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POLICY

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 executing agencies, relating to funds allocated to them by UNDP as at 31 December 1982. 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 83/38. ^{1/} The Council's attention is drawn to the recommendation of the Administrator contained in paragraph 6 with respect to the proposal of the external auditors of the Asian Development Bank.

Document DP/1984/63/Add.1 contains the audited accounts and audit reports of the executing agencies relating to funds allocated to them by UNDP as at 31 December 1982.

INTRODUCTION

1. The audited accounts of the executing agencies, relating to funds allocated to them by UNDP as at 31 December 1982, are contained in the addendum to this document, together with a summary of the status of funds submitted by the executing agencies as at 31 December 1982. Some agencies have adopted a biennial budget and according to their financial regulations do not require audited accounts at the end of the first year of the biennium. Those agencies have therefore not submitted audited accounts for 1982, but the financial data as contained in their unaudited accounts for 1982 have been shown in the summary included in the addendum to this document.

2. The amounts reported in the UNDP Financial Report and Accounts for the year ended 31 December 1982 ^{2/} are based on the unaudited accounts of the executing agencies. Any adjustments introduced in the audited accounts of the executing agencies after the preparation of the UNDP Financial Statements for 1982 have been reflected in this document. The differences relating to income and expenditure are summarized as follows:

(a) The unaudited interim financial statement submitted by the United Nations for the 12-month period of the biennium 1982-1983 ended 31 December 1982 shows a decrease of \$176,118 in project expenditure for UNIDO;

(b) The audited accounts of the World Bank show a decrease of \$3,000 in miscellaneous income and exchange adjustment and a decrease of \$3,339 in expenditure.

These adjustments will be reported in the UNDP Financial Report and Accounts for the year ending 31 December 1983.

3. At its thirtieth session in June 1983, the Governing Council welcomed the agreement of the Panel of External Auditors to use a similar style of reporting, as far as circumstances permit, and to increase the emphasis placed in their reports on the audit of the effectiveness of financial management. The Governing Council requested the Administrator to convey to the Panel of External Auditors and to the administrations of the executing agencies concerned the Council's view that these improvements should be introduced as promptly as possible.

4. In response to this request UNDP requested the Executive Secretary of the United Nations Board of Auditors to bring the report of the Council's Budgetary and Finance Committee and Governing Council decision 83/38 to the attention of the Panel of External Auditors. At its meeting in September 1983 the Panel took note of the Council's views.

5. At its thirtieth session, the Governing Council also agreed to a proposal made by the external auditors of the World Bank to expand the scope of their audit work and of their audit report at a total additional cost of approximately \$18,500. UNDP has since received a similar proposal from the external auditors of the Asian Development Bank (AsDB). Following consultation between UNDP and the administration of AsDB concerning an appropriate amount for the additional fee involved, the external auditors of AsDB have now proposed that, for an additional fee of approximately \$8,000, they would undertake to provide the following additional services:

(a) To review compliance with AsDB's procurement procedures as to selected contracts with consultants;

(b) To compare project expenditures, in total and by category, to the budget for selected projects. Also, to compare the selected projects' progress to date with the expected progress outlined in the project documents;

(c) To review progress reports in order to determine timeliness for selected projects; and

(d) To prepare a long-form report describing procedures followed, results of procedures and any recommendations for improvement. The description of procedures will include those performed as part of the regular annual audit, such as tests of expenditures, confirmations with depositary banks and consultants, and study and evaluation of internal control.

6. The Administrator considers that the proposal made by the external auditors of AsDB represents a very positive response to the concerns expressed by the Council in its decisions of prior years and recommends that the Council agree to its implementation as from 1984.

7. At the fifty-ninth session of the Consultative Committee on Administrative Questions (Financial and Budgetary questions) (CCAQ (FB)) held in September 1983, UNDP brought to the Committee's attention the views expressed at the thirtieth session of its Governing Council with respect to audit reports relating to funds provided to its executing agencies. Following previous decisions, the Governing Council had, in particular, called for the inclusion as promptly as possible of observations on substantive matters in audit reports concerning such funds.

8. After extensive discussion of the subject in CCAQ (FB), the Committee's report summarized the views expressed by agencies as follows:

"20. Several members of the Committee pointed out that the funds which they received from UNDP were administered subject to the same controls, and under the same intergovernmental supervision, as all their other resources. Their position was that audit reports were addressed in the first instance to the organizations' own governing bodies, for which they constituted an important instrument of financial control, regardless of the source of financing involved. These members of course had no objection to having such reports submitted to the Governing Council as well where they covered funds provided by UNDP.

"21. Having noted that the Governing Council intended to pursue its examination of these reports, the Committee agreed that it would be in the interests of its members for further explanations to be provided on this subject, notably through the representatives of executing agencies. Having also noted the Governing Council's desire for greater emphasis on effectiveness audits, several members reaffirmed the view of principle, expressed in CCAQ in September 1982, that the Organizations' external auditors were solely responsible for determining the scope and content of audit reports."

9. Twelve agencies do not require audit certificates at the end of the first year of the biennium. These agencies have submitted unaudited financial statements for 1982 and will submit audited accounts at the end of 1983 covering both years of the 1982-1983 biennium. The Inter-American Development Bank, which has executed a limited number of UNDP-financed projects, presented an audited report for 1981, but in view of the fact that during 1982 there was no financial activity, UNDP agreed that the agency need not submit an audited statement for 1982 since the balance of funds at the end of 1982 was the same as the balance at the end of 1981. The agency will, however, be required to submit an audited statement at the end of 1983.

10. At its twenty-eighth session in June 1981, the Governing Council in decision 81/41 requested the Administrator to continue to provide salient comments on the substantive observations of the auditors. UNDP's comments on the most significant observations made by the auditors in respect of the 1982 audited accounts are provided below.

United Nations Education Scientific and Cultural
Organization (UNESCO)

11. The external auditors for UNESCO reported that they carried out an on-the-spot examination of five field projects in various stages of completion in one country. Four of these projects related to the advancement of scientific, engineering or technical expertise, while the fifth was designed to assist the Government in the field of aquatic environmental pollution. From the project funds, UNESCO should have provided experts, consultants and certain specialized equipment while the Government undertook to provide the projects with national personnel, suitable accommodation and facilities as well as certain supplies and equipment. The examination of the auditors revealed that all five projects had been delayed to some extent as a result of the Government's delay in meeting its obligations under the project documents. The most common problem was the failure to provide adequate accommodation and facilities in time.

12. The most serious example of this failing was at a project for the establishment of a Science Centre for the advancement of post graduate studies. This project started in June 1975 but the new building to accommodate it was not completed until October 1981, over two years after the project had effectively ended. The accommodation used throughout the project had been inadequate for all the planned project activities which meant that some of the activities had to be curtailed.

13. In connexion with the Technical Teacher Training Institute, the UNESCO external auditors observed that the building provided for this Institute was inadequately maintained. The electrical wiring proved unsafe, and rewiring which should have been completed in 1976 was delayed until 1978 through lack of government funds. Therefore, electrical equipment purchased for the project could not be used. Construction of extra workshops and classrooms due to be completed in 1981 was also delayed; until their completion in early 1983, alternative accommodation had to be provided.

14. The external auditors further observed that in three of the projects reviewed there was delay in the appointment of national professional and support staff. This contributed to the slow start made by the Technical Teacher Training Institute and was also a major difficulty for the Science Centre for the advancement of post graduate studies. For the third project, Advancement of Post Graduate Studies in Engineering Sciences, the Government's delay in appointing national staff to the project was one of the factors which led UNDP to consider terminating it in December 1982.

15. UNESCO informed the auditors that both UNESCO and UNDP headquarters as well as local staff had sought to persuade the Government on every possible occasion of the importance of meeting its obligations in order to attain the objectives of the project. UNESCO considered that the lack of national professional staff was due to the low salaries of University staff, compelling them to take teaching appointments in two or three universities or to do advisory and consultancy work. To ensure that counterpart staff devoted their full time to project-related work, they were now permitted to teach at only one university and were paid an additional fee for time spent on research activities.

16. With regard to the delay in essential government inputs, UNESCO informed the external auditors that projects often had to operate under difficult conditions and retiming UNDP inputs would not always be a solution. Information of government delays was not always received in time to completely reschedule the supply of equipment to the project. UNESCO considered that a possible improvement could be to have the Chief Technical Adviser and/or national co-ordinator on site during the pre-project phase in order to co-ordinate the various inputs.

17. UNESCO has confirmed to UNDP that its response as outlined in the audit report reflects its views on the issues raised by the auditor. UNDP is also able to confirm that, despite the difficulties encountered in the implementation of these projects in the field, these have for the most part been overcome and the objectives of the projects have been largely achieved. It should also be pointed out that since the approval of these projects considerably more emphasis has been given by UNDP and by the agencies to the importance of preparatory work in project formulation (Guidelines on Project Formulation were issued in 1976) and to the quality of the project document as a management tool. While these efforts cannot be expected to eliminate the types of difficulties noted by the auditors in these cases, it is believed that they can significantly help in avoiding or overcoming them.

International Telecommunication Union (ITU)

18. The ITU external auditor stated that in execution of project UGA/80/007 (Restoration of Telecommunications Network), ITU placed an order with an Italian company in Milan on 22 December 1981 for project-development equipment and supplies amounting to \$2,105,258.

19. According to the agreement, downpayments were made from February to April 1982 amounting to 50 per cent of the contract price. In addition, in January 1982, ITU deposited \$1,100,000 in a Swiss bank to cover the balance due to the supplier.

20. At 31 December 1982, according to the ITU accounts, a Deposit Account was opened specifically for that purpose and was credited with the interest accrued on the deposit in the amount of \$143,161.16, which ITU intended to use to cover additional expenditure relating to the execution of the contract. This amount is not reflected in the financial statements submitted to UNDP.

21. In this connexion, the Secretary-General of ITU informed the auditor that due to the UNDP financial crisis, the \$2.5 million allocation for the project had to be utilized before the end of 1981 otherwise the project would have been cancelled or delayed until 1984.

22. In December 1981 ITU convened a meeting with representatives of the Uganda P & T Corporation and the successful bidding firm in order to examine the firm's offer of \$3.3 million and to see if reductions could be made to reduce the bid within the limits of the project budget of \$2.5 million.

23. A contract was signed on 22 December 1981 at an initial price of \$2,105,528; the final price was to be fixed after the findings of an on-site survey.

24. As regards the payment terms, the firm offered to reduce the total price of the contract by a percentage equivalent to the current interest rate on Eurodollars projected 12 months forward on the amount paid at the time of signature of the contract. To counterbalance the risk of future exchange control regulations affecting the firm's ability to repay this sum should the contract not be implemented, ITU decided to pay 50 per cent of the initial contract price directly to the firm and to place the other 50 per cent, in dollars, into an account in Geneva with the intention that the interest accrued on the 50 per cent deposited would be used for contingencies in relation to the project.

25. UNDP informed ITU that its handling of project funds was not in accordance with UNDP practices and had resulted in the loss of interest income to the general resources of UNDP. In reply, ITU agreed that the handling of UNDP funds in this particular case may not have been in strict conformity with UNDP practices but felt that its action was in the best interest of the project. The agency thought that the matter should be considered within the whole context of the situation in Uganda at the end of 1981 when the contract for replacing war-damaged telecommunication equipment under the project was finalized. The total quoted value of the contract exceeded the \$2.2 million reserved in the 1981 project budget for this purpose. By offering a slightly larger downpayment to the contractor than the normal 30 to 40 per cent, ITU said that it was able to obtain a sizeable price reduction which made a significant contribution towards bringing the contracted cost of the whole system within the amount budgeted. ITU also indicated that it was within the authority of the Secretary-General of ITU to negotiate terms and make advance payments of this nature.

26. Since the Government and the Resident Representative considered it essential for both humanitarian and economic reasons to complete the project urgently, ITU believed it was essential to ensure that these tasks could be carried out even if the Government might eventually be unable to undertake them or subcontract them for lack of financial resources. As the Resident Representative had informed ITU that no IPF funds would be available to cover any additional costs in 1982, ITU said it deposited the balance due to contractor of \$1.1 million in a bank account with a view to crediting the interest received not to ITU but to the project and to use it only if it became necessary for ITU to carry out any of these tasks.

27. ITU indicated that as at November 1983 the accrued interest amounted to \$211,751.45 and that it is and has always been the agency's intention to return to UNDP all unutilized funds on completion of the contract which should be in April 1984.

28. UNDP informed ITU that, while it appreciated ITU's wish to maximize the use of funds to meet project requirements, ITU should have consulted with UNDP before taking such exceptional measures, which only came to the attention of UNDP through the external auditors' report. ITU had no authority to use interest income to supplement the project budget as this was not in accordance with UNDP's financial procedures. ITU was therefore requested to report the total interest received on these funds in the current year's account under miscellaneous income. Any further interest obtained should be similarly reported. Should additional funds beyond the amount approved in the project budget be required, the approval of such funds should be requested by means of a budget revision in accordance with normal procedures.

29. The auditors also drew attention to a net amount of \$770,716 which was reported by ITU in its 1981 accounts as miscellaneous expenses and exchange adjustments on which UNDP had not yet taken a final decision. The major item included in this total was an amount of \$947,884.19 reported by ITU as exchange loss on revaluation. UNDP is reviewing this matter with ITU in order to resolve the question of its proper accounting treatment.

World Meteorological Organization (WMO)

30. In paragraph 4 of their audit report, the external auditors of WMO referred to a proposed pilot scheme for monitoring and evaluating technical co-operation projects which was to be started in the first half of 1983 and extended to all such projects by the end of that year.

31. WMO has since informed UNDP that, following further review of this proposal by WMO officials, it was considered that existing reporting procedures, including tripartite reviews and semi-annual progress reports, afforded adequate measurements of project achievements against objectives. Accordingly, the proposed pilot scheme was not introduced in 1983.

World Tourism Organization (WTO)

32. The WTO external auditors indicated that during 1982 two minibuses were purchased in Japan and two generators in India which were destined for project BHU/81/006 - Tourism Development. The expenditure was duly supported by accounting vouchers, but the auditors could neither ascertain whether the purchase of the vehicles was to meet the needs of the moment, nor whether such vehicles and machines fulfilled the purpose for which they were acquired.

33. WTO informed UNDP that all payments made by WTO for UNDP-funded projects are supported by original documentary evidence such as contracts, vouchers and invoices. WTO further informed UNDP that equipment acquired under UNDP-funded projects fulfil the purpose for which they were acquired in accordance with the proposals outlined in the project documents. UNDP is in the process of obtaining further clarification on this matter.

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Notes

1/ Official Records of the Economic and Social Council, 1983, Supplement No. 9, (E/1983/20), annex I.

2/ Official Records of the General Assembly, Thirty-eighth Session, Supplement No. 5A (A/38/5/Add.1).