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BUDGETARY AND FINANCE COMMITTEE
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Item 10 of the agenda of the Budgetary and Finance Committee

ADOPTION OF THE REPORT OF THE BUDGETARY AND FINANCE COMMITTEE
TO THE GOVERNING COUNCIL

Draft report of the Budgetary and Finance Committee

Rapporteur: Mr. MKHONZA Adelaide Phindile (Swaziland)

Addendum

CHAPTER IV. FINANCIAL, BUDGETARY AND ADMINISTRATIVE MATTERS

E. Audit reports

1. For its consideration of item 9 (e) of the Council's agenda, the Committee had before it document DP/1986/64/Add.1, which contained the audited financial statements for the year 1984 of those executing agencies which submit audited accounts annually, together with the report of their external auditors on those financial statements. The Committee also had before it document DP/1986/64, which contained a note by the Administrator, including a summary of the action taken by UNDP in response to the Council's decision last year on the subject (decision 85/40), as well as comments by the Administrator on some of the more significant observations contained in the various audit

reports submitted by the external auditors of the agencies. In addition, copies of General Assembly document A/40/5/Add.1 were available. This document contained the audited financial statements of UNDP itself for the year 1984, the report of the United Nations Board of Auditors on these statements, as well as the Administrator's response to the comments and recommendations of its external auditors.

2. The Acting Deputy Director of Finance introduced the item by noting that decision 85/40 requested, inter alia, the Administrator to bring the Council's decision and the views expressed by members of the Committee to the attention of the Panel of External Auditors, and to continue his efforts, in consultation with the Panel, to ensure that long-form narrative audit reports were submitted in respect of every executing agency which carried out a significant volume of UNDP-financed activities. This had been done. With regard to the external audit reports on the 1984 accounts of the agencies, the Acting Deputy Director noted that most major agencies were not required under their own financial regulations to submit audited accounts for 1984, but would do so for the biennium 1984-1985. For this reason, there were relatively few audit reports under consideration.

Summary of the discussion in the Committee

3. A number of delegations recalled that the Council had requested long-form narrative reports from the agencies and expressed dissatisfaction with the quality of the reports that had been submitted to this year's session. Several members considered that the information contained in some of the documents was superficial and requested more useful and relevant information in the future. Members did express appreciation, however, for the audit report prepared by the external auditors of the World Bank. One member noted that this audit report contained both clear recommendations and an account of

what had been done to implement recommendations made in the past; he suggested that in the future all reports should contain these two elements. He further suggested that the governing bodies of the agencies should themselves take up the issue of the quality of the reports being submitted in the case of their agencies.

4. Members requested clarifications and further information regarding a number of specific items. Several members referred to the problems faced in the use of the reserve for construction loans for housing and the delivery situation. One member referred to the issue of ownership of equipment referred to in paragraph 2.8 of the Universal Postal Union (UPU) audit and asked what UNDP standing practice was in this regard. Several members requested further information regarding the executing agency referred to in paragraph 4 of document DP/1986/64. Several members referred to the purchase of a radar system for a UNDP-financed project referred to in the World Meteorological Organization (WMO) audit report. One member questioned the role of the resident representative in this case. Another member requested further information on the direct provisioning system referred to in paragraph 22 of the document.

Response of the administration

5. The Acting Deputy Director of Finance stated that considerable progress had been made since the BFC had, some years ago, first stressed the value of long-form narrative audit reports. He emphasized that for 1984, most UNDP major agencies were not required to submit audited accounts. He pointed out in this connection that the audit reports of the major agencies had been more extensive than those presented by the smaller agencies; indeed, the Committee had favourably commented on the progress in the reports submitted by the larger agencies for the previous year. It had been specifically noted by the

Panel of External Auditors that it was not always practical to issue a separate report for the smaller agencies. Where UNDP-financed activities represented a relatively small proportion of the total activities of an agency, the question of materiality clearly could arise. The Acting Deputy Director stated that the dialogue between UNDP and the Panel of External Auditors would continue and further improvements would be sought; he emphasized, however, that importance of respecting the principle that what the auditors wrote in their report was ultimately their own responsibility.

6. The Acting Deputy Director then referred to some of the specific clarifications that had been sought. Regarding the issue of ownership referred to in paragraph 2.8 of the UPU audit, he stated that this was an isolated case. UNDP policy in this matter, which was that the equipment was generally transferred to the Government at the end of the project, was firmly established. Regarding the WMO radar project, he indicated that the role of the resident representative was merely to try to assist the Government and WMO in solving the problem that they faced. While the direct provisioning system referred to in the document was not yet operational, it was expected that submissions by prospective bidders would be reviewed by the UNDP Contracts Committee in June 1986. Regarding issues relating to the reserve for construction loans for housing and the delivery situation, the Acting Deputy Director stated that these issues had been already more fully covered under agenda item 9 (i). UNDP had consulted with the agency referred to in paragraph 4 of the document, and further discussions with that agency, as well as its external auditors, were planned in order to find a satisfactory solution which would go towards meeting the concerns of the Council.
