1. The Advisory Committee on Administrative and Budgetary Questions has considered the note by the Administrator on the UNDP Financial Regulations and Rules (DP/552 and Add.1 and Add.2). At its twenty-seventh session, in June 1980, the Governing Council adopted decision 80/38 by which it, inter alia, requested the Administrator "to prepare a new draft of the UNDP Financial Regulations which will be most appropriate for UNDP's needs, having regard, to the maximum extent possible, to ensuring conformity with relevant United Nations regulations ..." The Council also requested the Administrator to obtain the comments of the Advisory Committee on Administrative and Budgetary Questions on the revised Financial Regulations.

2. The Committee was informed by representatives of the Administrator that the original mandate in Governing Council decision 25/24 to revise the UNDP regulations so that they would be in harmony with those of the United Nations, was enlarged to cover an extensive analysis of all of UNDP's financial activities and procedures. In this connexion, the Committee recalls that the Administrator stated in a note to the twenty-seventh session of the Council that

"several ... considerations ... call for a number of refinements and additions to the proposed Financial Regulations, well beyond original intentions. As a significant example, the Administrator considers that the coverage of the regulations must be extended to include governing financial policies related to programming and to project formulation and execution, and must codify procedures for programming and projects, activities which are a major emphasis in UNDP but do not necessarily have parallels reflected in the Financial Regulations of the United Nations.

"It also has become clear that attempts to fully harmonize UNDP regulations with United Nations regulations resulted in anomalies and awkward drafting, with the result that the re-drafted Regulations in DP/388 cannot be
expected to meet long-term requirements. The Administrator would therefore like to proceed with a further revision, tailored fundamentally to the specific needs of UNDP while having regard to the need to maintain as close conformity as possible to corresponding relevant United Nations regulations. Many developments have occurred since the current UNDP regulations were drafted, and there are several of these regulations, as well as relevant United Nations regulations, which experience has shown can benefit from improved drafting." (DP/499, paragraphs 4 and 5).

3. The Committee bore the considerations outlined above as well as paragraph 2 of decision 80/38 in mind during its review of the proposed regulations. The review and the related discussions between the Committee and the representatives of the Administrator resulted in a number of recommendations by the Committee which have been agreed to by the Administrator and incorporated by him in the corrigenda to his original submission (DP/552/Add.1/Corr.1 and Add.2/Corr.1). In this report the Advisory Committee submits observations on several points which are not covered by the corrigenda.

4. Proposed regulation 1.1 on applicability states inter alia that the UNDP Financial Regulations "shall unless otherwise provided by the General Assembly or the Governing Council and except as specified in these Regulations and the annexes thereto, apply, mutatis mutandis, to all funds administered by UNDP". In this connexion the Committee notes paragraph 2 of DP/552 where the Administrator states that he considered that "for practical administrative reasons as well as for reasons of efficiency and economy, these Regulations should also cover trust funds as well as Funds and Programmes (e.g. The United Nations Capital Development Fund, the United Nations Revolving Fund for Natural Resources Exploration and the United Nations Volunteers Programme) established by the General Assembly and entrusted to UNDP for administration." However, the Administrator points out that "whereas in certain instances the General Assembly has delegated to the Governing Council the authority to formulate Financial Regulations to govern Funds or Programmes entrusted to UNDP for administration, such delegation does not appear to exist, at least not clearly, in all applicable instances". Under the circumstances the Administrator states that "the Governing Council may wish to request the General Assembly to authorize it to formulate Financial Regulations in respect of all funds administered by UNDP, i.e. for those Funds and Programmes already entrusted to UNDP for administration as well as for those Funds, Programmes or other entities that the General Assembly or the Secretary-General may decide to so entrust in the future."

5. The Advisory Committee notes further, from paragraph 3 of DP/552 that "in the case of certain Funds and Programmes it was felt that the proposed Financial Regulations might not be entirely applicable because of specific provisions in their respective enabling resolutions, or other legislation governing their operations. To that extent it is envisaged that the UNDP Financial Regulations would have annexes to meet such specific needs as will be identified. Such annexes, if necessary, would be presented to the Governing Council at its twenty-ninth session and, before that, to the Advisory Committee on Administrative and Budgetary Questions for review during its fall 1981 session".

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6. Proposed regulation 6.4 provides that "The Governing Council shall determine the distribution of resources available for programme activities as among country, regional, interregional and global IPF programmes, the Programme Reserve, and such other purposes as the Governing Council shall decide". Upon inquiry, the Advisory Committee was informed that the Programme Reserve, referred to in proposed Regulation 6.4 is not a "true reserve" in that it is not fully funded. Moreover, for this reason, the Programme Reserve is not included in the list of Reserves set forth under article XI and referred to in proposed regulation 6.3. The Programme Reserve is defined under article II as "the amount of resources set aside during the current planning period to finance such programme activities as may be determined by the Governing Council". Under the circumstances, and to avoid confusion with the "true" reserves the Advisory Committee recommends that the term "Programme Reserve" be replaced by "Special Programme Resources"; the definition given in article II and quoted above need not be changed.

7. With regard to proposed regulation 12.5 on placement of Funds, which would replace current regulation 5.1, the Advisory Committee was informed that the changes proposed by the Administrator are not intended to alter current practice. In this connexion, the Advisory Committee was informed that "short-term" normally implies investments for less than one year.

8. The Advisory Committee was informed also that proposed regulation 14.4 on guidelines for the procurement of equipment, supplies and services takes into account the requirements of General Assembly resolution 2688 (XXV) on the capacity of the United Nations development system (see annex, para. 44). The Committee was further informed that consultations between the Administrator and the executing agencies have not yet led to full agreement on the proposed regulation.

9. Subject to the above observations and its recommendation in paragraph 6 above the Advisory Committee recommends to the Governing Council that it adopt the proposed Financial Regulations as submitted by the Administrator in documents DP/552/Add.1 and 2 and Add.1/Corr.1 and Add.2/Corr.1.