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Official Records

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at 10 a.m.
New York

SUMMARY RECORD OF THE 6th MEETING

Chairman: Mr. AL-MASRI (Syrian Arab Republic)

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

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AGENDA ITEM 121: FINANCIAL REPORTS AND AUDITED FINANCIAL STATEMENTS, AND REPORTS OF THE BOARD OF AUDITORS (continued)

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The meeting was called to order at 10.15 a.m.

AGENDA ITEM 121: FINANCIAL REPORTS AND AUDITED FINANCIAL STATEMENTS, AND REPORTS OF THE BOARD OF AUDITORS (continued) (A/44/5/Add.1, Add.3, Add.4, Add.5 and Add.7, A/44/356, 537, 541, 543 and 544)

- 1. Mr. SACKLOWSKI (Chief, Division for Finance, Personnel and Administration, United Nations Population Fund) said that the United Nations Population Fund (UNFPA) greatly appreciated the work of the Board of Auditors and would make every effort to solve existing problems. However, it did not fully share the Board's interpretation of Governing Council decisions and was concerned that the Board had again expressed a qualified opinion on the Fund's accounts, despite the explanations provided and the fact that UNFPA, as a part of the United Nations common system, was in many cases unable to act on its own. Although steady improvements were occurring, they frequently remained unseen.
- 2. The reasons for the qualified opinion included the absence of audited "status of fund" statements from United Nations executing agencies, Governments and non-governmental organizations (NGOs), the problem of unliquidated obligations and non-application of the delivery principle, and the question of delineation between programme and administrative expenditure. With respect to almost all those factors, the situation of UNFPA was identical to that of the United Nations Development Programme (UNDP), and the Fund did not wish to add anything of substance to the pertinent comments of UNDP. In the case of NGOs, however, the Fund was taking action by itself and hoped that new guidelines, to be issued shortly, would be enforced to the maximum possible extent.
- 3. The problem of distinguishing between programme and administrative costs, while similar to that experienced in UNDP, had some characteristics unique to UNFPA. Despite the declared objective of standardizing the financial statements of audited organizations and programmes, UNFPA, as a small organization in the United Nations system, did not feel it should take the lead, preferring instead to follow the practices established by UNDP. At the request of the Governing Council, the Fund had developed guidelines in the critical area of personnel costs and was continuing to develop guidelines in other areas. Since 1988, it had not had a single project post at Headquarters. Meanwhile, it was reporting to the Governing Council on "grey zone" costs, which could reasonably be included under either project or administrative expenditure. "Grey zone" expenditure would amount to \$300,000 at most in 1988, i.e. 1 per cent of total administrative costs or 0.2 per cent of total project expenditure. Such an amount hardly appeared to justify qualification of the audit opinion.
- 4. Several speakers had asked what efforts the Fund was making to comply with the instruction that its observations on the comments and recommendations of the Board of Auditors should be provided before reports were finalized. The Fund had complied with the instruction in its replies to the 1986 and 1987 reports, and had provided an interim reply on elements which it considered crucial in response to the 1988 report. Its submission of a partial reply before and the final reply after the deadline was due to the fact that in June 1989 it had, like UNDP, only

(Mr. Sacklowski)

two weeks in which to prepare its observations, at a time when both UNDP and UNFPA had to make presentations to the Budget and Finance Committee of the Governing Council.

- 5. Although it was impossible to go into detail on every item, he wished to respond to some questions raised by the representative of India. On the positive side, budgetary control had improved considerably; UNDP and UNFPA had concluded an agreement on the financial services provided by the Programme to the Fund; the Treasury Section of UNDP was now in charge of the Fund's investments; and the proportion of administrative costs had been reduced. However, the growth of project and administrative expenditure was not always simultaneous: an increase in administrative costs tended to precede an increase in project delivery by about two years. On the negative side, the Fund should certainly not pay overheads of 13 per cent to executing agencies if its field offices were doing all the work of project delivery. UNFPA was awaiting the outcome of a study on the subject of overheads by a UNDP-supported expert group before taking action in that regard. The Information and External Relations Division had not always followed standard procurement procedures, but the shortcomings were being corrected. Turner Broadcasting was not a NGO, but, in the circumstances, the rules applying to NGOs appeared more appropriate than those governing purchases of services in the commercial sector. The Fund should not initiate trust fund projects unless they were fully funded; the cases which had occurred in 1988 were of an urgent and exceptional nature.
- 6. Mr. GARRIDO (Philippines) said that the problem of delineation between programme and administrative expenditure would continue to be faced in years to come unless proper guidelines were established. Since the Governing Council could not be expected to provide such guidelines, perhaps the Board of Auditors might do so, not only for UNFPA but for all other agencies with similar problems.
- 7. Mr. NASSER (Egypt) wished to know what proportion of the Fund's total budget was represented by administrative costs and whether it considered that proportion reasonable.
- 8. Mr. UPTON (United Kingdom), while noting that guidelines were to be issued shortly, requested clarification of the most unsatisfactory position whereby only 11 per cent of the 1988 financial reports had been provided. In addition, the practice of certain Governments of withholding portions of salaries and allowances from local staff ran entirely contrary to the policies of United Nations technical assistance projects. He requested further information on that subject, including, in particular, the amount of funds involved and an indication as to whether the practice was very widespread.
- 9. Mr. SACKLOWSKI (Chief, Division for Finance, Personnel and Administration, United Nations Population Fund), said in response to questions raised by the representative of the Philippines, that the categorization of specific projects depended, to some extent, on decisions made not by the Fund but by the Governing Council. The problem could perhaps be resolved if more projects were charged to

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the administrative budget, since complaints usually related to the diversion of funds in the other direction. With regard to individual items, an attempt was already being made to develop systematic guidelines covering such things as correspondence and travel costs. However, he was unable to comment on the suggestion that detailed guidelines should be provided by the Board of Auditors while the question of standardizing financial statements remained under review.

- 10. In reply to the question of the representative of Egypt, he said that administrative costs represented approximately 19 per cent of the total budget as of June 1989. That proportion was not identical to the figure of 23.9 per cent, quoted in the report of the Board of Auditors, which included both the administrative costs of UNFPA and the overheads of two executing agencies. Overall administrative costs as a proportion of the Fund's budget had declined from 31.3 per cent in 1987 to 28.9 per cent in 1988.
- 11. The guidelines mentioned by the representative of the United Kingdom were designed for NGOs rather than Governments in their capacity as executing agencies of UNFPA programmes, and it was the latter which had provided only 11 per cent of the financial reports required from them. It had been suggested, in the course of discussions on the financial statements of UNDP, that Governments should not be permitted to function as executing agencies if they did not supply audited financial statements. There was some question as to whether that was too much to ask of Governments, but many NGCs, particularly those located in developed countries, should certainly be able to provide proper statements. On the withholding of salaries, the Fund was aware of such a problem in two countries. It was certainly not satisfied with the situation but hoped that UNDP, as the much larger organization, would take the lead in solving it. Discussions on the subject were continuing.
- 12. Mr. MILES (United Nations Relief and Works Agency for Palestine Refugees in the Near East), said that the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) would give the most serious consideration to the recommendations of the Board of Auditors and to the comments that had been made.
- 13. Referring to the Board's recommendation that income and and expenditure of the School Voluntary Assistance Fund (SVAF) should be fully accounted for and regularly reported in the project fund statements, and that a distinction should be made between sources of income, he explained that, many years earlier, active and committed school principals and teachers had joined with parents in stimulating community interest in their local schools, and had established small funds out of which they had paid for small improvements in the school environment, or had purchased items that UNRWA could not provide. Those funds comprised voluntary contributions from the community as well as small rents from concessions granted to food and candy vendors operating on school grounds. That concept had spread throughout the UNRWA school system so that currently there were a great many such small funds.

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- 14. In its report on the accounts for 1986, the Board of Auditors had noted that those funds were not reported in the financial statements and had recommended that specific financial and technical instructions dealing with school contributions and proceeds from the rental of canteens should be issued and proper accountability and reporting of such funds should be ensured. The Agency had responded by including an item covering all those funds in the statement on project funds and by issuing instructions, effective 1 January 1988, to ensure that the funds were properly accounted, reported and checked. In 1989, the Doard had expressed concern about the accounting and reporting of those funds. In response, the Agency had already separated the two sources of income in its internal accounting, and would give careful consideration to the Board's other recommendations, particularly with regard to strengthening controls. However, to subject such small grass-roots participation funds to the same rigorous controls that applied to other agency expenditures might well render their operations so cumbersome as to kill all interest in them and lead to their quick demise. Great care would therefore be needed in order to find the right balance between the need for control and the maintenance of community interest and participation.
- The Board of Auditors had also criticized the management of the Area Staff 15. Provident Fund, a question on which the representatives of France, India, Bangladesh and the United States had also expressed concern. Attention had been drawn to the increase in administration expenses and managers' fees over the previous three years and fault had been found with the decision to appoint a global custodian and with the way in which the investment managers' fees had been determined. The Fund currently had substantial assets of approximately \$440 million and was the only source of retirement benefits of UNRWA area staff. The management of the Fund rested with the Commissioner-General under the terms of area staff rule 106.1, 20. In practice, however, the situation had evolved over the years and there was currently a Provident Fund Advisory Committee whose function was to advise the Commissioner-General on all aspects of the Provident Fund Advisory Committee with the function of advising the Commissioner-General on all aspects of the Provident Fund, including general administration, control and investment policy. Parallel to that development, the participation of the staff had expanded and currently 6 of the 12 members of the Provident Fund Advisory Committee were representatives of the staff. The Committee took its decisions by consensus and the administration would not normally act contrary to the wishes of staff representatives. Any criticism directed at the administration must therefore also involve the Provident Fund Advisory Committee and any remedial measures must be developed through that Committee and with the assent of the staff. Commissioner-General could not in practice simply take a decision to change the existing administrative or control arrangements.
- 16. With a view to improving the management and performance of the Fund the Agency had, in 1985, commissioned a study by a consultant, who had recommended a complete reorganization involving the selection of a global custodian along with a new system for selecting and controlling investment managers who would have responsibility for a specified proportion of the Fund's resources covering specified areas of the investment field. In 1987, on the recommendation of a

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sub-committee of the Provident Fund the Commissioner-General had appointed a particular institution to be global custodian. In the meantime, however, the staff representatives had decided not to go along with the other part of the package recommended by the consultant, relating to the investment managers. The old system of investment managers had therefore remained in place so that a crucial element in the package was missing, making it impossible to obtain the benefits expected of the new system. The Agency could not therefore agree that the performance of the global custodian had failed to meet expectations.

- 17. As to the future, the Agency found it difficult to agree with the suggestion that the global custodian should be replaced by a specialized unit within the Agency itself. The custodian's functions involved not only control of investment managers but also the assumption of physical custody of securities and the checking of transactions all over the world. Such functions were far beyond the Agency's capacity and could best be performed by firms which specialized in such matters and had worldwide facilities. Nor could custodial functions be returned to the investment managers; that had not been a satisfactory arrangement before and was currently illegal in at least one of the major countries in which Provident Fund assets were invested. The Agency also understood that it was common practice for pension funds, including the United Nations Joint Staff Pension Fund, to rely on the services of a custodian. The Agency was negotiating with the current global custodian and expected that the result would be a substantial reduction in fees, based on the fact that the cubtodian's responsibilities were more limited than had originally been anticipated. The Agency would also continue its review of the management of the Fund, in particular the fees charged by the investment managers and the services they provided.
- 18. With regard to the recording of unliquidated obligations, the representatives of France and India had referred to the comments of the Board of Auditors which had expressed the fear that current practices might lead to an overstatement of expenditure and had recommended changes. The Agency shared the Board's concern about possible abuses in the recording of unliquidated obligations and intended to clarify to managers the distinction between liabilities, obligations and carry forwards. He had however, been asked to make it clear that the agency could not agree with the Board's view that only goods delivered and services rendered should be recorded as expenditure. Like UNDP and other agencies, UNRWA believed that goods and services ordered but not yet delivered constituted an obligation that could not be ignored as part of the year's expenditure. UNRWA supported the suggestion by UNDP that, in view of its importance, the matter should be taken up in the discussions on the further harmonization of accounting practices within the United Nations system.
- 19. Mr. GARRIDO (Philippines) expressed the view that the fees of the investment managers, together with related travel and per diem expenditures, were rather high and asked how they compared with the arrangements made by other agencies in the United Nations system, including, in particular, the United Nations Joint Staff Pension Fund.

(Mr. Garrido, Philippines)

- 20. In connection with the recording of unliquidated obligations, he agreed with the view of the Board of Auditors that goods and services ordered but not yet delivered should not be regarded as expenditure.
- 21. Mr. GUPTA (India) noted that the question of fees paid to the custodian was currently under consideration but said he had formed the impression that UNRWA was not particularly concerned with the custodian's performance. It was clear from paragraph 39 of the report of the Board of Auditors that the custodian had failed in all of the functions he had been expected to perform, as specified in paragraph 38. The return on investments in 1988 had been the lowest since 1984 and overall performance was dismal in comparison with that achieved by the United Nations Joint Staff Pension Fund. He asked what remedies were being sought by UNRWA.
- 22. Mr. UPTON (United Kingdom) expressed the hope that UNRWA would agree that the wording of the last sentence of paragraph 42 of the report of the Board of Auditors was unfortunate. It would seem that a new cartel was in process of being established. He sought an assurance that the current review would be pursued on the basis of performance rather than the benefits which might accrue to investment managers.
- 23. Mr. MILES (United Nations Relief and Works Agency for Palestine Refugees in the Near East), in reply to the representative of the Philippines, said that he was not in a position to express a view as to whether the fees paid to investment managers were too high. The current fees had been worked out on the basis of tenders by a number of investment organizations considered by the Advisory Committee. Travel and per diem costs had been taken into account when the tenders were under consideration.
- 24. The issue of unliquidated obligations was far from simple and other organizations were faced by the same problem. He hoped that the issue would be worked out in co-operation with other agencies.
- 25. The issue of the fees paid to the custodian, to which the representative of India had referred, was being re-examined in the context of the complete review which was currently taking place. The proposed cheme, only part of which had been adopted, would have simplified the control of investment managers and would have reduced their responsibilities and fees. The Advisory Committee would, however, pay particular attention to the control of investment managers in its survey. On the issue of low performance, the overall return on investments in 1988 had been 9.4 per cent and that of individual managers had ranged between 7.2 per cent and 11.8 per cent. The custodian had been brought in as part of a proposed package which had not been adopted and efforts were currently being made to develop a better system. The Agency continued to feel that a global custodian was necessary as part of any new system since it did not have the capacity to perform that function itself.

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- 26. The representative of the United Kingdom had referred to the issue of fees mentioned in paragraph 42 of the report of the Board of Auditors. He assured him that investment managers would in future be chosen on the basis of expected performance and capacity.
- 27. Mr. DOO KINGUE (Executive Director, United Nations Institute for Training and Research), referring to the comments made by the spokesman for the European Economic Community and the representative of Ghana to the effect that paragraphs 19 and 20 of the report of the Board of Auditors (A/44/5/Add.4, part II) gave the impression that, in 1988, the budget of the United Nations Institute for Training and Research (UNITAR) had been in deficit and that the Executive Director had exceeded the approved limit on expenditure, said that he would like to clarify the facts.
- 28. At its twenty-sixth session, in April 1988, the Board of Trustees of UNITAR had adopted a balanced budget at the level of \$1,069,700. At the same time, it had decided that, if income did not reach the amount estimated, the Executive Director should consult the Chairman of the Board of Trustees before reducing approved expenditure, and that, if additional resources were available, the Executive Director was authorized to implement two training projects that he had been compelled to cancel in order to balance the budget, namely, a regional training and refresher course in international law for Latin America and the Caribbean and the seminar for new members of Permanent Missions at Geneva. As income had increased by 24 per cent, to \$1,330,128, the Board of Trustees, at its meeting on 13 September 1988, had approved a revised budget permitting expenditure of \$1,273,571 and leaving a surplus of \$56,557. That surplus had served to reduce UNITAR's debt to the United Nations.
- 29. Contrary to the impression left by the report of the Board of Auditors, he had therefore not exceeded the budgetary authority given him by the Board of Trustees. Moreover, the 1988 budget had not been in deficit; there had been a surplus. As the Board of Trustees had requested, he had kept its Chairman fully informed of the financial situation between the Board's meetings in April and September 1988.
- 30. The representative of Canada had referred to the need to refrain from committing funds to a project before receiving the necessary resources. That principle was applied to most projects financed by the Special Purpose Grant Fund. Problems had arisen in that connection only with UNDP because UNITAR was not yet a UNDP executing agency. The Secretary-General had requested the General Assembly to authorize UNITAR to become an executing agency of UNDP; such a status would enable UNITAR to receive from UNDP every quarter, in advance, the resources needed for the implementation of projects to be financed during the three following months. Currently, UNITAR was regarded as a subcontractor of the Office for Projects Services of UNDP, which required UNITAR to advance the equivalent of between 20 and 50 per cent of the cost of a project, an amount that was reimbursed only on the completion of the project. He hoped that the General Assembly would approve the Secretary-General's request, which had the support of the Board of Trustees of UNITAR and of the Board of Auditors.

(Mr. Doo Kinque)

- 31. Replying to the representative of India, who had requested clarification of a \$30,000 grant received by a UNITAR fellow from a private foundation; he said that the amount in question related to a research project which formed part of UNITAR's work programme for the years 1988-1989. With his approval, financing had been negotiated on behalf of UNITAR with the fellow concerned on the understanding that the amount in question would reach UNITAR through the United States Committee for UNITAR, a procedure which would have made it possible for the private United States foundation concerned to avoid paying taxes on the grant. The private foundation had, however, been misinformed and had paid the contribution directly to the UNITAR fellow in order to ensure that the contribution would be tax deductible. It had been understood that UNITAR would retain 13 per cent of the contribution as programme support cost, pursuant to General Assembly resolution 42/197, and that the expenditure incurred by UNITAR in the course of the project would be reimbursed. The 13 per cent programme support cost had already been received and the other costs incurred would be reimbursed against submission of invoices.
- 32. He regretted the way in which the project had been financed but wished to assure the Committee that every precaution had been taken in order to safeguard the interests of UNITAR, and he had instructed his staff to refuse similar offers in future. The same UNITAR fellow had been able to negotiate supplementary financing for the project with scrupulous respect for those instructions. Other research projects were also being negotiated on the basis of his instructions.
- 33. In conclusion, he drew the Committee's attention to a recent practice of the Board of Auditors which was of some concern to the Institute. The previous year, UNITAR had been audited twice because the team of auditors which was examining UNITAR had been replaced by a new team. The inspection by the old team had taken place in March/April and the inspection by the new team had taken place in November. It had been explained that the second audit had been arranged in order to familiarize the new team with the Institute's problems. However, during the current year, UNITAR had again been audited twice, and by the same new team. The first audit had taken place in March/April and the second had just begun. He had ventured to raise the issue, not because UNITAR was afraid of audits, but because, with a small budget and reduced staff, two annual audits required the Institute to devote a disproportionate amount of time to those audits instead of concentrating on the preparation and implementation of programmes. Moreover, UNITAR had to pay the increasing costs involved. He hoped that the Committee would be able to find a way to provide some relief in that area.
- 34. Mr. UPTON (United Kingdom) asked whether disciplinary action had been considered against those responsible for the lack of records referred to in paragraph 13 of the report of the Board of Auditors. He also wondered whether the final financial statement on the project referred to in paragraph 40 had yet been received.
- 35. Mr. BOUR (France) remarked that, if the accounting problems which UNITAR faced could be resolved by giving the Institute the status of an executing agency, the General Assembly should take appropriate action as soon as possible.

- 36. Mr. GARRIDO (Philippines) said that in some public administrations, anyone responsible for allowing disbursements to exceed allotments, or for overdrawing an account, was held personally liable. He wondered whether the same was true in the United Nations.
- 37. Mr. DOO KINGUE (Executive Director, United Nations Institute for Training and Research), responding to the points made by the United Kingdom representative, said that the problem referred to in paragraph 13 of the report of the Board of Auditors dated back to before he had been in charge of UNITAR, and he could offer no first-hand information on the subject. In the incident referred to in paragraph 40 of the Board's report, the project donor had asked UNITAR to transfer the staff member involved to another agency when the work was finished. The transfer, arranged through an exchange of letters between UNITAR and the donor, had included the balance of the funds from the completed project. That being so, UNITAR had not originally thought it necessary to draw up a separate final financial statement. In response to the Board's comments, it had now done so.
- 38. He was very pleased to hear that the French delegation would support the granting of UNDP executing agency status to UNITAR.
- 39. The question raised by the Philippine representative really needed to be answered by a member of the United Nations Secretariat, which administered the Institute's funds. It should be remembered, however, that the Institute was on occasion promised funds for new projects by donors for whom it was already managing substantial sums; refusing to enter into any commitment before extra, officially earmarked money was provided might seem rather discourteous.
- 40. Mr. GARRIDO (Philippines) said he had not intended his question as any personal criticism of Mr. Doo Kingue. Simply as a general point, he felt that disciplinary action was needed against those who deliberately broke the Organization's Financial Regulations and Rules.
- 41. Mr. UPTON (United Kingdom) said that he, too, had intended no personal criticism of the Executive Director. On the other hand, cases such as that of the missing records should not be allowed to recur anywhere in the United Nations.
- 42. Mr. SAMBA (Office of the United Nations High Commissioner for Refugees) said that the Office of the United Nations High Commissioner for Refugees (UNHCR) had set up an "audit contact group" to identify the action needed to correct the periodic shortcomings criticized in reports by the Board of Auditors. It keenly regretted the incident to which the French representative had drawn attention; on the other hand, it had been the first to spot the problem and had immediately called for a proper internal audit. The executing agency concerned no longer worked for UNHCR and had, indeed, gone out of existence.
- 43. UNHCR was now going through a crucial and financially difficult period, and had to increase its resource base. Early in 1989, discussions had been held on the possibility of fund-raising through non-conventional channels, using a combination of direct marketing and public information. Such an approach would require

(Mr. Samba)

innovation and investment. Contacts had been made with donors to seek their support, and a proposal was likely to be submitted to the Executive Committee at its current session. A draft standard host country agreement was also likely to be submitted at the current session.

- 44. In reply to the point raised by the Ukrainian representative, he said it was not normal practice to invite members of either the Internal Audit Division or the Panel of External Auditors to meetings of the Executive Committee, but all UNHCR administrative and financial documents were at the auditors' disposal.
- 45. Ms. OLDFELT HJERTONSSON (Sweden) reminded the Committee that the questions raised by the Nordic countries had not yet received a response.
- 46. Mr. SAMBA (Office of the United Nations High Commissioner for Refugees) confirmed that all spending by UNHCR from both general and special-purpose funds was included in the annual accounts. Under the financial regulations governing UNHCR, the yearly accounts were submitted to the United Nations Board of Auditors and transmitted, after certification, to the Executive Committee. The UNHCR accounts were also subject to audit by the United Nations Internal Audit Division.
- 47. Ms. OLDFELT HJERTONSSON (Sweden) said that the Nordic countries also expected a reply from the Chairman of the Board of Auditors in due course.
- 48. Mr. BOUR (France), supported by Mr. GARRIDO (Philippines), regretted that there was no representative of UNICEF with whom to discuss the Fund's accounts, as a result of the decision taken by the UNICEF Executive Board. He hoped delegations would accept the proposal that the Board of Auditors should report its principal findings on the UNICEF accounts to the General Assembly.
- 49. Mr. GOMEZ (Controller) apologized to the Committee for the late issuance of documentation on the item. The documents in question required input from a number of offices and duty stations, and that contributed to the delay. In addition, the year had been particularly badly disrupted by the staff redeployments and the unceasing demands of peace-keeping operations.
- 50. He concurred with delegations regarding the importance of full financial accountability. Effective management and financial control was his principal concern, and he would spare no effort to ensure that the resources provided by Member States were used in the most efficient manner possible.
- 51. He was informed that the UNDP representative in Viet Nam had been instructed to ensure that appropriate equality among the languages of instruction used at the United Nations school there.
- 52. The United Kingdom representative had raised a question about the UNITAR accounts: he was advised that the problem, relating to a project based in Senegal, was not one of financial loss but of failure to certify expenditure properly, because of a shortage of staff in the field.

(Mr. Gomez)

- 53. The representative of Japan had expressed concern at the fact that outstanding balances were recorded as accounts payable at the end of 1988. The Committee could rest assured that the recording of unliquidated obligations as accounts payable had applied and would continue to apply only in the case of peace-keeping operations and technical co-operation activities. He could also assure the French representative that the United Nations had carried out the review mentioned in resolution 43/216.
- 54. The representative of Japan had asked when the retrenchment and restructuring exercises would be completed and the retraining programme would be established. The restructuring of the Secretariat, in so far as it lay within the authority of the Secretary-General, was now virtually complete. It could not be regarded as finished, however, pending action by a member of intergovernmental bodies. The subject could be discussed in greater detail when the Committee took up the item on personnel questions.
- 55. The United States delegation had suggested that the United Nations operational rate of exchange should be revised at year end, in order to take into account exchange gains and losses that should have been recognized in the financial statements. The Consultative Committee on Administrative Questions had decided that revaluing just one or two items among the various assets and liabilities shown in balance sheets would raise problems of consistency, while making revaluations for all items would be extremely difficult. It had suggested that the best course might be to add a footnote to the financial statements, indicating the value of the assets in question at the operational exchange rate for January whenever there was a material difference between that and the December rate.
- 56. The Chairman of the Board of Auditors would respond to the Egyptian delegation's question about the terms of reference of the Board. Meanwhile, he wished to confirm that the United Nations was also bound by those terms of reference.
- 57. The United Nations already had appropriate means of enforcing its Financial Rules and Regulations. Financial rule 114.1, and similar rules governing the voluntary funds, made every official of the United Nations responsible to the Seletary-General for action taken in the course of official duties. Any official who acted contrary to the Financial Rules or pertinent administrative instructions could be and was held personally responsible and financially liable for the consequences.
- 58. A number of delegations had expressed interest in the report of the Secretary-General on standardizing the presentation and format of financial statements and accounting policies [A/44/537]. Tables 1 and 2 of the report contained comparative analyses of the presentation of financial statements and of the accounting policies followed by the organizations and programmes audited by the United Nations Board of Auditors. As the tables revealed, the similarities far outnumbered the differences. The differences that remained had arisen for several reasons, one being the diverse nature of the organizations' activities, and another

(Mr. Gomez)

the fact that some were more innovative in their accounting and financial policies than others.

- 59. The Chairman of the Advisory Committee had stated in his oral report on that document that ACABQ believed that the United Nations should take the lead in exploring further changes in the presentation of its financial statements and in its accounting practices. The Administration had taken due note of that recommendation. In that context, the United Nations intended to look closely at the way in which other organizations in the system had addressed the need for clarity, simplicity, meaningfulness and full disclosure. It would benefit from their experience and at the same time offer them an opportunity to take advantage of its initiatives in that regard. The Consultative Committee on Administrative Questions kept accounting and financial questions under regular review, in particular in the context of the work of the Panel of External Auditors.
- The Chairman of the Advisory Committee had also made the point that standardization and harmonization of accounting policies differed from standardization and harmonization of financial policies. The distinction was important. While it was one thing to see that financial reports and accounts followed the same overall structure and that accounting policies were harmonized to the greatest extent possible, it was a greater challenge to ensure that the underlying financial policies of the entities of the United Nations were in harmony with one another. Fortunately, the Organization possessed a well-drafted set of Financial Regulations and Rules that formed the basis for the companion regulations and rules of UNDP, UNICEF and the other entities which had separate regulations. certain thrust for unity existed within the system, and the various entities exchanged information, not only on the Financial Rules but on the supporting instructions which helped to implement those Rules, and consulted each other regularly. They also recognized that those instruments must evolve as necessary. It was to be hoped that, under the watchful eye of the Board of Auditors, the financial policies of all United Nations organizations and programmes would develop in a cohesive manner, while remaining clear in their application and fully responsive to the wishes of Member States.
- 61. Mr. DANKWA (Ghana) said that his delegation intended to press the issue of financial responsibility and liability to its logical conclusion at the current session. He asked whether the United Nations possessed guidelines which clearly spelled out coercive measures against violations of the Organization's Financial Regulations of the kind that existed in most national systems.
- 62. Mr. INOMATA (Japan) said that the position with regard to reviews of appointment status, as described in paragraph 14 of the Secretary-General's report on the implementation of the recommendations of the Board of Auditors and of ACABQ (A/44/541), was still unclear. The paragraph indicated that the Secretary-General considered 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 should be reviewed after the retrenchment and restructuring exercises had been completed. The implication

(Mr. Inomata, Japan)

seemed to be that, unless the General Assembly took a further decision, the <u>Status quo</u> would prevail. In his delegation's view, recommendation 45 should be applied because as far as the Secretariat was concerned the exercises had been completed.

- 63. The Controller had reminded the Committee of the distinction between the standardization of financial policies and the standardization of financial statements. Accounting policies and financial policies were two separate things. Towards the end of his remarks, the Controller had stressed the cohesiveness of financial policies in the United Nations system in the light of the almost identical financial regulations and rules that operated throughout it. The major question, therefore, was how to improve the financial objectives embodied in the Financial Regulations and Rules: for example, how to ensure financial accountability, enhance efficiency and economy in the use of resources and increase administrative efficiency. In considering the reports of the Board of Auditors, the Committee was discussing not only financial audits, but also management audits, which seemed to be becoming quite the fashion throughout the United Nations system. It was to be hoped, therefore, that the standardization of financial policies currently being pursued would take into account the views expressed, especially with regard to improvements in management. The discussion could perhaps provide a basis for identifying the substantive elements of the framework for the standardization of financial policies that the Administration had in mind.
- 64. Mr. BOUR (France) said that his delegation found the Controller's explanation of the delay in issuing the documents relating to the item under discussion not altogether convincing. On the matter of unliquidated obligations, he noted that the study called for in General Assembly resolution 43/216 had not yet been completed. The Secretariat should not, therefore, decide whether or not to retain the current system until the results of the review were out. The standardization of the presentation of financial statements and the standardization of accounting procedures should go hand in hand. In order to ensure greater transparency and precision in the accounts of the organizations in the system, presentation must be simplified. Steps should also be taken to see that the executive bodies concerned adopted identical financial principles. For the time being, since most of the organizations in question depended directly on the United Nations, its Financial Regulations and Rules should apply.
- 65. Mr. NASSER (Egypt) said that he had asked a question about the terms of reference governing the audit of the United Nations which had led to the list presented in the Secretary-General's report (A/44/537). An interrelated question was whether General Assembly resolution 43/216 implied any change in those terms of reference. He would wait to hear the views of the Chairman of the Board of Auditors before posing a follow-up question.
- 66. Mr. GOMEZ (Controller) said that a question had been asked earlier about the fee paid by the United Nations for the administration, management and custodianship of its investment funds. He noted that the members of the Pension Fund's Investment Committee received only travel and subsistence costs from the United

(Mr. Gomer)

Nations. For the global institutional advice received by the United Nations on the management of those funds, a fee was paid of 0.04 per cent of the market value of the assets involved. For the global custodianship function, there was another fee of approximately 0.04 per cent. In addition, for the clearing and settlement of non-United States equities transactions, a commission was added to the cost. In 1988, that commission had been approximately 0.03 per cent. Overall, therefore, the Pension Fund paid a maximum total fee of 0.11 per cent of the market value of its assets for advisory and custodial arrangements made with outside entities. The Committee should keep that figure in mind in looking at the figures for other pension facilities.

- 67. Regarding the question asked by the representative of Ghana, he said that there were indeed mechanisms in the United Nations to deal with wilful violations of the Financial Regulations and Rules. There had been instances of such fraud in the past and it was always possible that more would occur. Cases were dealt with through the well-established machinery for the administration of justice, which was itself kept under constant review, and fraud could lead to a variety of penalties, culminating in summary dismissal, depending on its gravity and circumstances. machinery that advised the Secretary-General included a Panel of Counsel, a Joint Disciplinary Committee and a Joint Appeals Board. Over and above the Secretary-General was an independent judiciary power, the Administrative Tribunal, while in certain cases the International Court of Justice itself had jurisdiction. Violations of the Financial Regulations and Rules could, however, result from error or negligence rather than fraud. It was important to make the distinction, especially in view of a certain trend in the Administrative Tribunal in recent years, in cases involving no clear misbehaviour on the part of a manager but involving principles of equity, to rule in favour of the aggrieved party, normally a staff member, and impose a fine upon the Organization. The issue of whether cases of that description should or should not be treated under the provisions of financial rule 114.1 was currently being discussed by the Office of Legal Affairs. There were a number of interesting implications. For instance, the concept of equity might be held to apply to the staif also. There should perhaps be a mechanism whereby the Organization could seek redress for time and money wasted in dealing with frivolous actions involving grievances or appeals or requests for reviews of administrative decisions.
- 68. A distinction should also be made between the administration of justice and the recovery process. When fraud, or the lesser case of error or negligence, came to the attention of the control mechanism, as it almost inevitably did sooner or later, and the Organization was found to be out of pocket, immediate recovery in full was undertaken from the private resources of the certifying officer. If intent to defraud was proved, that action could escalate into another set of disciplinary measures. Recovery, however, was immediate. The control mechanism necessarily moved faster than the administration of justice which, even in administrative matters, involved due process of law.
- 69. The United Nations itself and the voluntarily funded organizations depended on one basic factor: the trust of Member States and of individuals, the peoples of

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Member States, whose taxes went to pay for them. Such trust took a long time to earn but could be lost very quickly.

- 70. The standardization of financial policies was directly related to the legislative framework of the different organizations involved. The report of the Secretary-General (A/44/537) made it clear to the Committee that a significant number of financial statements of United Nations entities did not pass through the central control point of the United Nations. In fact, only two did so. If, as it should, the Committee considered the standardization of management practices, and therefore of management goals, sooner or later it would have to come to grips with issues of authority, the responsibility of intergovernmental bodies, and appointments. He had no wish to belabour that point, which was not an easy one. He felt, however, that the current interest in the standardization of financial policies was no mere matter of fashion. It was linked to the question of acquiring and maintaining trust that had been so important to the United Nations since its inception.
- 71. On the question whether the retrenchment and restructuring exercises had in fact been completed, he noted that the Fifth Committee had still to take a decision on the Secretary-General's proposed programme budget. That document reflected the restructuring of the United Nations so far. Until approval had been granted to that process by way of an appropriation, restructuring was still incomplete. Furthermore, intergovernmental input on the economic and social side had yet to be provided. At its latest session, in July 1989, the Economic and Social Council had requested a report from the Secretary-General which was still awaiting discussion by the Second Committee. It was to be hoped that the discussion would produce a set of decisions showing that reform in the economic and social sectors had progressed further. However, as long as those two sectors had not been dealt with, retrenchment must be understood as having to do only with the fact that the General Assembly, in approving the current budget, had decided to encourage the Secretary-General's retrenchment and reform process by reducing the amount of funds made available and requesting a set of revised estimates for the staff as of 31 December 1989. Once again, that retrenched staffing table had yet to meet with the approval of the Fifth Committee. He felt, therefore, that, until such a decision was taken, he could not in any authoritative manner state that Member States had approved either the reform process or the budget that would reflect it.

The meeting rose at 1.10 p.m.