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REPORT OF THE BUDGETARY AND FINANCE COMMITTEE

Rapporteur: Mr. Finn Norman Christensen (Denmark)

Chapter VII

AUDIT REPORTS

VII. AUDIT REPORTS

1. For its consideration of agenda item 7 (f), the Committee had before it the note of the Administrator (DP/1982/60) transmitting the audited accounts and audit reports of the participating and executing agencies, related to funds allocated to them by UNDP as at 31 December 1980, together with his comments on the significant observations of the external auditors of the agencies.

2. The Director, Division of Finance, introduced this item and provided information on the number of agencies whose external auditors had made observations of a substantive nature in respect of the year 1980. In several cases the audit reports submitted did not include observations of a substantive nature and did not include significant comments which called for follow-up action; several other agencies, as a consequence of adopting biennial budgets, did not require the submission of audited financial statements for the year ended 31 December 1980. He also reported that, in accordance with Governing Council decision 81/41, UNDP had continued consultations with agencies which use commercial external auditors with a view to ascertaining whether their auditors could include in future reports observations of a substantive nature. During these consultations, the auditors for the most part had explained that their audits were based on generally accepted auditing procedures and that, while the inclusion of comments of a substantive nature in any audit was feasible, it would entail substantial additional expenditures.

Summary of the discussion in the Committee

3. All members of the Committee who participated in the discussion emphasized the importance of the audit reports and that the comments of the external auditors on substantive matters were of great relevance in assessing the efficiency of the operational procedures of the agencies. Members also expressed appreciation for the follow-up action which the Administrator had taken in this matter and for his own comments and observations on the audit reports which had been submitted for the year 1980. Some members expressed serious concern at the nature of some of the auditors'

observations which, in their view, indicated serious managerial shortcomings in the operations to which they related. While certain difficulties could be expected, given the volume of UNDP-financed field operations, they felt that some of the auditors' comments reflected a lack of efficiency in carrying out some projects. Furthermore, while some of the responses provided by agencies to the audit observations appeared to be reasonable, others did not appear entirely satisfactory. Members expressed the view that UNDP as the funding organization, had an overriding responsibility to monitor operations for the purpose of ensuring the efficient use of resources. They were unanimous in their view that the importance of the substantive observations could not be underestimated and that there was a clear need to expand this approach to encompass all UNDP-financed operations of the agencies. They expressed the hope that the external audit reports and their review by UNDP and the Governing Council would contribute towards improvement in the management of the Programme. With regard to organizations using commercial external auditors, some members were of the view that additional costs would not necessarily be a deterring factor and requested the Administrator to obtain estimates of the additional costs which might be involved in this connection.

Response of the Administration

4. Responding to questions raised during the discussion, the Director, Division of Finance, reiterated that UNDP also considered the reports and observations of external auditors to be an important management tool. He stated that the existing tripartite system was helpful in ensuring effective use of resources, but that obviously there was always room for additional improvements. UNDP would make every effort, including using the existing interagency consultative machinery, to increase the use of narrative, management audit reports in respect of UNDP-financed activities over the coming years. Such audit reports could be of great benefit to the agencies, to UNDP and to the Governing Council.

Recommendation of the Committee

5. The Budgetary and Finance Committee recommended that the following decision be adopted by the Governing Council at its twenty-ninth session:

The Governing Council

1. Takes note of document DP/1982/60 containing the audit reports of the participating and executing agencies for 1980 as well as the Administrator's comments on substantive observations made by the auditors and of the additional comments and explanations provided by the Administration during the discussion;
2. Requests the Administrator to reiterate to agencies the importance attached by the Governing Council to audit reports which include observations on substantive matters, and to consult with them again with a view to obtaining from the external auditors of all the executing agencies audit reports that more fully satisfy the concerns expressed in past Governing Council decisions 81/41, 80/39 and 79/47.
3. Requests the Administrator to provide to the thirtieth session of the Council estimates of the additional costs which may be involved for the purpose of providing such reports to the Council.