General Assembly

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Official Records

FIFTH COMMITTEE

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held on
Monday, 2 October 1989
at 10 a.m.
New York

SUMMARY RECORD OF THE 3rd MEETING

Chairman: Mr. DANKWA (Ghana)

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

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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 (A/44/5/Add.1, 3, 4, 5, 7; A/44/356, 537, 541, 543)

- 1. Mr. DOMINGO (Chairman, Board of Auditors) introduced the reports of the Board of Auditors for the year ended 31 December 1988, pointing out that the format had been slightly modified to take account of requests made by the General Assembly in resolution 43/216.
- 2. Over the past year the Audit Operations Committee had maintained a continuing dialogue with the administrations of the various audited entities and had issued 64 management letters as a result of the audits undertaken. The findings reported in those letters formed the substance of the Board's reports to the General Assembly. They related in part to the areas of budgetary control, financial statements and project activities.
- 3. On the subject of budgetary control, the Board believed that the criteria for recording unliquidated obligations with respect of both administrative and programme expenditure in UNDP, UNFPA and UNRWA allowed too much flexibility, and created uncertainty over reported expenditure. For example, in 1988 UNDP executing agencies had cancelled an average of 17 per cent of the unliquidated obligations reported as expenditure in 1987. That practice led to savings from prior years' obligations, and distorted year-end expenditure figures which included unliquidated obligations. In addition, such policies in the case of equipment and sub-contract expenditure deviated from generally accepted accounting principles. The Doard recommended that accounting policies governing the recording of unliquidated obligations at year end should be clarified in order to prevent the possibility of abuse.
- 4. On the subject of financial statements, he reported appreciable progress in the matter of the qualified opinion issued on the UNDP accounts in 1988. Of the nine specific grounds for qualification in 1987, six had been resolved. The remaining three largely related to unaudited programme expenditure which, in the Board's view, still constituted grounds for a qualified opinion in 1988. The proportion of unaudited programme expenditure by executing agencies to total programme expenditure remained too high to permit an unqualified audit opinion on the accounts of UNDP and UNFPA. Some programme expenditure had been unaudited because several executing agencies need biennial financial periods, whereas UNDP and UNFPA worked on an annual financial period. That problem was expected to be resolved in 1990, when UNDP and UNFPA would also move to have biennial financial periods.
- 5. On the subject of project activities, the Board had observed that delays n the implementation of UNDP projects were largely the result of inadequate or belated government counterpart contributions, difficulties in the recruitment or clearance of experts, and inadequate project design. The Board felt that responsibility for delay in implementation might rest with UNDP itself, with the executing agencies or with Governments. There was a strong tendency to spread

(Mr. Domingo)

resources thinly over a large number of small projects, especially when resources were limited. Small projects might be justified when they played a catalytic role in the areas concerned, but their impact was most often marginal.

- 6. Despite the views expressed by the Advisory Committee in document A/41/632, two organizations had failed to provide their comments on the Board's observations before it finalized its reports. Their comments were presented with the relevant financial reports and audited financial statements. The Board believed that all observations by the administrations should be made available to it before it finalized its report.
- 7. Mr. MSELLE (Chairman of the Advisory Committee on Administrative and Budgetary Questions) said that in its report (A/44/543) the Advisory Committee had made no general comments on the report on the voluntary funds administered by the United Nations High Commissioner for Refugees. It noted that previous recommendations by the Board had been or were being implemented to its satisfaction.
- 8. The Advisory Committee had recommended that observations by the various administrations should be incorporated into the reports of the Board, whose length it was the Board's prerogative to determine. That was particularly important in view of the desire of the General Assembly to shorten reports and reduce documentation. The Advisory Committee noted with serious concern the growing tendency of some administrations to insist that their lengthy observations should be printed separately. It would like that practice to stop.
- 9. The Advisory Committee had requested the Board to review the guidelines used in classifying expenditure as programme, programme support or operational costs, as reported in statement I of the financial statements. It would be interested to know the aggregate amounts which in the Board's view had been misclassified within UNDP and UNFPA. If those amounts were relatively small, it should be established whether they lay in the "grey" area.
- 10. The Advisory Committee welcomed the views of the Board on UNDP project posts at Headquarters: there should be full disclosure of such posts in the administrative and programme support budgets. It welcomed the progress on the long-standing problem of audit reports on expenditure by executing agencies. It would be reviewing proposed changes in the UNDP financial regulations, as called for in decision 89/61 of the UNDP Governing Council.
- 11. It was a matter of serious concern that so little progress had been made on the problem of auditing and accounting for expenditure by Governments acting as executing agents for UNDP projects. The seriousness of the subject was illustrated by some of the statistics which the Advisory Committee quoted in paragraphs 7 and 9. It was to be hoped that all concerned, including the UNDP Administration and Governing Council, would take concerted action to deal with the problem.
- 12. The Advisory Committee welcomed the recommendation by the Panel of External Auditors that the present practice of obligating funds at the commitment stage,

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(Mr. Mselle)

instead of applying the delivery principle, should be investigated to see whether there was abuse. The Board had begun such an investigation, and the Advisory Committee looked forward to its findings.

- 13. Although the Administration denied there was a breakdown in budgetary control, the Advisory Committee shared the Board's general finding that there were weaknesses in the UNDP field allotment system, caused in part by a lack of accurate and timely information on the status of expenditure and obligations. Given its recent programme of computerization, UNDP should ensure it had systems in place to provide the information essential to effective budgetary control.
- 14. The Advisory Committee noted the comments by the Board on cash management. It endorsed the views of the UNDP Administration on the objectives of investments and currency management, but disagreed with it on the question of public information.
- 15. The Advisory Committee welcomed the comments of both the Board and the Administration on programme management. Accurate project budgeting was central to UNDP operations. The Governing Council had requested the Board to report on the subject; the Advisory Committee looked forward with interest to that report.
- 16. The Advisory Committee had requested the Board to evaluate the accuracy and effectiveness of instructions issued by UNRWA regarding the management, control, accounting and reporting of projects relating to the School Voluntary Assistance Fund. Immediate remedial action was also needed on shortcomings relating to the Area Staff Provident Fund: the need for four investment managers was questionable, and it was particularly disturbing that the highest fees had been paid to the firm handling the smallest portfolio. There was also a global custodian with very limited responsibilities. The Board and the Advisory Committee should be informed of the action taken.
- 17. The Advisory Commi' ee agreed with the Board that, in view of the weak financial position of UN TAR, the resources available should be efficiently managed. In the case of UNFPA, it noted the agreement to entrust the UNDP Treasury Section with the responsibility of placing UNFPA's investments. Finally, the Advisory Committee endorsed the recommendation that Governing Council decision 85/35, on project-funded services at UNFPA headquarters, should be strictly enforced.
- 18. The Committee's comments on documents A/44/541, 537 and 544 would be presented at a later stage, when it had had an opportunity to consider them.
- 19. The CHAIRMAN reminded delegations that the list of speakers on the item would be closed at 1 p.m. the following day.
- 20. Mr. NASSER (Egypt) said that he could not agree to the closing of the list of speakers on any item before all the documentation relating to it had been issued. The absence of perhaps important information could put delegations at a great

(Mr. Nasser, Egypt)

disadvantage when they came to speak. He wished the Secretariat to state when members of the Committee could expect to receive document A/44/544.

- 21. Mr. INOMATA (Japan) said that, unless the Chairman could clarify the status of delegations which had agreed to speak before learning that some documents remained to be issued, his delegation would have to review its undertaking to speak on the item at the 4th meeting.
- 22. Mr. TIEWUL (Secretary of the Committee) said he had received indications from the Department of Conference Services that document A/44/544 would be issued before the next meeting.
- 23. Mr. BOUR (France) said he would like to know why it was taking so long to produce the missing documents. He suggested that the Committee might have the reports presented orally before the general debate on the item began.
- 24. Mr. LOPEZ (Venezuela) expressed the view that, as a general rule, the Committee should not begin the general debate on any item before all the documentation had been issued.
- 25. The CHAIRMAN said that it would be rash of the Committee to restrict its freedom of action. He suggested that any delegation which spoke during the general debate before having had a chance to study all the documentation should be allowed to return to the subject if it felt it appropriate. He suggested also that the decision to close the list of speakers should be made with due regard to the availability of the documents on the item concerned. In the absence of objections, he would assume that the Committee could proceed accordingly.

The meeting rose at 11.15 a.m.