



**Governing Council
of the
United Nations
Development Programme**

Distr.
LIMITED

DP/1987/BFC/L.2/Add.9
9 June 1987

ORIGINAL: ENGLISH

BUDGETARY AND FINANCE COMMITTEE
Thirty-fourth session
26 May-19 June 1987, New York
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. Hans OLSSON (Sweden)

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/1987/9/Add.1, which contained the audited financial statements for the year 1985 of the executing agencies, together with the report of their external auditors on those financial statements. The Committee also had before it document DP/1986/9, which contained a note by the Administrator, including a summary of the action taken by UNDP in response to the Council's decision 86/48 of 27 June 1986 on the subject, 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. Also made available were copies of General Assembly document A/41/5/Add.1, which contained the audited financial statements of UNDP itself for the year 1985, 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. Copies of General Assembly document A/41/5, Vol. I, containing the audited financial statements and audit report for the biennium 1984/1985 in respect of the

other United Nations organizations subject to audit by the United Nations Board of Auditors, as well as General Assembly document A/41/632, containing the report of the Advisory Committee on Administrative and Budgetary Questions (ACABQ) on the audit reports submitted to the forty-first session of the General Assembly, were also made available to the Committee.

3. In introducing this item, the Deputy Director of Finance pointed out that this documentation was provided in response both to previous Council decisions requesting that the audit report for UNDP itself be brought to the attention of the Council and to General Assembly resolution 41/176 which requested the governing bodies of all organizations subject to audit by the United Nations Board of Auditors to review at their regular sessions the audit report, the report of ACABQ and the related comments made in the Fifth Committee. In this connection, he summarized the main points made by members of the Fifth Committee during their discussion of the UNDP audit report and provided some additional information on those matters.

4. The Deputy Director of Finance concluded by noting that decision 86/48 requested 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. That had been done and a summary of the Panel's position in that regard had been given in the letter received from the Auditor General of Canada, in his capacity as Chairman of the Panel of External Auditors, which was reproduced as an annex to document DP/1986/9. The Deputy Director referred to the Chairman's suggestion that in cases such as that of the agency for which no separate long-form report was prepared a request by the Council should be addressed to the agency itself rather than to the external auditor. He noted that there seemed to be a difficulty on that point in that in 1984, at the request of the Council, UNDP had brought the issue to the attention of the administrations of the agencies and their response had been that the question should be addressed to the external auditors.

Summary of the discussion in the Committee

5. One member, speaking on behalf of several delegations, remarked that the external auditors' reports had come a long way in meeting the requirements of Governing Council decision 86/48, especially that relating to inclusion of observations on the effectiveness of financial management.

6. Another member stated that the documentation on audit reports had not been received early enough for a thorough review to be made. He went on to suggest that references to relevant General Assembly documents being made available to the Committee should in future be provided in the provisional agenda of the Budgetary and Finance Committee for the convenience of delegations. He accepted the view expressed by the Chairman of the Panel of External Auditors that it was ultimately the external auditor himself who must determine the nature and extent of his audit report. He suggested that in cases such as that of the agency for which no separate audit report was issued in respect of its UNDP activities, the best course

of action might be for delegations who felt it was appropriate to do so to take up such questions in the governing body of the agency concerned.

7. The member expressed appreciation for the audit report prepared by the external auditors of the World Bank and welcomed their proposal, and the acceptance of UNDP, to expand the scope of audit work to include field visits noting that the auditors should strive to contain the cost of such visits. He expressed concern that the section of its Food and Agriculture Organization of the United Nations (FAO) manual on its headquarters inventory control system had not yet been updated and requested further information regarding its status.

8. Several delegations noted that the Administrator's note highlighted several cases of shortcomings related to clearly defined objectives in project documents, project monitoring and evaluation, as well as instances of Governments' failure to provide inputs promptly, which hindered effective project implementation and monitoring. Several delegations expressed satisfaction with the new measures undertaken by UNDP to alleviate shortcomings in project identification, design and formulation.

9. Members expressed appreciation for the thoroughness of the external auditors' report on UNDP-financed activities executed by the United Nations Educational, Scientific and Cultural Organization (UNESCO) and noted the shortcomings and problems highlighted by the auditors and the UNESCO actions to rectify and alleviate them. One member remarked that the problems encountered should not deter UNDP from implementing the principles of the New Dimension policy and that utilization of national capacities in project implementation should be encouraged. Members expressed appreciation for the action taken by the Administrator to contain UNDP travel costs and to reduce the 1988/1989 travel budget by 10 per cent.

10. In respect of the comments made by the external auditors of UNESCO, one member expressed concern with procedures developed and employed by national Governments in selecting national directors for these projects since in his view, such procedures did not ensure adequate international participation in UNDP-funded programmes and projects. The member also requested clarification on the comments made by the external auditors of the World Intellectual Property Organization (WIPO) and the World Tourism Organization (WTO) on the varying rates of remuneration paid to consultants. Another member sought information on whether the Inter-agency Procurement Services Unit (IAPSU) standards, which seemed to be focused on field operations, were also applicable to headquarters operations; on the progress made towards the timely issuance of fact sheets; and on whether UNDP was satisfied with its present procedures relating to terminal reports, in particular that resident representatives were given adequate opportunity to provide their inputs to them.

Response of the Administration

11. In responding to matters raised by members in the course of the discussion, the Deputy Director of Finance confirmed that in future references to the General Assembly documentation made available to the Committee on the present item would be included in the provisional agenda of the Budgetary and Finance Committee. With regard to the cost of visits by the World Bank's external auditors to field

projects, he explained that UNDP had been informed that these could be met from savings realized in carrying out the audit of headquarters and that therefore the total fee previously negotiated with the external auditors would not need to be increased.

12. The Deputy Director welcomed the suggestion made that any significant difficulties experienced in obtaining long-form narrative audit reports might best be dealt with by delegations bringing the matter to the attention of the governing body of the agency concerned. In connection with the FAO manual, he stated that FAO had recently informed UNDP that the new procedures regarding inventory control had not yet been implemented but that the relevant draft section of the manual was now under scrutiny for clearance by the appropriate FAO divisions. Regarding the issue of ensuring international participation in projects he explained that, as in the case of government-executed projects, where procedures were adopted which placed more reliance on Government involvement in project execution, it was inevitable that national, rather than international, resources would be utilized. In connection with the varying rates of remuneration paid to consultants by WTO and the World Meteorological Organization (WMO), he stated that short-term consultancy in specialized fields did not readily lend itself to a standard framework for fees charged. With regard to IAPSU standards, he explained that the services of IAPSU were primarily geared to assist field office operations, but in principle could apply to headquarters operations in appropriate cases.

13. The Chief of the Central Evaluation Office responded to issues on project-related matters. With regard to fact sheets, he explained that UNDP intended to revise its procedures so that fact sheets become an integral part of the appraisal and approval process, and that that would also lead to a revised format for the cover page of the project document. With regard to terminal assessment reports, he explained that the role of the resident representatives has been strengthened and that they had been asked to comment on all UNDP-financed country projects costing \$1 million or more, and noted that some of the regional bureaux applied the procedures to country projects of lower value.

Recommendation of the Committee

14. Following its consideration of this item, the Budgetary and Finance Committee recommended that the Council adopt the following decision:

The Governing Council

1. Takes note of documents DP/1987/9 and Add.1, containing the audited financial statements and audit reports of executing agencies for the year 1985, the Administrator's comments on substantive observations made by the external auditors, the action taken by the Administration in response to Governing Council decision 86/48 of 27 June 1986, and the views of the Panel of External Auditors as expressed in the letter received by the Administrator from the Chairman of the Panel, annexed to document DP/1987/9;

2. Also takes note of the audited financial statements and audit report of the United Nations Development Programme for the year 1985 (General

Assembly document A/41/5/Add.1), the audited financial statements and audit report of the United Nations for the biennium 1984/1985 (A/41/5, Vol. I), the report of the Advisory Committee on Administrative and Budgetary Questions on those audit reports (A/41/632), as well as the views expressed by members of the Fifth Committee on those audit reports in the course of the forty-first session of the General Assembly;

3. Requests that for future sessions of the Governing Council, appropriate reference be made to such documentation as is referred to in paragraph 2 above in the document containing the provisional agenda and organization of work of the Budgetary and Finance Committee;

4. Reaffirms its wish that increasing emphasis be given by the external auditors of funds allocated to executing agencies by the United Nations Development Programme to the preparation of long-term narrative audit reports which include observations on the effectiveness of financial management.

