

UNITED NATIONS DEVELOPMENT PROGRAMME



UNDP

Distr.
GENERAL

DP/1983/55
13 January 1983

ORIGINAL: ENGLISH

GOVERNING COUNCIL
Thirtieth session
June 1983
Agenda item 7(e)

P O L I C Y

FINANCIAL, BUDGETARY AND ADMINISTRATIVE MATTERS AUDIT REPORTS

Note by the Administrator

Summary

This document provides an explanatory note on the audited accounts and audit reports of the Participating and Executing Agencies, relating to funds allocated to them by UNDP as at 31 December 1981. Also included are salient comments on substantive observations of the auditors, UNDP follow-up with the agencies concerned with respect to such observations, and a summary of the action taken by UNDP in response to Governing Council decision 82/37. 1/

Document DP/1983/55/Add.1 contains the audited accounts and audit reports of the Participating and Executing Agencies relating to funds allocated to them by UNDP as at 31 December 1981.

INTRODUCTION

1. The audited accounts of the Participating and Executing Agencies, relating to funds allocated to them by UNDP as at 31 December 1981 are contained in the addendum to this document, together with a summary of the status of funds submitted by the Participating and Executing Agencies as at 31 December 1981.
2. The amounts reported in the UNDP Financial Report and Accounts for the year ended 31 December 1981^{2/} are based on the unaudited accounts of the Participating and Executing Agencies. Any adjustments introduced in the audited accounts of the Participating and Executing Agencies after the preparation of the UNDP Financial Statements for 1981 have been reflected in this document and the differences relating to income and expenditure are summarized as follows:
 - (a) The audited accounts of the Food and Agriculture Organization of the United Nations show an increase of \$694 in miscellaneous income and exchange adjustments;
 - (b) The audited accounts of the Economic Commission for Africa show a decrease of \$154,387 in project expenditure and an increase of \$2,655 in miscellaneous refunds;
 - (c) The audited accounts of the Economic and Social Commission for Asia and the Pacific show an increase of \$245,125 in project expenditure for 1981 and a compensating decrease in project expenditure of \$245,125 for the year ended 31 December 1980;
 - (d) The audited accounts of the Inter-American Development Bank show a decrease of \$58,519 in project expenditure.
3. Adjustments for the above differences, with the exception of item (c) above, have been made in the UNDP accounts in 1982.
4. At its twenty-ninth session in June 1982, the Governing Council, inter alia, requested the Administrator to consult with executing agencies with a view to obtaining audit reports that satisfy more fully the concerns expressed in previous Governing Council decisions 79/47, 80/39 and 81/41, and to provide to the thirtieth session of the Council, estimates of additional costs which may be involved in providing such audit reports (decision 82/37).
5. In response to this request UNDP took the following action:
 - (a) It brought this decision to the attention of the executing agencies at the fifty-seventh session of the Consultative Committee on Administrative Questions (Financial and Budgetary Questions) which was held in New York from 30 August to 3 September 1982. Members of the Committee noted, inter alia, that the External Auditors alone were responsible for determining the scope and content of their reports;

(b) It informed the Panel of External Auditors of this decision and requested the Panel to consider, at its twenty-fourth regular session in October 1982, what steps could be taken to provide the Council with audit reports on UNDP-financed activities which would more fully meet the concerns expressed in past Governing Council decisions. In particular, UNDP inquired to what extent greater uniformity in the format and style of the audit reports submitted could be achieved, and to what extent greater emphasis on the results of the audit of the effectiveness of the financial management of an organization, including that of the projects which it executes, could be reflected in future audit reports. The Panel discussed this matter at its twenty-fourth regular session and UNDP has been informed of its conclusions as follows:

- (i) With regard to the format of audit reports, the members of the Panel felt that they should not be too constrained by a standard style of report, since the circumstances of a particular audit may not lead to results which would fit appropriately into a standard format. They agreed, however, to take into account the concern of the Governing Council in this respect and use a similar style of reporting when the circumstances so permit;
- (ii) With regard to the audit of the effectiveness of financial management, the Panel agreed that the emphasis now placed by its members on this aspect of auditing should be gradually increased and that their findings will continue to be reflected, as appropriate, in their audit reports;

(c) It has written to each of the organizations whose accounts are audited by commercial auditors, informing them of the Council's decision and requesting them again to consult with their auditors on this matter, and, in particular, to advise UNDP of what might be the cost implications of commercial auditors providing audit reports which more fully meet the Council's concerns. At the time of writing, UNDP has not yet received a response from all the organizations in question, but will report orally the results of these consultations at the Council's thirtieth session.

6. At its twenty-seventh session in June 1980, the Governing Council requested the Administrator to provide salient comments on the substantive observations of the auditors and to indicate what follow-up action has been taken on auditors observations by the Administrator and by the Participating and Executing Agencies. The resulting practice of commenting on substantive observations by the external auditors of Participating and Executing Agencies, commenced in 1981, has been continued and UNDP's comments on the most significant observations made by the auditors of the 1981 agency audited accounts are as follows:

Food and Agriculture Organization of the United Nations (FAO)

7. In connection with the local administration of imprest funds on certain projects, the FAO external auditor observed that cash advances were being issued to both FAO and non-FAO staff for local purchases; that in some cases such advances had been repaid after some delay, and in other cases were later settled wholly or in part by the provision of goods or services to projects; and that payments had been made which were either to be met by the Government or were outside the terms of the project document. The auditor recommended that, in future, advances should be issued only for specific purposes and durations and that advances to non-FAO staff should be confined to essential cases and supported by written acknowledgements of debt.

8. FAO had advised the external auditor that various adverse factors in certain countries had necessitated pre-financing of Government expenditures which resulted in a more flexible approach. However, FAO was satisfied that all the advances had been used for project purposes. UNDP has been advised by FAO that a reminder regarding control over cash advances was circulated to all Senior Field Project Officers in 1982 and that the manual for Senior Field Project Officers had been reissued emphasizing the need to comply with the project document and to incur Government counterpart expenditures only when inevitable and after prior consultation with the UNDP Resident Representative concerned and FAO Headquarters. The instructions contained in the manual also require that all such advances be supported by written acknowledgements of debt and that the purpose and duration of each advance be specified in writing.

9. The FAO external auditor observed, in connection with the rental of project offices, purchase of office furniture, payment of salary supplements and the insurance of project vehicles that the practice on certain FAO-executed projects conflicted with FAO and/or UNDP instructions. FAO has advised the external auditor that it has emphasized to field staff the need to keep within present limits with regard to the purchase of office furniture; that FAO rules were being revised to accord with UNDP's instructions for the payment of salary supplements; and that vehicle insurance guidelines were flexibly applied where hazardous driving conditions existed, inter alia, because of mountainous terrains.

10. UNDP has been advised by FAO that it has issued reminders to Senior Field Project Officers with regard to the purchase of office furniture and that comprehensive vehicle insurance is only to be effected if this is the general practice for United Nations system organizations in the country concerned; that after consultations with UNDP, FAO is now preparing a field programme circular to all project staff outlining the new policy instructing that all requests for authorization to pay salary supplements should be directed to the Resident Representative in the first instance.

11. In connection with a project for the development of cotton as a cash crop the FAO external auditor observed that many of the project's objectives had not been achieved and that a proposed extension of the project could have been avoided if economic data had been collected and assessed at an early stage. He also noted that FAO had informed him that project activities had been adversely affected by the rudimentary infrastructure in the area and by staff shortages due to the difficulty of working conditions including the lack of accommodation at the project site; that the Government had failed to meet all its obligations but was taking all necessary steps to rectify this; and that the organization felt that cotton was an economically attractive crop for the country concerned. FAO considered that the proposed extension was justified but that its approval would be conditional upon the Government fulfilling its responsibilities.

12. FAO has advised UNDP that the cotton development project has been extended until March 1983 and that the representative of the external auditor has been briefed on the validity of the reasons for the extension; that the collection and analysis of economic data was considered to be important, and mechanisms have been established within FAO for systematic review of this data in all new projects. The UNDP Regional Bureau concerned with this project has participated in a joint review mission for this project and is in agreement with the action taken and proposed by FAO and the Government, and is continuing to follow-up with the Resident Representative and a potential donor with respect to further investment to achieve the project's long-term objectives.

13. Other substantive observations by the FAO external auditor concerned excessive delays in UNDP-funded building works by a national contractor in a developing country and the excessive use of air freight to transport equipment to field projects.

14. In both of these cases, FAO has advised UNDP of the action taken to implement the recommendations made by the auditor. FAO's position is that where it identifies weaknesses in the increasing use of national institutions and contractors, FAO will provide for the needed specialist inputs. In connection with the use of air freight, FAO has issued instructions specifying that this means may be used only where it is clearly the most expedient means of transportation, as in the case of certain land-locked countries, and where excessive delays in delivery times are likely to affect project implementation.

United Nations Educational, Scientific and Cultural Organization (UNESCO)

15. The external auditor of UNESCO noted that recruitment delays had occurred in the employment of international experts for field posts in various UNDP-financed projects. In one region, such delays had averaged 12 months for the filling of 27 posts and these may have been partly due to existing recruitment procedures within UNESCO. UNESCO has taken steps to accelerate recruitment action and to reduce costs through the speedier preparation of job descriptions and the streamlining of recruitment procedures by the increased utilization of computer systems.

16. UNESCO has advised UNDP that other factors in recruitment delays, which were outside the control of its Bureau of Personnel, included: delayed decisions by Governments in advising of approval or rejection of proposed candidates; the inability of selected candidates to obtain prompt releases from their present employers; and the suspension of recruitment actions pending decisions regarding the use of consultancies in the interest of economy in the use of project funds.

17. The UNESCO external auditor further observed that in many instances six-monthly progress reports were overdue by several months from national project directors of UNESCO-executed projects, which did not include a resident UNESCO expert. UNESCO had advised the external auditor that the six-monthly reports were particularly important for projects with no resident UNESCO staff and that UNESCO intended to intensify efforts to obtain such reports through UNDP Resident Representatives, Regional Offices or through headquarters programme staff who were in close contact with national directors.

18. UNESCO has advised UNDP that it places considerable importance and reliance on the system of periodic project evaluations based upon such reports and intends to examine its internal procedures in order to better co-ordinate the operations of the follow-up system for delayed reports.

Universal Postal Union (UPU)

19. The external auditor of UPU noted that differences existed between the Indicative Planning Figure allocations made by UNDP for 1981 and those recorded in the technical co-operation accounts by UPU. Such differences amounted to \$2.2 million more being recorded by UPU than indicated by UNDP during the course of 1981.

20. UPU has prepared and forwarded to UNDP a reconciliation of the differences noted above. These differences were due to the recording by UPU in 1981 of some project budgets, as well as some revisions to project budgets, which were not recorded in UNDP's project budget data base until 1982.

Notes

1/ Official Records of the Economic and Social Council, 1982, Supplement No. 6, (E/1982/16/Rev.1), Annex I.

2/ Official Records of the General Assembly, Thirty-seventh Session, Supplement No. 5A (A/37/5/Add.1).