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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 1983. Also included are salient comments on substantive observations of the auditors, and comments by UNDP and agencies with respect to such observations, and a summary of the action taken by UNDP in response to Governing Council decision 84/40. 1/

Document DP/1985/62/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 1983.

Introduction

1. The audited accounts of the executing agencies relating to funds allocated to them by the United Nations Development Programme (UNDP) as at 31 December 1983 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 1983.

2. The amounts reported in the UNDP financial report and audited financial statements for the year ended 31 December 1983 2/ were based on the unaudited accounts of the executing agencies. Adjustments introduced in the audited accounts of the executing agencies after the preparation of the financial statements of UNDP for 1983 have been reflected in this document, as appropriate. Necessary adjustments have been made in the UNDP accounts in 1984.

3. At its thirty-first session, the Governing Council, in decision 84/40 of 29 June 1984, 1/ emphasized again, as it had in previous years, the importance it attached to receiving long-form narrative audit reports which included observations on substantive matters, as well as to the audit of the effectiveness of financial management. The Council requested the Administrator to bring the views expressed by the Budgetary and Finance Committee to the attention of the Panel of External Auditors. The Council further requested the Administrator to convey the Council's views to the executive heads of the executing agencies so that they, in turn, might advise their respective legislative bodies of the Council's concern and request such further action by those bodies as might be necessary or appropriate in each case.

4. In response to the request of the Governing Council, the Administrator wrote to the executive heads of the agencies in August 1984 to request that they bring this matter to the attention of their legislative bodies or take such other action as might be appropriate. In several cases it has been found not necessary to take any further action since, as stated in paragraph 6, significant progress has already been achieved in the reports received for 1983.

5. The Administrator also brought to the attention of the Panel of External Auditors Governing Council decision 84/40 as well as the views expressed by the Budgetary and Finance Committee in the course of its discussion. The Panel considered this matter at its twenty-sixth session, held in November 1984, and UNDP was informed of the Panel's conclusions. The Panel is of the opinion that the length of an audit report is determined by the size of the account being audited and, therefore, in the case of certain executing agencies for UNDP, the amount of expenditure is not substantial enough for the auditors to produce a long-form report. As for audits on the effectiveness of financial management, the Panel recalled the consensus reached by its members in 1982, when a similar request was considered. At that time, the Panel indicated that the emphasis being placed by the Panel members on effectiveness auditing should be gradually increased and that the findings will continue to be reflected, as appropriate, in the audit reports.

6. The Administrator is pleased to report that for the year 1983 the number and extent of long-form narrative reports received from the agencies show a significant increase in comparison with previous years. The reports received have, in the

main, covered such substantive areas as project formulation, design, implementation, monitoring and evaluation and also include the result of field investigations of selected projects and programmes. In response to the request of the Governing Council in decision 81/41 of 30 June 1981, 3/ a brief summary of the significant observations made by the auditors and some salient comments by the Administrator on these observations are provided below in this note. As several observations of the auditors relate to project monitoring and evaluation systems, the Administrator has also included a brief note in this report on the actions undertaken jointly by UNDP and the agencies in that regard. Additionally, any further follow-up action which may have been taken by UNDP or the agencies will be reported orally to the Council at its thirty-second session. The agencies have also been invited to have their representatives present during the discussion of this agenda item at the Council's thirty-second session, so that they may provide any further clarifications or responses which members of the Council may request.

7. As requested in decision 84/40, the Administrator will make available during the thirty-second session of the Governing Council, General Assembly document A/39/5/Add.1 which contains the annual audited financial statements of UNDP for the year ended 31 December 1983, the report of the United Nations Board of Auditors thereon, the Administrator's financial report for 1983 and his observations on the comments and recommendations of the auditors. The Council will also have available to it, at its thirty-second session, Assembly document A/39/5, volume I, which includes the audited financial statements for the biennium 1982-1983 of the United Nations, including the United Nations Conference on Trade and Development, the United Nations Industrial Development Organization, the United Nations Centre for Human Settlements and the regional commissions, as well as the reports of the United Nations Board of Auditors thereon.

International Telecommunication Union

8. The external auditors of the International Telecommunication Union (ITU) reported that the matter referred to in section 2.2 of their report of 4 May 1983 (also described in paras. 18-28 of document DP/1984/63) as being under discussion between UNDP and ITU has since been settled. This matter concerned investment of a part of the contract price of equipment and supplies procured by ITU in connection with the execution of a UNDP-financed project and the use of the interest earned from that investment to finance the project requirements. The interest has now been credited to UNDP in 1984 under the item "Miscellaneous income and exchange adjustments".

9. The auditors also reported that a dispute involving an amount of \$947,583 representing differences in exchange rates during the financial year 1981, which had been charged by ITU to UNDP but not accepted by the latter, had not yet been settled (described in para. 29 of document DP/1984/63). The Administrator is pleased to report that this matter also has now been resolved, agreement having been reached between UNDP and ITU that only \$230,000 of the total amount originally claimed by ITU should be charged to UNDP, this being the portion attributable to UNDP-financed activities.

International Labour Organisation

10. The external auditors of the International Labour Organisation (ILO) reported that, during the biennium 1982-1983, their staff examined 34 technical co-operation projects in the Asian and African regions as part of the combined financial/operational audit of the ILO activities. Out of the 34 projects examined, 19 projects were financed fully or in part by UNDP. A major aim of the examination was to test the practical application of programme and project evaluation procedures which the ILO had introduced progressively since 1977.

11. The auditors examined 25 projects in the Asian region. They found that, in general, satisfactory control was being exercised over all 25 projects. There was evidence of a considered policy basis for the ILO undertaking the projects; reporting and monitoring procedures were being followed; budgetary control procedures were being observed and the evaluations provided for in the project documents were being carried out. The only real weakness identified in the procedures was that, in a few cases, project objectives and targets appeared to be too imprecise to provide a sound basis for the evaluation of performance.

12. As to the implementation of projects, the auditors pointed out that the success of a project depended to a large extent on the sponsoring bodies fulfilling their obligations under the terms of the project document. The auditors found that the ILO had generally done so. In the majority of cases, the ordering and delivery of equipment and the release of funds by the ILO had been properly timed to meet the requirements of the project. In a few projects, however, difficulties had been experienced in filling the post of Chief Technical Advisor and project expert posts. While these difficulties did not affect the eventual achievement of project objectives, they nevertheless impeded the project's planning, organization and progress.

13. The auditors reported that the position on the national inputs was less satisfactory. In a number of cases, project progress had been delayed or objectives had not been fully achieved because of the Government's failure to meet some of its obligations under the project document. The common problem was the late appointment or non-appointment of counterpart staff. In paragraphs 24 to 27 of their report (extracted in p. 9 of DP/1985/62/Add.1), the auditors have presented an ILO analysis of the situation with respect to the provision of national inputs to technical co-operation projects, the designation of national counterparts and the measures undertaken by the ILO to overcome these problems.

14. The auditors' general conclusion from the examination of the Asian projects was that most of the problems encountered stemmed from the omission of Governments to meet all their obligations under the project document, a factor upon which the ILO had only limited influence. The ILO has assured the auditors that, to the extent that other lessons drawn required a changed approach or specific measures, they would be reflected in the design and execution of new activities and, where necessary, in the implementation of operational projects.

15. In their examination of nine projects in Africa, the auditors found that, as in Asia, reporting and monitoring procedures had generally been followed and budgetary control procedures had been observed. One of the projects had been

operating for some time under a project document which had not been signed, but the ILO informed the auditors that the implementation of the project had not been affected. The auditors found that with regard to meeting project obligations, the ILO inputs had been generally satisfactory. In regard to national inputs, the auditors found that in several of the projects progress had been delayed or objectives not fully achieved because Governments had not met some of their obligations under the project documents. But in each case where problems occurred they had been reported to the ILO Headquarters or the auditors had become aware of them through their regular monitoring procedures.

16. Based on their findings on two projects, the auditors recommended that monitoring reports should be in a form which would enable the ILO headquarters to identify easily whether all activities were being carried out as foreseen in the project documents. The ILO informed the auditors that the format of the UNDP progress report would permit such an approach and that it might be beneficial to institute the procedure on most of the large and more complex ILO projects.

Food and Agriculture Organization of the United Nations

17. The external auditors of the Food and Agriculture Organization of the United Nations (FAO) reported that, as part of their continuing review of FAO operational activities, they conducted an examination of the UNDP aid programme in an Asian country which was receiving such aid for the first time. The purpose of the examination was to check that prescribed procedures had been followed and to form an overall view of the efficiency and effectiveness of the implementation of the projects. The country was atypical in that, following a long period of war, it faced enormous problems of reconstruction. Its Administration was not fully established when the projects were formulated and it was unfamiliar with United Nations technical co-operation arrangements.

18. The auditors reported that there had been difficulties in obtaining two Government inputs which were vital to the success of the projects: project management staff and buildings. Progress was slow in projects in which full-time international co-ordinators were not present. Because of a short supply of construction materials, there were delays in getting offices and other buildings ready which had an adverse impact on project activities. There were also difficulties in recruiting and placing consultants for many projects and delays in obtaining Government clearance for proposed consultants. There were problems in training programmes due to slowness by the Government in making nominations and due to a lack of candidates knowing a suitable language. The programme had a large equipment component. The auditors observed that while at the time of the formulation of projects there had been doubts about the ability of the Government to make full use of the large volume of equipment, FAO had been able to secure worthwhile economies by advising on appropriate specifications and suggesting user-sharing arrangements.

19. The auditors concluded that the difficult circumstances in which these projects were formulated largely denied FAO the opportunity of using its considerable experience to identify suitable areas for assistance and to influence fully the planning of appropriate projects. However, FAO had taken steps to

mitigate or overcome difficulties as they had arisen, resulting in improved prospects for follow-up on projects, and had taken other remedial action where appropriate and possible. The auditors also reported that although these projects included a high equipment component, with one particular exception there was a genuine need for most of the equipment supplied to these projects.

20. The Administrator is, in general, in agreement with the overall conclusion of the auditors given in paragraph 27 of their report. However, it should be pointed out that an extremely complex political and substantive situation prevailed in the country concerned at the time the programme was activated. At that time, the Government was of the view that it had the quality and number of personnel required for project co-ordination so as not to need international project co-ordinators. However, when it became clear that the national project staff lacked the necessary experience and knowledge to manage projects successfully, UNDP and FAO were able to convince the Government of the need for international project co-ordinators. With the appointment of such co-ordinators, project management has improved considerably. UNDP field personnel in the country have been closely monitoring the progress of the projects and, jointly with FAO, have organized periodic reviews and have initiated remedial action. The Administrator agrees with the auditors that training activities have been hampered due to the lack of Government personnel with the required language proficiency. It is expected that a UNDP-financed programme for foreign language training in the country will alleviate this problem.

21. The auditors reported that they paid particular attention in the course of the audit programme to the FAO monitoring and evaluation of UNDP-financed projects. In doing so, they examined whether project documents properly defined immediate objectives and specifically called for work-plans, progress reports, reviews and evaluations, thus providing a basis for monitoring and evaluation; they also observed how efficiently the arrangements were working. Their conclusion was that, contrary to the UNDP Policy and Procedures Manual, the objectives set out in the project documents were insufficiently precise or quantifiable to be measured or monitored. With regard to monitoring, the auditors found evidence on Headquarters files or work-plans for only 3 of 26 projects examined; also there was frequently a lack of detailed standardized work-plans. As to progress reporting, with some exceptions, the reports on the projects examined were detailed and had been submitted in reasonable time. However, they tended to concentrate on activities actually carried out, with little or no comment on those which had failed to take place, and they seldom related the actual activities to those prescribed in the project documents. The auditors also observed that, in the project examined, tripartite reviews involving local discussion between the Government, UNDP and FAO had been held at intervals of about 18 months on average, compared with UNDP's preference for intervals of no more than 12 months.

22. FAO informed the auditors that refining the description of objectives and outputs in projects was a continuing process in FAO. FAO has also established internal procedures, such as the project formulation task force, to improve project design and objectives. As to progress reporting, FAO confirmed that the findings of the auditors were largely representative. It had provided operating divisions with a check-list to control the completeness of progress reports. As to tripartite reviews, FAO explained that because of the widely differing nature of projects the procedure envisaged for reviews was not always appropriate. However, the United Nations system planned to strengthen tripartite reviews and new UNDP guidelines were being drafted for this purpose (see para. 31 below).

United Nations Educational, Scientific and Cultural Organization

23. The auditors reported that during 1983, as part of their continuing review of the operational activities of the United Nations Educational, Scientific and Cultural Organization (UNESCO), they visited a country in the Asia and Pacific region and examined 11 UNDP projects being executed by UNESCO in the educational and scientific fields. None of the projects had resident UNESCO personnel; the day-to-day running of the projects rested with national project directors, supported where appropriate by international consultants or short-term appointments. The purpose of the visit was to form an overall view of the efficiency and effectiveness of the implementation of these projects and to examine the monitoring arrangements for projects being executed with resident UNESCO experts.

24. The auditors reported that the Government of the country visited afforded priority to UNDP-financed projects when allocating resources and that Government inputs had generally come forward on time and had frequently exceeded their formal obligations. The position regarding UNESCO's inputs was less satisfactory. The most common problem was the failure to provide high technology or commercially sensitive equipment within the time scale set out in the work-plans, primarily due to difficulty in obtaining export licences. Implementation of fellowships, while generally satisfactory, was also subject to delays because of a lack of sufficient candidates with linguistic abilities to study in other countries. However, the arrangement for giving returning fellows the opportunity to disseminate their newly acquired knowledge was working well. As to progress reports prepared by national project directors, the auditors reported that they were often delayed and were not sufficiently informative to permit effective monitoring. Also, the auditors found several cases where the implementation of projects was being impeded by factors which had not been identified to UNESCO in progress reports.

25. UNESCO informed the auditors that, even though some inputs had been delayed, the ultimate achievement of project objectives had not been prejudiced by the delay. The secretariat was constantly striving to improve procedures and performance by setting realistic timetables in project documents and taking remedial action to solve problems as they were identified.

26. The Administrator would like to note that several steps had been taken by the UNDP office in the country concerned to assist national project directors to fulfil their obligations. These steps included the preparation of easily readable guidelines for progress reporting and the holding of a Programme Management Workshop to acquaint national directors with management and reporting requirements of UNDP-funded projects. As the auditors have pointed out, excellent communication existed between UNDP, the National Project Co-ordination Unit and UNESCO and, as a result, workable solutions were being found for problems as they arose.

Administrator's comments on audit observations on monitoring and evaluation

27. The careful review by the various external auditors of the role and performance of monitoring and evaluation in project design, formulation and implementation is particularly welcomed by the Administrator as very timely. The Administrator concurs with many of the observations of the auditors on the detailed issues regarding monitoring and evaluation systems and procedures as they reflect UNDP's

own findings based on its experience. In this section, some of the recent initiatives undertaken jointly by the agencies and UNDP to strengthen evaluation policies and procedures are described.

28. The first major issue raised by the external auditors refers to the fact that in project documents objectives are insufficiently precise or quantified to allow their achievement to be measured or monitored. Although UNDP's guidelines are explicit in their instruction, UNDP has long been aware of the somewhat ambitious nature of the objectives stated in many project documents and, through a combination of training and re-emphasis on precision, clarity and achievability, is endeavouring to promote a sense of target achievements within a finite resource base. The external auditors have also referred to inadequacies in the progress reporting system; several measures have been taken by the agencies and UNDP in this regard. The new UNDP guidelines have revised the progress reporting system so that a results-orientation and relevance of project activities to specified objectives are central to its purposes. The emphasis is on output, efficiency and problem-solving. It is also recognized that the changing styles of technical co-operation and the varying needs of countries at different levels of development require a greater role by the UNDP field offices in enabling Governments to fulfil monitoring and reporting requirements, especially in the absence of international personnel. In dealing with these problems, UNDP also continues to employ such techniques as local-level training programmes, greater training of trainers and detailed briefing of national project directors.

29. The auditors have also raised the issue of the periodicity of tripartite reviews and the lack of precise timetabling of evaluation and monitoring action in project documents. It should be noted, in this context, that UNDP's procedures require the precise timing of these events. However, even though these requirements are precisely mandated, operational circumstances in the decentralized UNDP system continue to require a flexible interpretation of these rules. Many projects are located outside metropolitan centres, rendering it difficult for senior-level personnel to be available at all times. The evolving experience is being monitored and will be reviewed as appropriate.

30. As stated earlier, agencies and UNDP have jointly formulated a new set of guidelines relating to project evaluation and implementation. These guidelines cover monitoring and progress reporting systems as well as internal evaluations and tripartite reviews. The draft guidelines were distributed in September 1984 to UNDP field offices and the executing agencies and are scheduled to be field tested in 1985 and 1986. During this trial period, the procedures would be applied to all UNDP-financed projects and the experience gained would be analysed by both the agencies and UNDP. The full co-operation of Governments involved in this process will also be actively sought.

31. In seeking to place these comments in the larger context of the tripartite system, the Administrator welcomes the increased attention that the agencies have paid to monitoring and evaluation in recent years. UNDP's revised procedures are a response to these positive steps. UNDP plans to continue to build on the momentum that has been generated.

Notes

1/ See Official Records of the Economic and Social Council, 1984, Supplement No. 10 (E/1984/20), annex I.

2/ Official Records of the General Assembly, Thirty-ninth Session, Supplement No. 5A (A/39/5/Add.1).

3/ See Official Records of the Economic and Social Council, 1981, Supplement No. 11 (E/1981/61/Rev.1), annex I.
