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SUPPORT

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 1984. 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 85/40.

Document DP/1986/64/Add.1 contains the audited accounts and audit reports submitted by some of the executing agencies relating to funds allocated to them by UNDP as at 31 December 1984.

## Introduction

1. The audited accounts of executing agencies relating to funds allocated to them by the United Nations Development Programme (UNDP) as at 31 December 1984 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 1984. The addendum contains only the accounts of those agencies which submit audited accounts on an annual basis, but not of those agencies which are required under their own financial regulations and rules to submit audited accounts on a biennial basis.
2. The amounts reported in the UNDP financial report and audited financial statements for the year ended 31 December 1984 <sup>1/</sup> 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 1984 have been reflected in this document, as appropriate. Necessary adjustments have been made in the UNDP accounts in 1985.
3. At its thirty-second session, the Governing Council, in decision 85/40 of June 1985, noted the increasing emphasis given by the external auditors to the preparation of long-form narrative audit reports which include observations on the effectiveness of the financial management of projects. The Council requested the Administrator to bring the decision and the views expressed by the Budgetary and Finance Committee on this subject to the attention of the Panel of External Auditors. The Council also requested the Administrator to continue his efforts, in consultation with the Panel, to ensure that long-form narrative reports are submitted in respect of every executing agency which carries out a significant volume of UNDP-financed activities.
4. In response to the request of the Governing Council, the Administrator brought to the attention of the Panel of External Auditors Governing Council decision 85/40 as well as the views expressed by the Budgetary and Finance Committee in the course of its discussion. In particular, UNDP advised the Panel that no separate report on UNDP-financed activities had been submitted in respect of one executing agency which handles a sizeable volume of UNDP funds. The Panel informed UNDP that the auditors of that agency had followed the wishes of the agency's Assembly and Council in that respect but that the issue would be resolved with the agency and UNDP.
5. In decision 85/40 the Council further requested the Administrator in future to include in his note on audit reports a summary of the most significant observations contained in audit reports of UNDP itself and of the United Nations, as well as of the comments made and follow-up actions taken by the respective Administrations in response to those observations.

6. As requested in decision 85/40, the Administrator has included below a summary of the most significant observations contained in its external auditors' report on UNDP for the year ended 31 December 1984. In respect of the United Nations, the Administrator will report to the Governing Council in 1987 on the external auditors' report for the 1984-1985 biennium.

#### I. INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (WORLD BANK)

7. The external auditors of the World Bank reported that they reviewed 14 UNDP projects administered by the World Bank. The projects selected for review were chosen from each of the World Bank's six regions (Indonesia, Latin America/Caribbean, Europe/Middle East, South Asia, Western Africa and East Africa) and the global-interregional section. The auditors reported that, in all but one of the projects reviewed, the procurement procedures noted were in accordance with the World Bank's guidelines. The project in which the procurement procedures were not followed was also found to be deficient in submission of progress reports and in performing follow-up procedures.

8. The problems pertaining to the execution and management of the above-mentioned project were noted by UNDP at an early stage. A joint UNDP/World Bank/Government mission was fielded early in 1985 for a mid-term evaluation. There were two reasons why particular problems were experienced with regard to the project: firstly, the World Bank considered it to be a very unusual project in that no roster of consultants apparently existed for the kinds of consultants required. This may explain why normal procedures were, perhaps, not followed since apparently the Bank had to spend a great deal of time and money in locating consultants. Secondly, there was some confusion as to the management of the project and it would appear that a consensus had been established to decentralize the project management to a co-ordinating committee in the capital city of the country where the project is located.

9. The deficiencies noted by the evaluation mission have been discussed with the Bank and the Administration believes that the administrative problems have now been properly addressed.

#### II. UNIVERSAL POSTAL UNION

10. The external auditors of the Universal Postal Union (UPU) reported that a project calling for the construction of six post offices shows that two of the offices have not been constructed. The auditors further reported that, according to the Minister of Posts and Telecommunications of the country concerned, construction was due to begin in 1985. UNDP has been advised by UPU that the Postal Administration of the country concerned informed UPU that funds amounting to \$10,000 were available for construction of the two remaining post offices and that construction would commence when the rainy season ended.

19. In response to this recommendation, the Administration undertook an overall review of existing policies and procedures. Based on the review, new practices were instituted under which staff entitlements for shipment of personal effects are now computed on a more realistic basis. In addition, these obligations are now reviewed on a quarterly basis which will ensure that, in so far as possible, no obligation will remain outstanding beyond one year. Procedures have been established under which travel authorizations are now calculated in as exact a manner as is possible based on the traveller's planned itinerary. Steps have also been taken to ensure timely settlement of claims and liquidation of residual obligation balances. It is believed that these new procedures will result in better management of travel obligations.

20. Concerning the procurement system of the Office for Projects Execution, the auditors questioned whether the Office could adhere to its own guidelines on equitable geographic distribution of procurement since there appeared to be an insufficient number of manufacturers and suppliers from developing countries on the vendor roster.

21. The Office for Projects Execution has taken various measures to try to increase procurement from developing countries and to distribute procurement activities on a wider geographical basis. The main features of these measures are:

(a) The dollar limitation for delegating authority to purchase project equipment in the field has been increased to \$10,000;

(b) For a number of large-scale projects, local project contracts committees have been established under the authority of the resident representatives to deal with procurement, both local and international, between \$10,000 and \$40,000;

(c) New "short-listing" formats have been introduced which require the Office staff to identify and short-list firms from a wider group of countries;

(d) On a case-by-case basis, field offices are requested, whenever feasible, to identify and advise the Office of local firms or suppliers for short-listing;

(e) When the Office roster does not provide sufficient data, the Inter-Agency Procurement Services Unit (IAPSU) and the International Register of Suppliers (INRES) sources are tapped for other potential suppliers for short-listing;

(f) Arrangements have been made to place advertisements in Development Forum for project procurement activities of the Office for Projects Execution. It is expected that, with this measure, the interest of more firms or suppliers from both developed and developing countries will be attracted, resulting in a wider choice for short-listing purposes.

22. The auditors further recommended the introduction of a "direct provisioning system" as a means to expedite and simplify the provision of proprietary spare parts. The Office for Projects Execution has now decided to introduce a "direct provisioning system" in respect of some large-scale projects in a number of countries. A number of dealers and suppliers have been identified and the Office is in the process of sending invitations to bid. The system is expected to be operational in May 1986.

Note

1/ Official Records of the General Assembly, Fortieth session, Supplement No. 5A (A/40/5/Add.1).

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