitoring programme performance are continuing and, at the same time, ways and means are being explored to improve the content of the present reporting on programme performance, including the provision of more analytical information. In the area of project performance reporting, the Department of Technical Co-operation for Development has also developed guidelines to clearly define new, active, operationally completed and financially completed projects.

Payroll procedures

11. In response to a recommendation made in paragraph 17 of the report of the Board of Auditors, the Electronic Services Division of the Office of General Services has been instructed to rotate the functional arrangements for computer operations to the extent possible within its available staffing level in order to ensure adequate and effective internal control over payroll preparation and related procedures.

Dependency allowances

12. Action has also been taken to ensure effective distribution and submission of annual claims for dependency allowances as recommended in paragraph 17 (b) of the report of the Board. The claim form itself has been revised to make eligibility requirements clearer to the staff and to facilitate the determination and processing of dependency benefits by the offices concerned. An information circular was produced in 1989 setting out the eligibility requirements and the responsibilities of staff members in order to enhance the administration and internal controls of the dependency allowance system.

13. Action on recommendations that would require computerization of data on staff members' dependency status is intended to be taken in the context of the integrated management information system. In the mean time, the administration of the system is being closely monitored to ensure stop-payment of allowances in required cases as promptly as possible.

Reviews of appointment status

14. Efforts are being made to ensure the timely submission by departments and offices of cases for review after the first five years of service on permanent appointment. Reviews of staff on fixed-term appointments for consideration for permanent contracts continue to be made in accordance with the recognized practice: staff members are eligible for consideration at any time but those from over-represented countries are eligible only after they have completed five years of continuous satisfactory service on fixed-term appointments. It should be recalled in this respect that recommendation 45 of the report of the Group of High-level Intergovernmental Experts to Review the Efficiency of the Administrative and Financial Functioning of the United Nations, 5/ as approved by the General Assembly in its resolution 41/213 of 19 December 1986, proposed that staff members be considered for permanent appointment after three years of service. In paragraph 37 of his first progress report to the General Assembly (A/42/234, annex), the Secretary-General indicated that "this recommendation should be reviewed after the retrenchment and restructuring exercises have been completed". In fact, current policy enables persons who have completed five years of satisfactory service on fixed-term contracts to be considered for conversion to permanent appointment without having to complete a probationary appointment.

Staff training

15. The Secretary-General concurs fully with the observations and comments on staff training contained in paragraphs 17 (i) and 18 of the report of the Board of

Auditors. Current training programmes will be strengthened and specific retraining programmes will be developed to assist staff in changing assignments and careers in response to the restructuring and retrenchment exercises. Such programmes will be based on an analysis of needs and will be an integral part of an overall career development programme.

Payment of benefits and allowances at offices away from Headquarters

16. The Executive Secretary of the Economic and Social Commission for Western Asia has implemented the recommended internal control procedures concerning the processing of education grant advances and settlements, in accordance with the relevant administrative instruction and as recommended in paragraph 19 (a) of the report of the Board of Auditors.

17. The review of existing regulations and rules governing payments of dependency allowances mentioned in paragraph 19 (b) of the report of the Board has been pursued at Headquarters and it has been confirmed that the regulations and rules are applied within the parameters on dependency established by the International Civil Service Commission.

Pan-African Documentation and Informations System (PADIS)

18. It had been the intention of the Secretary-General to include the results of a full-scale review of PADIS, as recommended by the Board in paragraph 21 of its report, in his proposed programme budget for the biennium 1990-1991. Although an initial appraisal has been undertaken, it has not been possible to complete the review at this time. Pending its completion, every effort will be made to secure continued funding for PADIS as a technical co-operation project.

Procurement at Headquarters

19. The recommendations in paragraph 22 of the report relate to situations described by the Board of Auditors in paragraphs 183 to 187. In a review of the contract in question, the Board commented that the Commercial, Purchase and Transportation Service of the Office of General Services had failed to bring to the attention of the Committee on Contracts estimated freight charges to be paid by the Organization. It was explained to the Auditors that the freight costs were properly authorized through the procurement and travel authorization mechanisms. The contractor's role in this case was to negotiate rates for shipments on behalf of the Organization with various carriers and, as such, the contractor was acting as an intermediary without power to commit the Organization. Since payments had been properly authorized and certified by the various designated certifying officers, the Secretary-General does not consider that there was a serious lapse in internal financial controls in this instance.

20. In paragraphs 189 to 195 of its report, the Board of Auditors reported on the review of a contract for the provision of office supplies and stationery items. The Board noted that the vendor had made counterproposals to the contractual conditions laid down by the United Nations, and it expressed the belief that those proposals would result in a loss of income and increased costs to the Organization.

Moreover, the Board noted that the vendor had commenced work under the proposed contract before a formal contract had been signed. The practice by vendors of making such counterproposals is, however, considered to be a normal part of the contracting process, and the information presented in an initial "Request for Proposals" represents the Organizations's negotiating position. In this particular case, the vendor commenced work under a letter of intent pending settlement of those issues which were still outstanding at the time of the audit, and it is believed that the contract that was signed as a result of the negotiating process resulted in what were considered to be the best terms possible for the Organization.

21. Matters relating to a contract for the lease of storage facilities were dealt with in paragraphs 196 to 201 of the report of the Board, and it was recommended that the landlord of the storage premises should have been requested to make repairs to the building or the United Nations should have invoked an article in the contract that allows the tenant to pay for the repairs and deduct the amount from the rent due. At the time of the audit, several requests had been made to the landlord for the repairs to be made but to no avail. As a result of the audit observation the landlord was finally persuaded to carry out the required repairs during the latter part of 1988. Furthermore, the future mode of operation of the archives is being studied, along with the possible use of optical disc storage and alternative locations, in the interests of saving space and reducing costs.

Procurement procedures at offices away from Headquarters

22. In paragraphs 23 and 24 of the report, the Board of Auditors made recommendations concerning the Economic and Social Commission for Asia and the Pacific (ESCAP) and the United Nations Interim Force in Lebanon (UNIFIL). The case of ESCAP concerned the award of contracts for custodial services. Following the recommendation of the Board, the Executive Secretary of ESCAP set up in 1988 a working group to select a company to perform custodial services. After a comprehensive market survey, the group short-listed three companies, which were invited to bid and the bids were reviewed by the ESCAP Committee on Contracts. The recommendations of the local committee were subsequently approved by the Headquarters Committee on Contracts. The Executive Secretary has taken steps to ensure that other recommendations of the Board of Auditors concerning the establishment and signing of contracts will be complied with in future.

23. The review of procurement procedures at UNIFIL gave rise to an observation on the splitting of contracts in paragraph 213 of the Board's report. One part of a contract for asphaltting and hard surfacing work had been awarded by the local Committee on Contracts and the second part was awarded to the same company after review by the Headquarters Committee on Contracts. In future, local contract awards will be monitored closely to ensure that all contracts above the established threshold are referred to the Headquarters Committee on Contracts before any awards are made.

Computer operations

24. The Board's recommendations in paragraph 25 of its report with respect to physical security and environmental controls for computer operations have been

taken into consideration in planning renovations of the Headquarters computer area, which are scheduled to be undertaken within the next few months. However, the concern expressed by the Board about disaster recovery arrangements and facilities is not considered justified since existing storage areas are made of concrete with a steel entry door, which makes them completely fire-proof.

25. With regard to the recommendation in paragraph 26 of the report of the Board concerning the replacement of the ESCAP computer, a decision has been made that ESCAP, along with the other regional commissions, will become nodes in the integrated management information system and an accurate determination of its computer needs should await the development of that system. In the mean time, therefore, it is intended to emphasize the acquisition and installation of microcomputers at ESCAP rather than immediate replacement of the mainframe.

United Nations Postal Administration (UNPA)

26. A number of recommendations concerning UNPA are made in paragraphs 27 (a) to (m) of the report of the Board of Auditors relating to the review described in detail in paragraphs 233 to 281 of the report. Following a recommendation on idle cash balances contained in paragraph 242 of the report of the Board, UNPA instructed the offices in Geneva and Vienna to institute procedures that would have ensured that cash transfers to Headquarters accounts were made automatically when the balance in UNPA accounts reached a predetermined level. Those procedures would have met the Board's concerns; however, it did not prove feasible to implement them because the postal authorities in Switzerland were not in a position to operate weekly or monthly transfers in the manner envisaged. As the only viable alternative, UNPA now undertakes a review of weekly activity in the Geneva and Vienna accounts and issues direct transfer instructions whenever balances exceed those considered commensurate with the level of that activity.

27. According to paragraph 245 of the report of the Board, a downward trend in UNPA sales since 1980 had been observed although costs had increased slightly, resulting in dwindling net income. As a result of recommendations by the Board of Auditors, UNPA engaged the services of a team of management consultants to carry out a study of marketing and sales promotion strategies. The study was completed in February 1989 and it confirmed that the philatelic market was indeed shrinking and that UNPA was faced with a reduced market base. Nevertheless, UNPA has begun to implement the recommendations made in the study and has taken action to permit vacant posts of sales personnel to be filled more expeditiously than in the past. The possibility of contracting with a specialized commercial firm to further develop marketing and promotional strategies is also being explored.

28. In paragraph 251, the Board called for a review of existing credit policy because of the high level of accounts receivable outstanding at the time of their initial audit. In a follow-up audit, however, they noted that most of those receivables had been collected. It is relevant to mention that losses through non-payment by dealer or customers remain small and well below the average of commercial enterprises that extend credit to customers. The situation will be kept under review to ensure that the level of credit extended remains commensurate with the level of overall sales.

29. As to the organizational structure mentioned in paragraph 253 of the Board's report, UNPA has begun a reorganization in accordance with both the Board's recommendations and those of the management consultants mentioned above. The former New York office has been divided into two offices: one to service the markets traditionally assigned to UNPA New York, i.e. North and South America, Asia and those parts of Africa not covered by UNPA Geneva, and the other to function as the Global Office with responsibility for overall production, policies and financial direction of the three local UNPA offices in New York, Geneva and Vienna. UNPA is continuing to review its procedures and endeavours to introduce new managerial concepts in an effort to improve efficiency and to increase gross sales and net income. In this respect, an advertising agency has been commissioned to undertake a consolidated marketing approach in the North American market. Its work is being closely monitored and the study is expected to serve as a model for all three UNPA area offices in the biennium 1990-1991.

30. Steps have also been taken to lengthen the lead time in the stamp production cycle beyond the 10 months previously called for in the UNPA manual of standards, as recommended by the Board of Auditors, while at the same time maintaining the flexibility to respond to timely events that deserve to be commemorated by a stamp issue. A case in point is the award of the Nobel Peace prize to United Nations peace-keeping activities in 1988. This was added to the stamp programme at short notice and a commemorative stamp issued in March 1989.

31. Further to the recommendations concerning stamp design and artwork, the UNPA Manual of Procedures has been revised and a model formal contract to be signed by artists is being drafted. Inventory practices have been strengthened to comply with the Board's recommendations by maintaining a copy book record of artworks for reference.

32. The Board commented on the UNPA automated system project in paragraphs 274 to 277 of its report and recommended more effective monitoring of its implementation. This subject was referred to the team of consultants hired to carry out a study of UNPA, and their review indicated that the automated system was working well in respect of stock control and order/statement processing. They also commented on the accounting subsystem, which had been planned as a future enhancement of the automated system. In their view it would not be cost effective at this stage to go ahead with the additional programming needed to make the subsystem operational and they recommended the use of personal computers instead. As a result of the consultants' comments and the recommendations of the Board of Auditors, the automated system is being implemented in Vienna as originally planned and personal computers have been installed in all UNPA offices. The future of both the automated system and the accounting subsystem will be reviewed in the context of their integration with the proposed integrated management information system project.

Expendable and non-expendable property

33. Paragraphs 313 to 320 of the report of the Board dealt with inventory control. The Board acknowledged that there was evidence of improvement in the maintenance of property records and custodial control over the property items;

however, they noted deficiencies in control over attractive items, inventory taking and the disposal of unserviceable items. Corrective measures have since been taken to improve record keeping and custodial control.

34. In connection with their review of UNIFIL, the Board, in paragraphs 315 and 319, recommended strengthening of internal control over fuel items and prefabricated units. At the time of the review the development of reliable consumption rates for UNIFIL vehicles was hampered by the different makes in use. With the subsequent standardization of the fleet of vehicles, fuel consumption measures have become comparable and more reliable, thus enabling verification of reports submitted by all units and reconciliation with the monthly log. Measures have also been taken to improve record keeping of prefabricated units, which are now issued on a "first in, first out" basis.

Project implementation and progress performance reporting

35. In response to recommendations made in paragraph 31 of the report of the Board of Auditors, the Department of Technical Co-operation for Development has initiated remedial action to improve its reporting on projects. Guidelines have been established to clearly define new, active, operationally completed and financially completed projects, and a computer programme has been developed to track the number of projects in each category from the project management system data base. Efforts are also being made to procure equipment familiar both to project personnel and to their counterparts in developing countries and to co-ordinate the delivery of equipment with the arrival of project personnel in accordance with the time frames specified in project documents.

36. ESCAP is also taking measures to respond to recommendations concerning projects made in paragraph 33 of the report of the Board of Auditors. The measures have resulted in substantial improvement in the planning and presentation of the work programme for the current biennium and a reduction in the number of project proposals in line with the level of anticipated contributions. Preparatory activities for projects accepted for funding by donors are taken in hand immediately so that the projects themselves can be expedited upon receipt of funds. Semi-annual and annual progress reports on all ongoing projects are submitted regularly to donors. In the case of completed projects, terminal reports are sent along with the final financial statements as soon as the relevant project accounts have been closed.

Establishment and management of trust funds

37. In paragraph 28 (a) of its report, the Board of Auditors recommended the centralization of accounting responsibilities for transactions relating to the United Nations Fund for Drug Abuse Control. The establishment of a full financial service at the United Nations Office at Vienna is under consideration in order to provide a more coherent financial service to the Fund as well as other United Nations entities at Vienna. In the mean time, efforts have been made to streamline communications between the United Nations Office at Vienna and Headquarters to ensure accurate management information and proper recording in the accounts of pledges, collections and disbursements.

38. Pursuant to the recommendation contained in paragraph 28 (c) relating to the United Nations Fund for Namibia, a responsible finance officer visited the Namibia Secondary Technical School on three occasions to advise on the application of United Nations financial rules and procedures and to assist in the preparation of the School's accounting reports, which were then submitted promptly on a quarterly basis.

39. Accounting action was taken in December 1988 to reflect the reorganization of the Office of the United Nations Disaster Relief Co-ordinator and, as a result, its financial procedures have been brought into line with its legislative mandate and a clear delineation has been made between administrative and operational expenditures as recommended by the Board of Auditors in paragraph 28 (e) of its report.

40. As can be seen from the implementation actions described in the preceding paragraphs, the Secretary-General welcomes the comments and observations of the Board of Auditors, and those of the Advisory Committee, and will continue to address their concerns in the interests of effective management and financial control.

Notes

- 1/ See A/43/445, annex.
- 2/ See A/43/674 and Corr.1.
- 3/ Official Record of the General Assembly, Forty-first Session, Supplement No. 5 (A/41/5), vol. I, sect. II.
- 4/ Ibid., Forty-third Session, Supplement No. 5 (A/43/5), vol. I, sect. II.
- 5/ Ibid., Forty-first Session, Supplement No. 49 (A/41/49).
