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Forty-fourth session  
Agenda item 121**FINANCIAL REPORTS AND AUDITED FINANCIAL STATEMENTS,  
AND REPORTS OF THE BOARD OF AUDITORS****Implementation of the recommendations of the Board of Auditors****Note by the Secretary-General**

1. In paragraph 7 of 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 report to it on specific measures taken to implement previous recommendations of the Board of Auditors. The report of the Secretary-General on this subject is contained in document A/44/541.
2. The Secretary-General has the honour to transmit to the General Assembly the responses of the executive heads of the organizations and programmes concerned, namely, the United Nations Development Programme (UNDP), the United Nations Population Fund (UNFPA), the United Nations Children's Fund (UNICEF), the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), the United Nations Institute for Training and Research, the voluntary funds administered by the United Nations High Commissioner for Refugees, the Fund of the United Nations Environment Programme (UNEP), the United Nations Habitat and Human Settlements Foundation and the United Nations University (UNU).

**A. United Nations Development Programme**

3. The report of the Board of Auditors on the 1986 UNDP accounts contained the following summary of recommendations:

(a) Accounting principles, procedures and controls should be reviewed along the lines detailed in the report and summarized in the audit opinion in order to improve the accuracy and the informative value of the financial statements;

(b) Guidelines for project preparation and implementation should be issued and/or updated, and strict compliance by executing bodies and UNDP field offices should be enforced, particularly with a view to preventing increased delivery at the expense of quality or viability;

(c) "Core activities" should be broken down according to a more detailed pattern of appropriation lines in the biennial budget submitted to the Governing Council of UNDP for approval, and stricter budgetary discipline should be enforced.

4. The recommendations of the Board were extensively discussed at the thirty-fifth session of the UNDP Governing Council. Further information on action taken as a result of the Board's report for 1986 is contained in document DP/1988/5, and in the summary of the report of the Budgetary and Finance Committee at the Council's thirty-fifth session in June 1988 (DP/1988/78, paras. 236-256).

5. The following actions were taken by UNDP in response to the recommendations contained in the report of the Board of Auditors (A/42/5/Add.1).

#### 1. Accounting matters

Recommendation contained in paragraph 26: UNDP guidelines issued to executing agencies spelling out the criteria for recording and reporting unliquidated obligations should require the application of the delivery concept to travel on official business and group training, and purchase of equipment.

#### Action taken by UNDP

6. UNDP implemented the auditors' recommendation on travel on official business and group training. As regards equipment purchases, the matter was referred to the Governing Council, which decided that UNDP should continue the present practice pending the findings of the Panel of External Auditors (decision 88/49). The Panel has recommended that the external auditors of the agencies carry out a review of the nature and extent of the possible abuses in the recording of such obligations and report to the Panel again in 1989.

Recommendation contained in paragraph 42: a reconciliation and investigation of the reciprocal balances between UNDP and the statements submitted by agencies should be carried out as significant differences were noted.

#### Action taken by UNDP

7. UNDP has strengthened existing procedures and issued revised instructions to executing agencies. In their 1987 audit report, the auditors agreed that these measures solved the problem relating to the 1987 account.

Recommendation contained in paragraph 30: under current arrangements, the audit certificates of the agencies' external auditors are not available before June of the following year for agencies on an annual financial period. Also, for agencies on a biennial period, the audited financial statements relate to the biennium and are therefore not verified on an annual basis.

Action taken by UNDP

8. As requested by the UNDP Governing Council in its decision 88/49, the Administrator brought this matter to the attention of the Panel of External Auditors at its meeting in November 1988. UNDP has also discussed the matter further with representatives of the agencies at meetings of the Consultative Committee on Administrative Questions (Financial and Budgetary Questions) in September 1988 and March 1989. As regards agencies with annual audit procedures, some improvement was achieved in receiving audit clearance for 1988 accounts by the time the Board was required to certify UNDP's accounts. For agencies with biennial audit procedures, the Board has meanwhile proposed a procedure for a "limited audit" to be carried out by the auditors of such agencies at the end of the first year of each biennium. A full report on the experience gained in this connection was made by UNDP to the thirty-sixth session of the Governing Council in June 1989 (DP/1989/58).

Recommendation contained in paragraph 32: expenditures for government-executed projects are not checked by UNDP and are generally not audited.

Action taken by UNDP

9. UNDP has developed revised accounting, reporting and auditing procedures, which were approved by the Governing Council (decision 88/18). The Council also approved additional funding to strengthen the accounting/auditing area.

Recommendation contained in paragraph 40: balances in accounts payable/receivable should be reviewed closely and analysed before financial statements are issued. Also, the accounts relating to the Travel Services Section need to be controlled and cleared.

Action taken by UNDP

10. UNDP has increased its monitoring and review of the accounts receivable/payable accounts as much as possible. Also, as regards the travel-related accounts, a task force was established to clear the balances. This task force has successfully completed its task.

Recommendation contained in paragraph 44: UNDP should reduce the balance of general resources by approximately \$2.5 million in respect of adjustments relating to education grant advances, United Nations current account charges, uncleared travel advances and expert hiatus financing.

Action taken by UNDP

11. Where appropriate, UNDP has taken steps to make the necessary adjustments and clear the balances in line with the auditors' recommendations.

Recommendation contained in paragraph 45 (b): cheques issued on zero balance accounts but not cleared should be disclosed separately on the liabilities side, distinct from accounts payable.

Action taken by UNDP

12. UNDP followed the audit recommendation in the 1987 accounts.

Recommendation contained in paragraph 46: non-expendable property should be disclosed in a schedule to the UNDP financial statements.

Action taken by UNDP

13. In its 1987 accounts, UNDP disclosed the value of non-expendable property in the financial report.

Recommendation contained in paragraph 47: inventory procedures at headquarters were not finalized and no date was given for issuance and implementation. Also the field offices had not complied with existing procedures and no headquarters officer monitors administrative equipment and inventories in the field offices.

Action taken by UNDP

14. New procedures regulating property management at headquarters were established in early 1988 and included in the General Administration Manual. Monitoring and maintenance of physical inventory records is now fully computerized. Since early 1988 new procedures have been established to maintain field office inventory records. This task is now the responsibility of a senior General Service staff member of the Division for Administration and Management Services.

Recommendation contained in paragraph 56: assets and liabilities that do not relate to the same third party should not be netted. Items in question are operating funds of executing agencies and Governments and accounts receivable/payable.

Action taken by UNDP

15. UNDP implemented the audit recommendations in its financial statements.

Recommendation contained in paragraph 57: losses on exchange incurred in a particular country were charged to that country's indicative planning figures - before a legal decision had been made.

Action taken by UNDP

16. UNDP believed that the action taken was the most appropriate under the special circumstances existing at that time and it was done with the full knowledge of the Governing Council.

## 2. Programme matters

**Recommendation:** guidelines for project preparation and implementation should be issued and/or updated, and strict compliance by executing bodies and UNDP field offices should be enforced, particularly with a view to preventing increased delivery at the expense of quality or viability.

### Action taken by UNDP

17. In early 1988 detailed instructions were issued elaborating new procedures for project formulation and for the preparation of project documents. As a result of these new instructions the process of project preparation has been much improved. Project formulation has been formalized with the introduction of a project formulation framework, a document that is to be prepared for each project proposal as part of the formulation process. Similarly, the new project document format improves both the preparation and implementation of projects by placing more emphasis on project outputs and results. This has ensured not only better prepared projects but also facilitates the monitoring of their implementation.

18. These new instructions have also streamlined and improved the process of project appraisal and approval. All projects not within the approval authority of the resident representative (over \$700,000) are appraised by headquarters Project Appraisal Committees and approved by senior management at the Action Committee. The Administrator further streamlined the process by having the headquarters appraisal carried out on the basis of the project formulation framework rather than the final project document. This not only gives added emphasis and importance to the formulation process of projects, but also further decentralizes the project preparation by allowing project documents to be finalized in the field after the Action Committee has approved the project proposal on the basis of the project formulation framework.

## 3. Budgetary matters

**Recommendation:** core activities should be broken down according to a more detailed pattern of appropriation lines in the biennial budget submitted to the Governing Council of UNDP for approval.

### Action taken by UNDP

19. A new schedule showing expenditure against UNDP core activities by major category of expenditure for the biennium has been introduced in the UNDP audited financial statements for 1986 and made available to the Governing Council. In view of this, the Governing Council in its decision 88/49 decided to retain, for the time being, a single appropriation line for the UNDP core activities.

**Recommendation:** requests for revisions of allotments from the field offices or headquarters, generally speaking, were considered favourable. It was felt that the appraisal of such needs could be stricter.

20. There was a serious breakdown in the certifying function. In headquarters and in the field, expenditures exceeded the overall allotments. In such instances, disbursements or commitments were made from unavailable funds and in contravention of the financial regulations and rules.

Action taken by UNDP

21. UNDP has pointed out, and the Board has subsequently agreed, that over-expenditure of allotments (as distinct from appropriations) does not constitute a contravention of the Financial Regulations and legislative authority of UNDP. However, the administration has undertaken a campaign to improve budgetary discipline that includes the following features: providing all units with statements of expenditures against authorized allotments, emphasizing the role/functions of certifying officers, issuing a headquarters budget manual and a Personal Computer Budget-Aid, holding formal training sessions at headquarters, and sending circular letters to field offices to improve budgetary performance.

B. United Nations Population Fund

22. The report of the Board of Auditors on the 1987 UNFPA accounts (A/43/5/Add.7) contained the following summary of recommendations:

(a) Accounting principles, procedures and controls should be reviewed along the lines detailed in the present report and summarized in the audit opinion in order to improve the accuracy and the informative value of the financial statements;

(b) UNFPA and UNDP should reach an agreement on institutional arrangements pertaining to the delineation of respective responsibilities in the area of finance and personnel administration;

(c) The distinction between "administrative costs" and "operational costs" must be further clarified and applied consistently from one year to the next;

(d) The allotment of budgetary funds must be further brought in line with the Financial Regulations and Rules of UNFPA, and the control over the implementation of the budget must be tightened.

23. The following actions have been taken by UNFPA in response to the recommendations contained in the report of the Board of Auditors:

1. Accounting matters

Recommendation contained in paragraphs 29-32, valuation of income and assets: for the purpose of financial statements, cash and investments in currencies other than the United States dollar should be valued at a rate of exchange closer to the market rate at the end of the financial period than the case for the operational rate for December, which was based on market conditions at end-November.

24. Consideration should be given in future to revaluing assets and liabilities denominated in currencies other than the United States dollar in such a way as to recognize in the statements unrealized exchange gains or losses.

Action taken by UNFPA

25. UNFPA agreed with the observation of the Board and disclosed in the notes to the financial statements the amount of the understatement in 1987 (\$4.5 million). This was also done for the 1988 accounts reflecting an overstatement of \$0.7 million. The operational rate of exchange of January of the following year was used when it approximated the market rate closer than the December operational rate.

Recommendation contained in paragraph 33, miscellaneous income: the Board could not obtain reasonable assurance that interest income from operating fund balances between executing agencies and UNFPA was always credited to UNFPA as required by the Financial Regulations and Rules.

Action taken by UNFPA

26. UNFPA agreed with the observations and revised and reissued its instructions for the closing of accounts for the year 1988, including revised "status of funds" schedules, providing a breakdown of miscellaneous income to include interest income from operating fund balances. A thorough check and follow-up of the status of funds reported is being implemented.

Recommendation contained in paragraphs 34-36 and 41: the Board observed that statement I lumped together three categories of programme expenditure (i.e. by United Nations executing agencies, by Governments as executing agencies and by UNFPA as its own executing agency) under one heading "executing agencies". Only the non-governmental organization programme expenditures were shown separately. The Board recommended a breakdown of each category of agency expenditure. Furthermore, it recommended that, in future, an additional caption in statement I should provide for disclosure of adjustments to prior years' programme expenditure for each agency rather than to "net" against relevant figures for the current year.

Action taken by UNFPA

27. UNFPA agreed with the observations and accordingly modified in the 1988 year-end accounts the layout of statement I to conform to the suggestions of the Board.

Recommendation contained in paragraphs 37-41, programme expenditures executed by United Nations executing agencies.

28. The Board could not comment on the fair presentation of United Nations executing agencies reports for the following reasons:

(a) An absence at UNFPA headquarters of supporting documentation for expenditure incurred;

(b) An absence of defined criteria to be adopted by the agencies for the determination of what constitutes unliquidated obligations at the year-end;

(c) An absence of available audited "status of funds" reports at the time the Board was required to issue its opinion.

Because financial policies and procedures of UNFPA and UNDP regarding reporting requirements by executing agencies are essentially identical and because of the part UNDP plays in preparing the UNFPA accounts, the Board suggested that the UNFPA guidelines could be patterned, to a large extent, on UNDP guidelines, with one exception relating to criteria for determination of what constitutes unliquidated obligations. The UNFPA situation closely parallels that of UNDP, which was commented upon at length in the Board's report concerning the 1986 accounts of UNDP. The Board observed that present practice of reporting unliquidated obligations was not based on a consistent application of the delivery principle. With regard to the Board's observation in subparagraph (c) above, the Board noted that while financial regulation 17.1 of the UNFPA and UNDP Financial Regulations and Rules provided for the submission of annual audited accounts, these accounts were received several months too late to be incorporated in the UNFPA financial statements (paras. 38 and 39).

29. UNFPA financial regulation 17.1 (d) provides that, in the case of agencies on a biennial financial period, the accounts of the first year of the biennium "may be unaudited, provided audited accounts are subsequently submitted covering both years of the biennial financial period". A significant number of major United Nations executing agencies report on a biennial basis. The Board pointed out, in this respect, that, in the case of UNFPA and UNDP, it is required to issue its opinion on the organizations' annual financial statements. When biennial audited accounts are submitted by executing agencies, the breakdown of the audited biennial figures between the first and the second year of the biennium is not audited (except for the ILO audited statements) and, therefore, neither are the figures that are disclosed in the UNFPA and UNDP annual financial statements. As a result of this, the Board was not in a position to express an opinion on expenditure reported by United Nations executive agencies and qualified its audit opinion on the financial statements of UNFPA for the year ended 31 December 1987 on that basis.

#### Action taken by UNFPA

30. As noted above, one of the issues that led to the Board's qualification of opinion on the UNFPA accounts was "an absence of available audited status of funds reports at the time the Board is required to issue its opinion". This matter was discussed at the seventieth session of the Consultative Committee on Administrative Questions (Financial and Budgetary Questions) in March 1989. Executing agencies with annual accounting systems indicated that it would be possible to submit an audit clearance to the Board of Auditors. Executing agencies with biennial accounting systems indicated that they could agree to submit limited mid-biennium audits provided that no significant extra work was involved for their staff and that any additional audit costs involved would be borne by UNFPA. An alternative proposal would be the preparation of unaudited annual interim accounts and biennial audited accounts. Both alternatives were presented to the Governing Council at its



thirty-sixth session for final decision. At that session (5-30 June 1989), the Governing Council recognized that the audit opinion on the accounts of UNFPA might remain qualified as long as audit confirmation of programme expenditures incurred by those organizations of the United Nations system which have adopted biennial auditing procedures had not been received by the Board of Auditors at the time the Board issued 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 UNFPA Financial Regulations that would provide that, beginning with the biennium 1990-1991, audited financial statements for UNFPA should be submitted to the General Assembly and to the Governing Council on a biennial basis and that, beginning in 1990, the Board of Auditors should 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.

31. On the subject of reporting and audit arrangements, UNFPA guidelines for the closure of the 1988 accounts were patterned on those of UNDP and included several additional schedules that could provide detailed information to substantiate the figures in the agencies' "status of funds" reports. The UNFPA guidelines contain instructions reminding agencies that audit clearance is required for the first year of the biennium and that a breakdown between the first and second year figures is required for the audited biennial accounts in order to comply with UNFPA financial regulation 17.1. UNFPA will continue to use in 1988 the criteria for recording and reporting unliquidated obligations and forward commitments that are now being implemented by UNDP. The Fund will maintain the status quo ante, recommended by the Advisory Committee on Administrative and Budgetary Questions, with strict financial control for certification of commitment and the monitoring of obligations. However, the issue of recording expenditures on the basis of unliquidated obligations is still under review by UNDP with the executing agencies, and the principles and procedures agreed upon will also be adopted by UNFPA. In addition, the Board has taken the matter to the Panel of External Auditors of the United Nations to the specialized agencies and to the International Atomic Energy Agency (IAEA) for review and consideration. This appears to be a case in which the solutions that will eventually be adopted for UNDP project expenditure could be extended to UNFPA.

Recommendation contained in paragraphs 42-44: programme expenditures executed by Governments.

32. Government-executed project expenditure is accounted for on the basis of the "advances" remitted to Governments, which means that, in addition to disbursements and unliquidated obligations, expenditures included "outstanding advances" (i.e. advances not yet disbursed or obligated). These advances should normally be cleared and recorded as actual disbursements on the basis of quarterly statements of operations submitted by the Governments and supported by adequate documentation. Thus, the Board recommended that outstanding advances should not be

included in current expenditures. Also, at the close of the audit, the Board noted that only 13.5 per cent of the reports pertaining to the 271 government-executed projects, having incurred expenditures in 1987, had been received at UNFPA headquarters. Furthermore, there was an absence of audited financial reports required from Governments in their capacity as executing agencies of UNFPA programmes (paras. 42 and 43).

Action taken by UNFPA

33. The practice of recording outstanding cash advances to Governments as expenditure was discontinued to bring the account practice in line with the Financial Regulations and Rules. The field offices were advised of the new procedure effective from 1 January 1988. Furthermore, UNFPA intends to follow, whenever applicable to UNFPA, the UNDP accounting, auditing and reporting procedures for government-executed projects approved by the Governing Council (decision 88/18, para. 4). According to this system, projects will be audited on a rotational basis, with projects being audited once during the life of a project rather than on an annual basis, as is the current practice.

Recommendation contained in paragraphs 45-47

34. The Board's observations made in respect of government expenditure were also applied to non-governmental organizations. The Board pointed out that the procedure for charging advances on the basis of quarterly "statements of operations" did not apply; therefore, for all practical purposes, advances to non-governmental organizations were treated in the UNFPA accounts as "grants", the use of which had to be justified at the end of the year. The year-end financial statements reporting the expenditure of UNFPA funds by non-governmental organizations should be certified by independent auditors. At the close of the audit, the Board noted that only 33 statements relating to the 1987 accounts had been received for 207 ongoing projects executed by non-governmental organizations, and only 3 of them had been audited. Because of the lack of audited year-end statements the Board was not in a position to comment on the fair representation of non-governmental organization expenditure.

Action taken by UNFPA

35. UNFPA is continuing its efforts to ensure that audited statements are received from all non-governmental organizations in a timely manner. Formal financial procedures for non-governmental organizations are being drafted and are to be put into effect as early as possible. Financial rules will also be formulated to reflect the auditing requirements.

Recommendation contained in paragraph 49: field office costs.

Beginning in 1986, field office costs have been taken out of "programme diture" to be reflected in part, under a specific heading in statement I, and .t., to be incorporated in several consecutive stages in the administrative and programme support service budget and reflected as such in statement I. The 1986 and 1987 figures shown in statement I are, therefore, not comparable.

Action taken by UNFPA

37. UNFPA agreed with the observation and amended the notes to the 1987 financial statements (note 2) to reflect fully the total field office costs in 1986 as compared to 1987, taking into account the various costs components reported under the heading "programme expenditure" and "biennial administrative and programme support service budget expenditure".

Recommendation contained in paragraphs 53-54, accounts payable.

38. The Board comments on the growth of unprocessed travel expenditure at year-end and the unacceptably long delays in the clearing of unliquidated travel obligations.

Action taken by UNFPA

39. A task force was established by UNDP in its Travel Services Section to clear the balances of both UNDP and UNFPA in the suspense account. In 1988, the Board noted with satisfaction that adequate procedures have been implemented to ensure processing of unclear travel obligations and that delegation of verification and certification of travel claims had been decentralized from UNDP to UNFPA and to field offices for certain types of travel. These new procedures have decreased the work-load of the UNDP Travel Services Section and the volume of unprocessed travel expenditure.

Recommendation contained in paragraphs 55-56, trust fund accounts: expenditure charged to certain trust funds exceeded funds available.

40. Support costs on trust fund expenditure grossed by executive agencies are not separately disclosed.

Action taken by UNFPA

41. UNFPA accepts trust funds only on a fully funded basis. Strict procedures are being implemented to avoid expenditure before funds have been made available in their entirety.

42. The 1988 accounts disclosed separately support costs on trust fund projects executed by United Nations executing agencies as recommended by the Board.

2. UNDP/UNFPA relationship

Recommendation contained in paragraphs 57-58: relationship between UNDP and UNFPA in the area of financial accounting and reporting.

43. The Board recommended that the respective financial, accounting and reporting procedures currently performed by UNFPA and UNDP on a "verbal understanding basis" should be formalized in a written agreement.

Action taken by UNFPA

44. The respective procedures performed by UNFPA and UNDP were formalized in a written agreement dated 17 June 1988. The Board noted with appreciation in its report on the 1988 accounts that the agreement addressed several of the weaknesses identified by the Board in previous reports.

3. Delineation between programme and administrative expenditure

Recommendation contained in paragraph 87: the distinction between "administrative costs" and "operational costs" must be further clarified and applied consistently from one year to the next.

Action taken by UNFPA

45. On the matter of delineating between administrative and programme costs, UNFPA is presently trying to establish guidelines to determine which costs pertain to administrative and which to programme. Work on this matter had been started in 1988 and it was realized that further analysis would be needed to minimize grey areas to establish proper and effective guidelines.

4. Budgetary matters

Recommendation contained in paragraphs 68-72: allotment procedures.

46. The Board noted that the allotment of funds under the administrative and programme support service budget did not fully conform to the Financial Regulations and Rules and did not allow for proper control of the execution of the budget.

Action taken by UNFPA

47. As noted by the Board in its 1988 report, 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.

Recommendation contained in paragraph 80: consultancy services.

48. The Board reiterated its recommendation that, as provided in article 3 of the Special Service Agreement, consultants who perform very poorly should not receive the full compensation agreed upon.

Action taken by UNFPA

49. After noting the view of the Advisory Committee on Administrative and Budgetary Questions, UNFPA agreed with the recommendation and has issued a circular to the requesting units not to certify full compensation for consultants whose work has not been satisfactorily performed. /

Recommendation contained in paragraph 90: index of resource utilization.

50. In its report on the 1986 accounts of UNFPA, the Board noted that the figures disclosed in schedule 8 (unspent allocations as at 31 December 1987) provided the basis for computing and reporting an implementation rate "project expenditure rate (expenditures divided by allocations)".

51. The Board also noted that such use of this information was misleading, in that the allocations shown in schedule 8 are year-end allocations that have been reduced during the latter part of the year and "rephased" to future years. The Administration concurred with that observation and suggested that another ratio would prove more meaningful. While it would welcome that suggestion, the Board noted that whatever ratio is finally selected for the purpose of informing the Governing Council, great attention should be paid to its definition and consistent use over time, since changes in the constituent parts of the ratio are likely to result in significant variances in the reported figures.

Action taken by UNFPA

52. The Fund has already introduced a new definition of resource utilization in the document submitted to the Governing Council last year (DP/88/34). The new definition is: actual programme expenditure for year N/total programmable resources of year N as approved by the Governing Council in June of year N.

53. This ratio is called the resource utilization rate in order to avoid any confusion with the old implementation rate. This definition is used in the main programme resource planning paper that was submitted to the 1989 Governing Council (DP/1989/37).

C. United Nations Children's Fund

54. The following specific measures have been taken by UNICEF to implement the recommendations of the Board of Auditors from the regular audits of the 1987 and 1986 UNICEF accounts and the expanded audit of the 1986 UNICEF accounts.

1. 1987 audit

Recommendation No. 1: the administration should pursue vigorously the clean-up of its data base in order to be able to establish the correct balance of commitments pertaining to completed projects. The final amount of expenditures in excess of supplementary-fund commitments and unspent balance of commitments pertaining to completed supplementary-funded projects should be disposed of in accordance with the approved procedures adopted by the 1988 Executive Board. Henceforth, completed supplementary-funded projects should be monitored closely.

Action taken by UNICEF

55. Following the approval of procedures by the 1988 Executive Board for the disposal of expenditures in excess of commitments and unspent balances of commitments for completed projects, the Accounts Section established a task force of senior accounting staff to pursue vigorously the clean-up of the supplementary-funded programme accounts data base.

56. This task force completed its assignment with the closure of the UNICEF accounts for 1988. In accordance with Executive Board policy, these balances will be reported to the 1989 Executive Board for action (E/ICEF/1989/AB/L.12).

Recommendation No. 2: written policies and procedures should be reviewed to ensure that they provide specific and clear instructions as to how all the various types of contributions (i.e. contributions from National Committees, contributions received for projects not yet approved by the Executive Board and contributions in excess of total project cost) should be treated in the account records.

Action taken by UNICEF

57. UNICEF has written an internal policy document that specifies instructions for the recording of income so that there is no ambiguity in how the various types of contributions should be treated in the accounting records (Financial Circular No. 31).

Recommendation No. 3: the administration should seriously consider its plan to adopt a uniform format for the contribution agreement/pledge letter, in order to ensure consistency and uniformity in the interpretation of donor intent as to timing of income recognition.

Action taken by UNICEF

58. A uniform format for all contribution/pledge letters has been adopted for all National Committee contributions. Specific criteria for Governments and non-governmental organizations are set out in Financial Circular No. 31 referred to above. These criteria determine the basis of income-recording in accordance with UNICEF policies and procedures.

Recommendation No. 4: the administration should review its policy on revaluation of contributions receivable to ensure consistency in the application of revaluation procedures and to conform with generally accepted accounting principles.

Action taken by UNICEF

59. The policy on revaluation of contributions receivable has been reviewed to ensure consistency with generally accepted accounting principles.

## 2. 1986 expanded audit

Recommendation No. 1: the administration should improve the document entitled "Update of UNICEF policy on supplementary funds" (E/ICEF/1988/L.2 and Add.1) in order to provide a comprehensive statement of policies, procedures and practices on supplementary funds that can form a substantive basis for decision-making by the Executive Board.

### Action taken by UNICEF

60. The above-mentioned document was intended to provide a summary of the policies and procedures relating to the financial management of supplementary funds. It has been supplemented with another document entitled "UNICEF supplementary funding policies, procedures and practices" (E/ICEF/1989/L.2), which outlines the policies and procedures for managing the programmatic aspects of supplementary-funded programmes. This document will be submitted to the 1989 session of the Executive Board. When taken together, these documents provide a comprehensive statement of policies, procedures and practices on supplementary funds to be used by the Executive Board.

Recommendation No. 2: the interdivisional group at UNICEF headquarters should vigorously pursue the re-examination, started in 1987, of the procedural, programmatic and implementation issues concerning supplementary-funded programmes and projects. This group is strongly urged immediately to address the two major issues relating to the incurrence of expenditures in excess of commitments and the disposition of contributions in excess of expenditures on completed projects.

### Action taken by UNICEF

61. Following the discussions of the interdivisional group, recommendations for policies and procedures concerning the issues of over-expenditure and excess contributions for completed projects were submitted to the 1988 session of the Executive Board (see E/ICEF/1988/L.2/Add.1, para. 14). These policies and procedures were approved by the Board.

Recommendation No. 3: the administration should immediately develop and put in place a set of well-defined and internally consistent procedures to ensure that the objectives of the accounting policy on supplementary-funds income are achieved.

### Action taken by UNICEF

62. UNICEF has reviewed its procedures to ensure consistency. These will be consolidated as part of volume I of the UNICEF Accounting Manual to be issued in 1989. Financial Circular No. 31 referred to above was produced in this process.

Recommendation No. 4: as an immediate measure, the Accounts Section of UNICEF should review the recording of contributions, particularly for supplementary funds, by the Finance Section. As a permanent measure, all accounting work currently performed by the Finance Section should be transferred to the Accounts Section.

Action taken by UNICEF

63. The Accounts Section now reviews, on a periodic basis, the recording of contributions made by the Finance Section. This analysis, in turn, is reviewed by the Office of Internal Audit. The staffing structure of the Division of Financial Management has been reviewed and redefined in order to strengthen the recording of supplementary-funds income and to ensure that proper control mechanisms are in place.

Recommendation No. 5: the policies and the practices of charging the recovery rate and the actual recovery of administrative costs from supplementary-funded projects should be reviewed to ensure that the practice is consistent with policy and that the latter clearly reflects the intent of the Executive Board. Likewise, guidelines and instructions issued to implement the policy should be clear and precise to avoid misinterpretations.

Action taken by UNICEF

64. The policies and procedures have been reviewed to ensure consistency with Executive Board policy. These will be consolidated as part of volume I of the Accounting Manual to be issued in 1989.

Recommendation No. 6: control over project posts, whether dealing with administration or project support, should be strengthened. The Board of Auditors supports the stand of the Advisory Committee on Administrative and Budgetary Questions that the Executive Board should maintain specific and direct control over all posts dealing with administration or project support, regardless of the source of funding.

Action taken by UNICEF

65. Control over project posts has been strengthened. All project posts must be reviewed and approved by the Budget Planning and Review Committee and UNICEF project posts at headquarters are reported in detail to the Executive Board in the biennial budget document.

Recommendation No. 7: the system of monitoring programme activities should be improved in order to ensure effective programme implementation.

Action taken by UNICEF

66. The system of monitoring programme activities has been strengthened through the implementation of the programme management module contained in the UNICEF computer-based field system known as the Global Field Support System.

Recommendation No. 8: the administration should pursue its plan to revise its budget manual and to issue a budget instruction on the refinement of the definition and usage of the cost centre "unallotted reserve", in order to facilitate budgetary control over unallotted reserve.



Action taken by UNICEF

67. The Budget Section has issued an instruction that clearly states the definition and usage of the cost centre known as "unallotted reserve".

Recommendation No. 9: the UNICEF Procurement and Assembly Centre at Copenhagen should improve its procurement, disbursement and inventory management system to ensure that:

- (a) Correct payments are made for the amount due to suppliers and overpayments are immediately recovered;
- (b) Payment for goods not yet received is prevented;
- (c) Inventories are properly valued;
- (d) Trade discounts are accurately processed and properly taken up in the books;
- (e) Proper cut-off procedures are observed;
- (f) Responsibility for quality control is assigned to a specific office and this office is required to make specific recommendations on the disposition of unacceptable goods;
- (g) Issuance of supplies is properly billed.

Action taken by UNICEF

68. During 1988, a complete review of the policies and procedures of the Centre was undertaken. As a result, a comprehensive accounting instruction for it was issued. In addition, the Centre has begun to redesign its procurement and inventory management systems.

Recommendation No. 10: the audited UNICEF field office should improve its monitoring and control over programme implementation, in particular, in the monitoring of cash call-forwards and basic assistance lists and in the processing of legalization of advances to the Government, to ensure that:

- (a) Cash call-forwards are not overdrawn or mischarged;
- (b) Cash call-forwards are drawn in accordance with the basic assistance list lines;
- (c) Cash call-forward status reports are reconciled with the cash assistance report.

Action taken by UNICEF

69. All UNICEF field offices have been instructed to review and improve their internal procedures regarding programme implementation, cash call-forwards and basic assistance lists.

Recommendations Nos. 11 and 12: the Greeting Card Operation should improve its procurement system and accounting controls to ensure that accepted deliveries pass rigid quality control, that proper cut-off procedures in the recording of receivables and inventory are observed and that sound accounting principles are followed in recording sales and reporting doubtful accounts. Likewise, the Greeting Card Operation should see to it that activities undertaken are authorized and are not in contradiction with agreements signed with National Committees.

Action taken by UNICEF

70. In accordance with UNICEF financial regulation 12.1, the Executive Director has formulated a set of financial rules for the Operation to ensure that proper procedures and controls are in place. The Operation has also instituted measures to ensure that all its activities are authorized before they are undertaken.

Recommendation No. 13: the UNICEF office at Geneva should improve its disbursement system and budgetary controls to ensure that a proper system of checks and balances is maintained and that the UNICEF Financial Regulations and Rules are fully followed.

Action taken by UNICEF

71. The Geneva office has reviewed its procedures to ensure that the UNICEF Financial Regulations and Rules are fully followed.

3. 1986 regular audit

72. The 1986 regular audit of the UNICEF accounts resulted in a substantial number of recommendations. The most important recommendations were repeated in the 1986 expanded audit as noted in paragraphs 60 to 71 above.

73. The balance of recommendations resulting from the original 1986 audit and a summary of UNICEF actions can be found in a separate document entitled "Report to the Advisory Committee on Administrative and Budgetary Questions regarding follow-up on issues raised in the expanded audit of the 1986 accounts of UNICEF" (E/ICEF/1989/AB/L.3).

D. United Nations Relief and Works Agency for Palestine Refugees in the Near East

74. The Board of Auditors' summary of recommendations on their audit of the financial accounts of UNRWA (A/43/5/Add.3) for the year ended 31 December 1987 contained two points:

(a) The Financial Regulations and Rules of UNRWA should be revised with a view to bringing them into line with current account policy;

(b) The amount of contributions receivable in cash (contributions pledged, but unpaid at year-end) should be disclosed in a note on the face of the statements of assets and liabilities relating to all funds, the General Fund and the Lebanon Emergency Fund.

75. UNRWA considers that both recommendations were implemented. In the case of (a), the necessary revisions were approved by the Advisory Committee on Administrative and Budgetary Questions in their letter of 19 December 1988 to the Secretary-General (AC/955). An amendment to the Financial Regulations was subsequently issued. The recommendation under (b) was implemented by a corrigendum to the "1987 Accounts - Notes to the Financial Statements 1(B)". Within that revised note the contributions receivable as at 31 December 1987 were disclosed.

#### E. United Nations Institute for Training and Research

76. The following remedial actions have been taken on problems pointed out in the report of the Board of Auditors concerning UNITAR (A/43/5/Add.4, paras. 10-30):

(a) Financial administration of Special Purpose Grants projects:

(i) As the main objection under this item relates once again to deficiencies in the financial administration of Special Purpose Grants projects, most of which are caused by the fact that UNDP funding cannot be obtained by the Institute at the beginning of the respective projects because it does not have executing agency status, the Executive Director has (unsuccessfully) attempted in 1988 to obtain this status for the Institute. He has now taken up the matter again with the support of the Director-General for Development and International Economic Co-operation and the Legal Office of the United Nations. It appears from their replies that the General Assembly at its forty-fourth session will have to consider this issue before UNITAR can be appointed an executing agency of UNDP;

(ii) Outstanding obligations as at 31 December 1987 have been reviewed and corrected;

(b) Monitoring and delivery of a project: the project mentioned in paragraphs 15 to 20 of the Board's report had to be terminated before its completion. It has not been possible to secure a binding commitment from the former Special Fellow in charge of the project as to the availability of the final report. The Executive Director had to take that decision in order to bring to an end a situation embarrassing to both the donor and the Institute. The current methods of programming ensure that such failures do not recur;

(c) Cash management: Cash management is part of the functions that the Office of Programme Planning, Budget and Finance of the United Nations handles on behalf of UNITAR. The Institute has been informed by that Office that the backlog of bank reconciliations and cash receipts has been cleared up;

(d) Experts and consultants: the observations under this item relate mainly to the hiring procedures and medical clearance of experts and consultants. The delays mentioned in the report will be eliminated shortly as a decentralized procedure, in particular for the UNITAR/UNDP Centre for Small Energy Resources at Rome, is being worked out. This will also eliminate the partial non-compliance with medical clearance requirements.

#### F. United Nations High Commissioner for Refugees

77. With reference to the implementation of recommendations made in paragraph 6 of the report of the Board of Auditors to the General Assembly (A/43/5/Add.5) on the accounts of UNHCR for the year ended 1987, the following action has been taken:

(a) Recommendations (a) (i) and (ii): recommendation (i) is being implemented. With respect to recommendation (ii), if government clearance is obtained in advance, joint inspection is not normally needed;

(b) Recommendations (a) (iii) and (iv): the recommendations are being implemented;

(c) Recommendation (b): the recommendation is being implemented;

(d) Recommendation (c): the recommendation in the first sentence is related to project control, which is being dealt with in general terms in recommendation (f) below. Agreements in the country concerned were signed in early 1988 and 1989. UNHCR has also made considerable efforts with regard to procurement in that country and is playing a more active role;

(e) Recommendation (d): funding arrangements with implementing agencies are being firmly concluded. As to measures undertaken with regard to the monitoring of projects and agencies, see recommendation (f) below. To speed up communication, electronic mail has been introduced between Geneva and 26 field offices. Seventy field offices, mainly in remote areas, are being connected by radio to their branch offices;

(f) Recommendation (e): project planning has been substantially strengthened in UNHCR. Field offices and regional bureaux at headquarters are being assisted in the planning process by the Technical Support Service and the Programme Management Service at Geneva. Projects are being reviewed three times yearly through periodic monitoring reports incorporated in the Financial Management and Information System. In addition, the Ad Hoc Committee for Operational Reviews, established in July 1987, continues to carry out programme reviews in selected countries in order to determine where change, improvements or redirection is desirable. Within this framework, Operational Review Teams undertook missions to 10 countries in 1987/88. Ongoing regional workshops and other training activities are intended to provide managers at all levels with the necessary skills. The training budget has been considerably increased;

(g) Recommendation (f): project control and monitoring have been enhanced. The Financial Management and Information System is progressively being implemented. This computerized system is based on standardized and simplified project reporting requirements. It will to a great extent facilitate project and financial control at headquarters as well as in the field. Large-scale training activities are undertaken with regard to planning procedures as mentioned above. They also concentrate on project monitoring;

(h) Recommendation (g): the recommendation was implemented;

(i) Recommendation (h): the auditors took up this matter again during an audit visit in December 1988. Their recommendation in a management letter dated 27 January 1989 has been implemented;

(j) Recommendation (i): decentralized monitoring is now undertaken. The balance of a donation-in-kind had to be cancelled as the donor was not able to confirm that the outstanding part of the contribution would be delivered in the foreseeable future;

(k) Recommendation (j): administrative instructions on consultancies were issued;

(l) Recommendation (k) (i): the custodial arrangements have been strengthened for effective safekeeping of cheques;

(m) Recommendation (k) (ii): control register books are now in place to ensure valid utilization of cheques and receipt vouchers;

(n) Recommendation (k) (iii): bank reconciliation statements are being prepared in accordance with the recommendation;

(o) Recommendation (k) (iv): the acceptability of banking institutions can be ascertained by referring to the cited reference publications, which are now updated;

(p) Recommendation (l) (i): UNHCR field offices have been reminded of the need to submit complete inventories to UNHCR headquarters. Admonitions will be issued in cases of non-compliance;

(q) Recommendation (l) (ii): UNHCR complied with this recommendation.

#### G. United Nations Environment Programme

78. UNEP notes that the Board of Auditors have stated that their previous recommendations have either been dealt with to their satisfaction or have been mentioned in their present report (A/43/5/Add.6). UNEP has taken necessary action to deal with the recommendations of the Board of Auditors as contained in their reports in the successive years, including the present one.

**H. United Nations Habitat and Human Settlements Foundation**

79. The Executive Director has carefully reviewed the report contained in document A/43/5/Add.8. He wishes to inform the Assembly that, even prior to the report, he had already given the necessary instruction for remedial action to be taken to avoid any recurrence of the observations of the auditors as they apply to Habitat.

80. With regard to paragraphs 61 to 65, allotment advices are now strictly adhered to under all sources of funds. While there is a greater degree of flexibility in administering locally raised allotment advices relating to the use of extrabudgetary resources, the certifying officers have been requested not to authorize any expenditures in the absence of or in excess of existing allotments without written authority.

81. With regard to paragraphs 165 to 168, no staff of Habitat is charged to general temporary assistance (except for maternity leave) as at 1 January 1988.

82. Other staff, namely, conference-servicing staff recruited strictly for the purpose of assisting in finalizing the typing, translation and distribution of the pre-session documentation for the twelfth session of the Commission on Human Settlements, are charged to temporary assistance for meetings on the basis of an authorization received from the Department of Conference Services, Geneva for this purpose.

**I. United Nations University**

83. The following specific measures have been taken by the United Nations University to implement the recommendations of the Board of Auditors as contained in its report on the financial reports and audited financial statements of UNU for the period ended 31 December 1987 (A/43/5):

(a) UNU received three teams of external auditors during this period. It is confirmed that most of the recommendations pertaining to accounting records have already been implemented and incorporated in the financial statements for the period ended 31 December 1987. It should be added that the University acts in close co-ordination with the Accounts Division of the United Nations Headquarters in the maintenance of accounting records and in the preparation of financial statements in order to ensure that the financial reporting standards and accounting policies and procedures used in the United Nations system are observed;

(b) The investments of the endowment fund of the University were reviewed by the United Nations Investment Committee in May 1988. The observations and recommendations of this Committee were reviewed and accepted by the Council of UNU. The Council considers this to be an extremely important matter with far-reaching implications for the future development of the University and has urged the Rector to pursue with the Secretary-General the question of establishing an independently managed investment portfolio that will enable the University to protect the real value of its capital assets and, if possible, to ensure their growth while generating an adequate income. This matter is currently under

discussion with the Secretary-General with a view to determining the most appropriate institutional arrangements for the UNU investments bearing in mind the specific requirements of the University;

(c) With regard to the question of the Rector's authority to transfer funds from one item to another without exceeding the grand total of the approved budget, the Committee on Finance and Budget of the UNU Council reviewed, at its session in December 1988, various possibilities for introducing certain budgetary controls over the authority in allocating funds without hampering the efficient functioning of the University's programme activities. This matter will be further reviewed by the Committee at its forthcoming session in July 1989 with a view to finalizing its recommendations on the subject to be reviewed by the Council in December 1989 together with the proposed UNU programme and budget for the biennium 1990-1991;

(d) Necessary steps are being taken, as recommended by the auditors, to hasten the refinement and completion of the procedures for programme planning, implementation, monitoring and evaluation so that a project management system can be put in place as expeditiously as possible.

84. The Rector wishes to express his gratitude to the Board of Auditors for its valuable observations and recommendations, which have been of great benefit to the University in the improvement of its efficiency, management, financial accountability and budgetary controls.

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