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DRAFT REPORT OF THE BUDGETARY AND FINANCE COMMITTEE

Rapporteur: Miss Miriam AL-AWADI (Kuwait)

Attached is the draft report on agenda items:

- 10(b) Supplementary budget estimates for 1979
- 10(d) Integrated Systems Improvement Project (ISIP)
- 10(f) Concept for interim year administrative budget report
- 10(i) Financial regulations
- 10(j) Audit reports

The decisions adopted by the Budgetary and Finance Committee are being issued in DP/L.336 and addenda.

Draft Report of the Budgetary and Finance Committee

Agenda item 10(b): Supplementary Budget Estimates for 1979

1. Under Agenda item 10(b) of the Council's agenda, the Committee had before it document DP/495 which contained supplementary budget estimates for 1979 in the amount of \$2.4 million (including the ISIP adjustment), and document DP/503, Report of the Advisory Committee on Administrative and Budgetary Questions on those estimates.
2. The Director, Division of Finance, in introducing the item and referring to the justifications therein, stated that the origin of the problem went back to the spring of 1979. Although the raw data on cost increases indicated at that time that a supplementary appropriation of some \$4.5 million would be required to meet inflationary costs through the end of 1979, the Administration had decided, based on more optimistic economic forecasts, to request not the indicated \$4.5 million, but the conservative figure of \$1.8 million, which was granted. World-wide inflation had, instead, spiraled upward as the year progressed. This resulted in unanticipated increases in costs beyond the control of the Administrator, and the appropriated amount proved to be inadequate. Members were informed that it was not until after the close of the budget year 1979 and well into the accounts closing process (February 1980) that the full impact and magnitude of the deficit became known.
3. The Director also pointed out that the new "Appropriations and Allotment Control and Expenditure Projection System", already designed and to become operational in 1980 (with retroactive effect to 1 January 1980), had been designed to assist in preventing just the type of appropriation over-expenditure, without advance warning, which occurred in 1979.
4. The practical aspects of handling the conditionally approved ISIP appropriation of \$485,000 for 1979 were explained by the Director. UNDP had expected to be able to absorb the ISIP expenditure through savings in 1979 (para. 4(iii) of decision 79/42) and had accordingly informed the Advisory Committee in November 1979 that it did not believe the conditionally approved appropriation (paragraphs 4(iv) and 5, decision 79/42) would be required. When the deficit situation had become known, the Advisory Committee was informed (February 1980) that UNDP had incurred a deficit and as soon as the exact figures were available would, in accordance with the UNDP Financial Regulations and Rules, request the review and report of the Advisory Committee on the supplementary requirement and, in accordance with para. 5 of decision 79/42, would request the comments of the Advisory Committee on the conditionally approved ISIP appropriation of \$485,000. DP/495, copies of which were sent to the Advisory Committee, also so indicated in paragraph 15.

5. In view of the comments of the Advisory Committee in paras. 10 and 11 of its report, the Administrator was now requesting the Council: (a) to remove the conditions attached to the conditionally approved ISIP appropriation of \$485,000; and (b) to approve the remaining supplementary appropriation for 1979 of \$1.9 million.

Summary of discussion in the Committee

6. Regarding the deficit, a number of members noted the explanations given in DP/495 and referred also to the ACABQ report. General understanding was expressed for the inflationary pressures which had led to the over-expenditure. Because of this - despite concern about the 1979 outcome - several members stated they could accept the request for supplementary appropriations, including removing the conditions on the amount authorized for ISIP. Another member recorded his Government's dissatisfaction with the handling of this matter. He stated that he thought it a highly unusual procedure and noted the Secretariat's late awareness of the over-expenditure which indicated weaknesses in the control system. The same member made particular mention of the situation on the supplies, material and equipment budgets and called attention to relevant paragraphs of the ACABQ report and also to paragraph 4 concerning ex post facto approval. He indicated, however, that his Government could go along with the approval recommendation in paragraph 7 of the ACABQ report. He stressed that in the future the Administrator should consult the ACABQ as soon as possible in order to obtain comments much earlier than they had been received on this occasion.

7. One member enquired whether the Administrator had sought additional special voluntary contributions for ISIP. Several members stressed that the new systems and their early warning features, discussed in paragraph 13 of DP/495, should not only provide a higher degree of control but also that they would be effective in preventing ex post facto supplementary requests.

8. A number of members commented on the increase in administrative expenditures and made a plea for a reduction in costs in percentage terms, in order to make more funds available for programming purposes.

Response of the Administration

9. The Deputy Administrator assured the Committee that the Administrator had indeed approached Governments, considered to be likely contributors, for additional special voluntary contributions for ISIP. The replies indicated that ISIP had reached a stage where it should be considered as a normal responsibility of UNDP and no additional contributions were forthcoming.

10. Regarding the conditionally approved appropriation of \$485,000 for ISIP, the Director, Division of Finance, clarified for members that this amount was a part of the \$1,080,000 authorized by decision 79/42 for 1979 expenditure. The question was "would it be covered by additional voluntary contributions, by savings or by the conditionally approved appropriation." The Advisory Committee's comments were required to be sought only with respect to the conditionally approved appropriation. The comments of ACABQ could not be sought in 1979, because it was not determined until 1980 that the amount could not be absorbed through savings. The Advisory Committee's comments were then sought and would hold a hearing in 1980. Because of the comment of that Committee in paragraph 11 of its report, however, the Administrator had decided to ask the Governing Council to remove the conditions on the ISIP amount, rather than to take such action under his authority. The Director also confirmed that improved control of appropriations, allotments and expenditure projections was an important major feature of the new systems, which had been designed and would go into effect during 1980.

11. In responding to members' comments on seeking further reductions in the ratio of administrative costs in UNDP, the Director assured members that this was a constant preoccupation of the Administrator.

Agenda item 10(d): Integrated Systems Improvement Project  
Progress Report (ISIP)

12. Under item 10(d) of the Council's agenda, the Committee had before it for its consideration, the progress report of the Administrator (DP/471) on the work done on the Integrated Systems Improvement Project (ISIP). In the report, the status of ISIP, the arrangements for the final stages of the systems work, the practical advantages of the new UNDP systems, and the utilization of funds were described.

13. Introducing the item, the Deputy Administrator reiterated that ISIP was by and large on target, both in terms of its schedule and the commitment of resources for 1979 and 1980. The attention of the Committee, however, was called to the fact that the development of information systems in general, and particularly of such a complex system as the UNDP General Ledger/Financial Reporting System, could run into problems which might make a greater level of effort necessary. He stated that even if this should occur it would be unlikely that the total additional cost would exceed \$150,000 which, hopefully, could be absorbed within the 1980-1981 administrative budget.

14. The Deputy Administrator expressed the gratitude of UNDP for the foresight and guidance of the Committee and for the contributions made by a number of member Governments. The co-operation of the Participating and Executing Agencies and the Inter-Organisation Board (IOB) also contributed significantly to this effort.

15. The Deputy Administrator invited members of the Committee to focus on the future of the UNDP systems developed under ISIP. In this connexion, he announced that while an internal re-alignment of the Division of Management Information Services (DMIS) within existing budgetary limits was currently in progress, the new Assistant Administrator and Director, Bureau of Finance and Administration, was to take a personal interest in this matter, particularly in regard to the aspects of relevance, timeliness and cost effectiveness. The Assistant Administrator together with the newly appointed Director of DMIS, would review the role and functions of DMIS from 1980 onwards, the level of staff and the funds required for the retention of outside expertise, and such other steps as may be necessary to ensure the success of the ISIP programme. The decisions reached and additional resources required, if any, would be brought to the Council's attention at its twenty-eighth session.

Summary of the discussion in the Committee

16. Members of the Committee expressed appreciation for the Deputy Administrator's clear and comprehensive presentation of the subject, while simultaneously referring to the difficulty in evaluating the highly technical data contained in document DP/471. Several members reiterated their support for efficient information systems in UNDP and were glad to note that most of these systems would become operational by the end of 1980. A number of delegations expressed the hope that these new systems would make it possible for the Administrator to increase the financial and operational control of the Programme, so as to make UNDP a more effective organization.

17. Several members stated that, while being very satisfied with the accomplishment of the ISIP group, they were pleased to note that UNDP intended to entrust the responsibility for further systems development and enhancement to DMIS, thus providing for on-going internal management of the systems, fully integrated within the UNDP Administrative Budget.

18. One member, in associating himself with previous speakers, emphasized the importance of the cash management, cash forecasting and the appropriation control systems, the importance of which could not be overemphasized in view of recent experiences.

Response of the Administration

19. The Deputy Administrator, in expressing his appreciation for the comments made, agreed that DP/471 was indeed quite technical. He further stated that UNDP was always willing to arrange for ad hoc meetings between governmental representatives and UNDP officials to provide for detailed briefings on the technical aspects of the systems. The Deputy Administrator, while repeating that ISIP was and would continue to be mostly on target, indicated that many variables were involved and it was therefore virtually impossible to forecast final results without a margin of error. He said that while he was confident that targets would be met, the possibility of slippage, as mentioned in his introductory statement, could not be excluded at this stage. Should this occur, they would be duly reported to the Governing Council.

Agenda item 10(f): Concept for Interim Year Administrative Budget Report

20. Under item 10(f) of the Council's agenda, the Committee had before it for consideration the report of the Administrator (DP/491) on the concept for an interim year report on the administrative budget. This document provided the Council with examples of the kinds of subjects which could be included in such a report on either a recurrent or on an ad hoc basis.

21. Introducing the subject, the Assistant Administrator and Director, Bureau for Finance and Administration, said that he considered the document as a tour de horizon of the subjects which could possibly be dealt with in the interim year rather than as specific proposals by the Administrator. He stressed that it was also desirable, to the greatest extent possible, that any new reports should be a by-product of management information needed by the Administrator, and that even then, the production of such reports should be weighed against the criteria of essentiality and cost effectiveness.

Summary of the discussion in the Committee

22. One member compared the possible interim year report to the Performance Report produced by the United Nations, and also drew a parallel to the request before the Committee for a 1979 supplementary appropriation. He stated that recourse to a supplementary appropriation should only be taken in very exceptional circumstances.

23. Several members indicated subjects which they believed could usefully be covered in such a report: information on new developments which come to the fore as the budget period progresses; information on abnormal experience on inflation

or currency movements; and information on management or staffing studies and the like. The conclusion which emerged from the debate was that the determination of the subjects to be covered should be left to the discretion of the Administrator.

Response of the Administration

24. The Assistant Administrator assured the Committee that specific points where consultation or Council decisions were required would be submitted to the Council. He further assured the members that no automaticity was envisaged in the submission of supplementary estimates, but added that should developments indicate a potential problem, the intent would be to give a clear signal to the Council as early as possible, which outlined the problem and the Administrator's proposed action to deal with it.

Agenda item 10(i): Financial Regulations

25. After a brief introduction by the Deputy Administrator of document DP/499, there followed an equally brief exchange of views with two delegations. Assurances were sought that the revised financial regulations would not further detract from the Council's prerogatives and would indeed ensure conformity with existing United Nations financial regulations.

26. The Committee was reassured on these points and the Deputy Administrator confirmed that the revised financial regulations, together with ACABQ comments thereon, would be submitted to the twenty-eighth session in June 1981.

Agenda item 10(j): Audit Reports

27. Under item 10(j) of the Council's agenda, the Committee had for its consideration document DP/441, which included the audited reports of the Executing Agencies for the year ended 31 December 1978 and the results of consultations by the Administrator with the External Auditors as requested in Governing Council decision 79/47. In his introductory remarks, the Director of Finance, in addition to commenting on the audit reports and observations, presented the results of the consultations with the External Auditors.

Summary of Discussion

28. Members of the Committee appreciated the fact that the External Auditors, in respect of the Committee's requests in decision 79/47, would comment on those matters in their audit reports. The Members accepted the fact that the Auditors preferred to only mention matters which needed correction or further attention. The Members also accepted the fact that it would be unlikely that all audit reports could be made available to the Governing Council at its next following session,

if this is held in June each year. One member requested in the future, that the Administrator provide a brief abstract of the salient comments and observations as part of the Administrator's report to the Council on the audit reports of executing agencies. One member requested the Administrator to obtain the assurances of the commercial external auditors, used by certain organizations, that in future audit reports they too intend to include observations on substantive matters and on the items referred to in paragraph 3 of Governing Council decision 79/74. One member referred to the discussion at the twenty-sixth session, particularly of the "grey area" discussed at that session, and asked for further clarification. One member indicated that the External Auditors should report on improvements in the management field and suggested that his Government would be prepared to provide additional resources to enable the External Auditors to do so. Another member indicated that the Administrator's report should include comments on the substantive observations of the External Auditors and the action taken by UNDP and the Participating and Executing Agencies to follow up on the observations of the Auditors.

Observations of the Administration in the Committee

29. The Director of Finance responded to the members' questions indicating that UNDP had in fact followed up on the observations contained in the audit reports of the participating and executing agencies and was satisfied that the thrust of the audit observations were being complied with. With respect to the "grey area" discussed last year, this involved principally the fact that, with respect to the expenditure of and accounting for UNDP funds, the agencies are governed by their own financial regulations and rules. This is specifically acknowledged by UNDP's financial regulation 1.6. However, the Administrator is authorized to require reports from the agencies needed by him in carrying out his functions. Moreover, he is not estopped from requesting additional information to follow up on or clarify substantive observations raised by the External Auditors in their report with respect to the use and management of UNDP funds. The Administrator is prepared to comment in the future on such substantive observations. The question of the scope of the comments provided by the commercial external auditors had been informally raised with the Panel of External Auditors last year. While it would be desirable for the commercial external auditors to provide the coverage desired by the Governing Council, it appeared to be necessary for the Administrator to make a separate approach to them on this matter.