Thirty-fifth session
6 June-1 July 1988, Geneva
Item 9 (e) of the provisional agenda

FINANCIAL, BUDGETARY AND ADMINISTRATIVE MATTERS

Audit reports

Note by the Administrator

SUMMARY

The present document provides explanations concerning the audited accounts and audit reports of the executing agencies, relating to funds allocated to them by UNDP as at 31 December 1986. Also included are salient comments on substantive observations of the auditors, comments by UNDP and 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 87/47. Document DP/1988/5/Add.1 contains the audited accounts and audit reports submitted by the participating and executing agencies relating to funds allocated to them by UNDP as at 31 December 1986.
INTRODUCTION

1. The external audit reports and audited accounts of executing agencies relating to funds allocated to them by the United Nations Development Programme as at 31 December 1986, submitted in accordance with regulation 17.1 of the UNDP Financial Regulations, are contained in the addendum to the present document (DP/1988/5/Add.1), together with a summary of the status of funds submitted by all executing agencies as at 31 December 1986. Sections I to IV of the present document contain the Administrator's comments on significant observations made in the audit reports of those agencies. It should be noted that since 1986 was the first year of the biennial period used by the United Nations system, the audit reports being presented this year do not include reports in respect of those organizations which, under their own financial regulations, submit audited financial statements only at the end of each biennium.

2. In accordance with previous Governing Council decisions as well as General Assembly resolution 42/206, the Administrator is also bringing to the attention of the Council the audit report of UNDP itself, 1/ the report of the Advisory Committee on Administrative and Budgetary Questions (ACABQ) 2/ thereon and the related comments made in the Fifth Committee of the General Assembly. 3/

3. Governing Council decision 85/40 requested the Administrator to provide the Council each year with a summary of the most significant observations contained in the audit report of UNDP itself, as well as of the comments made by the Administration and follow-up actions taken in response to those observations. This summary is provided in section V of the present document, as well as a summary of the views expressed by members of the Fifth Committee on this item.

I. WORLD BANK

4. The World Bank's external auditors remarked that a number of cash (bank) accounts remained unreconciled owing to inadequate staff resources. As a result, they recommended that procedures be implemented to ensure that cash accounts be reconciled on a timely basis. The UNDP administration wishes to note that, prior to receipt of the external auditors' report, issues involving cash management were discussed with officials of the World Bank, who subsequently advised UNDP that procedures had been implemented to ensure that cash (bank) accounts were reconciled on a timely basis.

5. The external auditors reported that they had reviewed documentation for six UNDP-financed projects administered by the World Bank. The purpose of their review was to determine, inter alia, that (a) the World Bank's procurement procedures were properly adhered to; and (b) World Bank's follow-up procedures in connection with problems noted were adequate. As a result of this review, the external auditors concluded that procurement procedures used for consultants, experts/fellowships and/or equipment were in accordance with World Bank's established guidelines. They also advised that the World Bank had taken steps to address the problem cited in the progress report of one of the projects reviewed.

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II. UNIVERSAL POSTAL UNION (UPU)

6. The external auditors commented on the execution of projects and establishment of obligations. With regard to the execution of projects, they cited one instance in which implementation of a project had been delayed because it had not been possible to construct the Postal Academy building, recruit a national expert or select all the appropriate fellows. The UNDP Administration has requested UPU to keep it informed on progress in the implementation of this project and information on the current status of this project will be provided orally at the Council's thirty-fifth session.

7. With regard to the establishment of obligations, the external auditors noted that some obligations had been overestimated. The UNDP Administration has, on a consistent basis, advised agencies to follow UNDP's established criteria for recording obligations and has requested UPU to advise it on actions taken to establish internal procedures to ensure that obligations are properly accounted for.

III. INTERNATIONAL TELECOMMUNICATION UNION (ITU)

8. The external auditors of ITU remarked that external factors had caused delays in the implementation of certain UNDP-financed projects and that those delays in turn affected the overall co-ordination of the projects. In two instances, the external factors related to delay in the delivery of certain project equipment. The UNDP Administration followed this up with ITU which confirmed that the problems were due in part to delays in obtaining and/or inability to obtain export licences for computer-related equipment.

IV. ASIAN DEVELOPMENT BANK (AsDB)

9. With regard to the UNDP-financed projects executed by AsDB, the external auditors outlined the procedures that were followed during the review of three projects. One of the procedures called for the comparative examination of a project's actual progress to its progress objective outlined in the project document. As a result of this review and other examinations, the auditors remarked that AsDB was taking appropriate follow-up action on problems identified in the progress reports.

V. UNITED NATIONS DEVELOPMENT PROGRAMME

Audit report and response of the Administration

10. The Administration had provided a detailed written response to all the observations made by the United Nations Board of Auditors in its report 1/ and the audit report itself contains extensive quotations from that response. This represented a change from the previous practice, under which the Administration's response to the audit report had constituted a separate section of the document.
11. The audit report was extensive and included numerous recommendations in the areas of accounts, financial reserves and cash management, miscellaneous financial issues, budget, programme and project management, electronic data-processing, cases of fraud or presumptive fraud and housing operations. The auditors qualified their opinion on the UNDP financial statements for 1986 as a result of a number of their findings.

12. In the view of the UNDP Administration, some of the recommendations made by the auditors would require the specific attention of the Council in that they appear to be inconsistent with established policy and procedures, including, in some cases, the UNDP Financial Regulations or other decisions of the Council, and raise issues on which the Administration would require the Council's advice. Other observations of the auditors relate to matters which have been or are the subject of detailed review by the Council and which the Council would no doubt wish to take into account in its future consideration of these subjects. Owing to the length of the audit report and the extensive response of the Administration which it includes, no attempt will be made in the present document to summarize its contents. However, in order to assist members of the Council in their review of the audit report, a listing of all the audit observations is provided in the annex to the present document. The listing indicates which observations fall into the categories referred to above and also indicates which observations were considered by the auditors as being grounds for qualifying their audit opinion.

Report of ACABQ

13. In the course of its report, \(2/\) the Advisory Committee expressed the following views:

(a) It shared the view of the UNDP Administration, with which the Board of Auditors agreed, that matters related to the external audit of the accounts of the executing agencies of UNDP should be addressed by the relevant governing bodies and the Panel of External Auditors and also recommended that the matter be the subject of further consultation between UNDP and the executing agencies;

(b) With regard to the auditors' comments on the complexity of UNDP's financial statements, the Advisory Committee was not convinced that the changes proposed by the auditors would necessarily result in their further simplification and clarification;

(c) It believed that the question of the proper level of UNDP's financial reserves was complex and that it should be addressed to the UNDP Governing Council, which could provide specific guidance on points of substance as well as presentation;

(d) Concerning the auditors' recommendation that the UNDP biennial budget should include a more detailed pattern of appropriation lines, it felt that on the basis of the information provided to it a compelling case had not yet been made to change the appropriation resolution at the present time and requested the Board to keep the matter under review and to report back to it and to the Governing Council if the situation so warranted;
(e) It recommended that the UNDP Administration should, in the context of the biennial budget, provide full disclosure of the projects and funds estimated for all electronic data-processing.

Discussion in the Fifth Committee

14. Members of the Fifth Committee expressed their appreciation for the work of the Board of Auditors and ACABQ and emphasized the importance they attached to audit reports as a valuable management tool. They particularly welcomed the breadth of scope and the thoroughness of the reports which had been submitted in respect of 1986.

15. Many members also expressed their appreciation of the comprehensive nature of the response by the UNDP Administration to the audit report and its readiness to implement many of the auditors' recommendations, although they were very concerned that the auditors had issued a qualified opinion on the UNDP accounts and that on a number of important issues there was clearly a difference of opinion between the auditors and the Administration. They urged that appropriate steps be taken to resolve such differences and recognized that in several instances it would be necessary to seek the guidance of the Governing Council, and in some cases also to refer the matter to the Panel of External Auditors and to consult with the executing agencies. In particular, every effort should be made to resolve, as soon as possible, those issues which had led to the qualifications in the audit opinion.

16. In the course of the debate, concern was expressed and a number of questions were raised regarding particular issues covered by the audit report. Notable among these were the level of UNDP's liquid resources, the relationship of programme support costs to programme delivery, budgetary control, inventory control procedures and control over accounts receivable and suspense accounts.

17. Many members emphasized that it was important for the audit reports to be given full consideration by the governing bodies concerned, which were primarily responsible for ensuring that appropriate follow-up action was taken in respect of the audit observations. In the case of UNDP, the Governing Council should provide guidance on a number of specific issues and should review the whole report, taking into account the views expressed in the Fifth Committee.

18. Responding to the debate in the Fifth Committee, the Associate Administrator expressed his appreciation for the thorough work performed by the external auditors and emphasized that UNDP fully recognized the importance of their role. It was clear from the report that there had been a genuine difference of opinion at the technical level between the auditors and the UNDP Administration on a number of issues. In the most significant of these cases, that had occurred because the observations or recommendations were not, in UNDP's view, entirely consistent with UNDP's established policies and procedures, many of which derived from decisions of its governing body. He then reviewed the most important of these and clarified UNDP's view of the issues involved.

19. The Associate Administrator then referred to the category of audit observations relating to matters which were operational in character and were under
almost continuous review by the Governing Council. He provided further information on some of these and noted that the Governing Council would be in a position to advise the Administration on how these matters should be dealt with. He then commented on the other issues, several of which had since been resolved, and on others where UNDP was taking appropriate action to remedy the weaknesses which had been identified. Finally, he responded to specific queries which members had raised during the debate, in particular describing the factors which should be taken into account when considering the level of UNDP's liquid resources.

General Assembly resolution 42/206

20. Following discussion of this question in the Fifth Committee, the General Assembly adopted resolution 42/206. The attention of the Council is drawn, in particular, to the following paragraphs of that resolution:

(a) Paragraph 3, which requests [the UNDP Governing Council] to require [the Administrator] to take immediate steps within [his] competence to correct the situations or conditions that gave rise to the qualification of the audit opinion;

(b) Paragraph 4, which, inter alia, requests [the UNDP Governing Council] to ensure that [the Administrator] take the necessary steps on a priority basis to implement the "concurring observations and recommendations" of the Board of Auditors and ACABQ, as contained in their respective reports, and to report thereon to the General Assembly at its forty-third session;

(c) Paragraph 5, which requests [the UNDP Governing Council] to keep under review the other observations and recommendations of the Board which fall within [its] terms of reference as called for by ACABQ and to report thereon to the General Assembly at its forty-third session;

(d) Paragraph 6, which, inter alia, requests [the Administrator] to take without delay remedial action within [his] competence and to report in 1988 to [the UNDP Governing Council] and to the General Assembly on ways to improve the efficiency and effectiveness of financial procedures and controls, including those relating to the payment of benefits and allowances to staff members, and also to improve the accounting system and related administrative and management controls;

(e) Paragraph 12, which requests the governing bodies of the audited organizations and programmes to keep under review the periodicity of their financial reporting and its relationship to their budgetary cycles;

(f) Paragraph 13, which invites Governments that are represented on [the UNDP Governing Council] to ensure that full consideration is given to the reports of the Board of Auditors and ACABQ and the related comments made in the Fifth Committee;

(g) Paragraph 14, which requests the Board of Auditors to provide the General Assembly with more detailed reports on special accounts such as the accounts of the non-core programmes of UNDP.
21. In paragraphs 22 to 68 below, the Administrator provides his comments on each of the above paragraphs of General Assembly resolution 42/206, including information on follow-up action which at the time of writing this document had been taken in respect of the auditors' observations and recommendations. Information on further follow-up action which may be available by June 1988 will be reported orally to the Council at its thirty-fifth session.

A. General Assembly resolution 42/206, paragraph 3: observations relating to the qualification of the audit opinion

22. The observations which relate to the qualification of the audit opinion are those indicated by the footnote a/ in the annex to the present document.

Criteria for reporting unliquidated obligations for travel and equipment (paras. 26 and 27 of the audit report)

23. UNDP requested that this issue be discussed at the meeting of the Panel of External Auditors held in November 1987. This was done, and UNDP was informed that at that meeting members of the Panel agreed that it would be worthwhile to examine the financial rules and regulations of the organizations concerned and the reasons why the delivery principle was not adopted in all cases. They also agreed to determine the financial effect of recording obligations on a delivery basis, as opposed to a contractual basis.

24. Meanwhile, executing agencies of UNDP were requested to report, in a note to their financial statements for 1987, the basis on which they recorded unliquidated obligations in respect of each project component. The question was discussed further at the meeting of the Consultative Committee for Administrative Questions (Finance and Budget) (CCAQ(FB)) to be held in March 1988. An oral report on the outcome of these actions will be provided to the Council at its thirty-fifth session.

Checking of unliquidated obligations reported by agencies and absence of audited statements of agencies accounts (paras. 29-31 of the audit report)

Qualification of opinion (paras. 34-36 of the audit report)

Programme support costs (paras. 37 and 38 of the audit report)

25. These observations have been grouped together since they are closely interrelated. It was UNDP's view that they should be reviewed by the Panel of External Auditors, by the administrations of the executing agencies and by the Council itself.

26. At its meeting in November 1987, the Panel discussed the questions relating to the practice whereby UNDP had relied, to a great extent, on unaudited financial statements received from its executing agencies. UNDP was informed that the Panel agreed that, in view of the significance of the expenditures involved, it was
desirable that the accounts of the executing agencies be audited before the UNDP accounts were finalized. The Panel noted that to require audited information on an annual basis would, in many cases, require changes in financial regulations and that, in the case of those organizations with biennial reporting periods, additional audit costs might be involved.

27. With regard to the problem of the timing of the receipt of audited accounts, the Panel felt it would be desirable for Panel members to enter into discussions with executing agencies to examine ways of speeding up the completion and submission of audited accounts and decided that Panel members who were auditors of executing agencies should provide a copy of the audited accounts of UNDP-financed operations directly to the Board of Auditors, as soon as they were available.

28. Following the meeting of the Panel, representatives of the Board responsible for the audit of UNDP visited the headquarters of the Food and Agriculture Organization (FAO), the United Nations Educational, Scientific and Cultural Organization (UNESCO) and the World Bank to discuss these matters, as well as other issues arising from their audit which directly affected the executing agencies (in particular, for the reconciliation of operating fund balances, see paras. 31-33 below). In January 1988, the representative of the Board responsible for the UNDP audit also wrote to the external auditors of the executing agencies and suggested that, in connection with their audit examination of agencies' UNDP financial statements for the year ended 31 December 1987, they should:

(a) Discuss with the executing agencies ways of speeding up the issuance of their short-form audit opinion on UNDP operations with the aim of making it available to the Board by 18 April 1988;

(b) Review the compliance by executing agencies with UNDP's amended instructions for the year ended 31 December 1987, which, at the suggestion of the external auditors, requested agencies to provide, inter alia, a description of accounting policies in the notes to the financial statements, including in particular a description of the specific policies followed in recording unliquidated obligations by cost component (see paras. 23 and 24 above). The agencies' auditors were requested to report directly to the Board any cases where UNDP's policies in the latter respect were not followed and also to include in their long-form audit report their observations as to (i) the financial effects of a change in accounting policy if the delivery concept were also to be applied to the equipment component; and (ii) whenever applicable, an analysis of the financial effect and reasons why other cost components were not accrued for according to the delivery concept; and to provide the Panel with information regarding the audit steps performed during their 1987 or 1986-1987 examination of the agencies' accounts, including an indication, in the case of those agencies with a biennial reporting requirement, as to whether the auditors would foresee any difficulty if the financial regulations were to be changed to require an annual audit examination for UNDP purposes, together with an estimate of any additional audit costs which this might involve.

29. The above matters were discussed at the March 1988 meeting of CCAQ(FB). An oral report on those discussions, as well as on the outcome of the steps described above, will be provided to the Council at its thirty-fifth session.
Clearing accounts, travel accounts and use of net balances (pars. 40 and 41 of the audit report)

30. As stated in paragraph 41 of the audit report, continuous efforts are made to analyse clearing accounts. The special task force established to clear the backlog in travel accounts has made considerable progress and UNDP has joined with other organizations of the United Nations system in studying, at a special meeting of a CCAQ(FB) working group held in February 1988, ways in which to simplify and streamline administrative and accounting procedures in respect of travel operations. An oral report on the current status of these efforts will be provided to the Council at its thirty-fifth session.

Operating fund balances with agencies and the use of net balances (para. 42 of the audit report)

31. As explained to the auditors, the analysis and reconciliation of the operating fund balances with agencies is a continuous process which is carried out throughout the year. As a result of the different dates used by agencies to close their accounts there is inevitably a difference in the number of transactions reflected in these accounts as maintained by the agencies and as maintained by UNDP. Effective 1987 new procedures have been implemented whereby year-end reconciliations are prepared prior to the closing of the UNDP accounts.

32. It should, moreover, be noted that, out of the total difference of $17.4 million at 31 December 1986 referred to in the audit report, some $12.4 million related to the accounts of one agency and was known to be due to difficulties experienced by that agency in applying adequate staff resources to the clearing of a large backlog of payments reported to them by UNDP field offices. In the course of 1987, in close consultation with UNDP, including visits by UNDP accounting staff to the headquarters of that organization, the amount of uncleared items was reduced to $1.8 million.

33. As noted in paragraph 28 above, representatives of the Board have since visited the headquarters of three executing agencies to discuss the accounting aspects of these transactions.

Adjustments to financial statements recommended by the Board (para. 44 of the audit report)

Reclassification of assets and liabilities (para. 45 (b) of the audit report)

34. UNDP was reluctant to make the adjustments recommended by the Board in respect of the 1986 accounts for the reasons stated in paragraph 44 of the audit report. However, in respect of the 1987 accounts, appropriate accounting action has been taken to address the issues which gave rise to the recommendations.

Disclosure of non-expendable property and inventory control procedures (pars. 46-48 of the audit report)

35. Paragraph 48 of the audit report contains the Administration's summary of actions intended to improve its inventory control procedures. It can now be stated...
that the revised procedures for the control of headquarters inventories have been introduced, as has the new system for maintaining control over the inventory of non-expendable property in field offices. Computerization of the inventory records at headquarters has now been completed and is planned to be completed for field offices by the end of 1988.

Net versus gross basis (paras. 56 of the audit report)

36. The auditors stated in their audit opinion on the 1986 UNDP accounts that the stated accounting principles of UNDP should be brought into line with generally accepted accounting principles as described in paragraph 56 of their report. This paragraph in turn refers to recommendations made by the auditors with respect to (a) the presentation of operating funds of executing agencies and Governments as executing agencies (paras. 39 (a), 39 (c) and 45 (b) of the audit report) with which UNDP agreed and which it implemented in preparing the final statements of UNDP for 1986; and (b) accounts receivable and payable (para. 40 (c) of the audit report) regarding which the auditors experienced some difficulties in assessing the extent of net reporting, but stated that since the adjustment could not be precisely ascertained they did not include it in the reclassifications required in their audit opinion.

37. UNDP would emphasize that it fully endorses the principle of reporting year-end balances on a gross basis and will continue to apply this principle to the maximum extent practicable, i.e. provided that it would not require a costly and time-consuming analysis and that the amounts involved are significant in the context of UNDP's overall financial situation.

Other amounts charged to indicative planning figures (paras. 57-58 of the audit report)

38. Members of the Council will recall the circumstances which led to the Administrator charging a country's indicative planning figure (IPF) for the accounting difference as a result of recording transactions using the Government's exchange rate rather than the most favourable legal rate. In the auditors' view such charges should not have been made as long as the case for arbitration was still pending with the International Court of Justice and they qualified their audit opinion as a result.

39. Since the case was still pending as at 31 December 1987, the situation is unchanged. UNDP will advise the Council orally whether the auditors again qualify their opinion on the 1987 UNDP accounts as a consequence of this.

Budgetary control (paras. 72-76 of the audit report)

40. In paragraphs 72 and 73 of their report, the auditors discussed the certification and incurring of expenditure against allotments issued by the Budget Section. They observed that in a number of cases such allotments had been overspent and concluded that there was room for improvement in UNDP's budgetary control. In their audit opinion they stated that "transactions were in accordance
with the Financial Regulations and legislative authority, except for the disposal of budgetary funds in excess of allotments, as explained in paragraphs 72 and 73 of our report".

41. The Administration's detailed response to the auditors' observations on this subject is given in paragraph 75 of the audit report. In this context, however, UNDP would point out that allotments, as opposed to appropriations, are an internal mechanism for authorizing and controlling expenditure and that therefore an overexpenditure of an allotment cannot be said to represent a transgression of the "Financial Regulations and legislative authority". As at 31 December 1986, no overexpenditure against a Council appropriation had occurred.

B. General Assembly resolution 42/206, paragraph 4: concurring observations and recommendations of the Board of Auditors and ACABQ

42. The ACABQ report on the audited financial statements of UNDP for 1986 [2] deals with the whole report of the external auditors thereon, but in the main simply notes, and brings to the attention of the Fifth Committee, some of the more significant comments and recommendations of the auditors and at the same time notes the UNDP Administration's response to them. In paragraph 16 of its report, the Committee recommended that, in future, the Administration should, in the context of the biennial budget, provide full disclosure of the projects and funds estimated for all electronic data processing activities. UNDP has agreed to do this in future.

43. Otherwise, it is not easy to identify a "concurring" observation or recommendation. As explained in paragraph 13 above, in a few cases the Committee expressed agreement with the views of the UNDP Administration. Nevertheless, UNDP has taken or is taking steps to implement all the recommendations of the auditors except where, as indicated elsewhere in the present document, it feels that it requires further guidance from its governing body before doing so.

C. General Assembly resolution 42/206, paragraph 5: other observations and recommendations of the Board

44. The other observations and recommendations of the Board, to which paragraph 5 of resolution 42/206 refers, are those which did not give rise to a qualification in the audit opinion (dealt with in paras. 22 to 41 above) or were the subject of a "concurring" observation of ACABQ (dealt with in paras. 42 and 43 above). They can be divided, as shown in the annex to the present document, into three categories, and in the following paragraphs the Administrator provides some additional comments on these observations, by category.
1. **Observations which appear to be inconsistent with established policy and procedures, including, in some cases, the UNDP Financial Regulations or other Governing Council decisions**

**Basis of recording income and expenditure for cost-sharing and government cash counterpart contributions and trust funds** (paras. 51 to 55 of the audit report)

45. UNDP's views on this fundamental issue of accounting policy are expressed in paragraphs 53 and 55 of the audit report. In his closing remarks to the Fifth Committee, the Chairman of the United Nations Board of Auditors indicated that the Board intended to submit the question to the Panel of External Auditors. It was not, however, considered by the Panel at its meeting in November 1987, since the Board had requested that the topic be postponed to a future session of the Panel.

46. Since the issues involved have system-wide implications, UNDP invited representatives of the other United Nations organizations to comment on this matter at the meeting of CCAQ(FB) in March 1988. On oral report on the outcome will be provided to the Council at its thirty-fifth session.

**Operational reserve** (paras. 59 and 60 of the audit report)

47. In the view of the external auditors, in 1985 and 1986 the operational reserve was not set at a level consistent with the stated policies of UNDP and the Council's decision 85/16 amounted to a renunciation of the principle of a fully funded reserve. The Administration disagreed with these conclusions for the reasons given in paragraph 60 of the report.

48. Since these audit observations directly concern the application of Council decisions, UNDP would welcome the views of members of the Council on these matters.

**Liquidity position** (paras. 61-63 of the audit report)

49. UNDP would also welcome the views of the Council on the questions raised by the auditors under this heading, which is a subject very familiar to the Council and has been discussed in the Council at length in previous years. Members of the Council will note that UNDP, for the reasons given in paragraph 63 of the audit report, was unable to agree with the auditors' conclusions that the operational reserve and available cash held on behalf of trust funds could be used to meet various cash needs or fund various activities.

50. As stated in paragraph 13 (c) above, ACABQ believed that the question of the proper level of UNDP's reserves was complex and should be addressed to the Governing Council, which could provide specific guidance on points of substance as well as presentation.

**Budget implementation** (paras. 68-71)

51. The auditors' main recommendation here is that, in the biennial budget submitted to the Council for approval, "core activities" should be broken down according to a more detailed pattern of appropriation lines. In UNDP's view the
present practice of covering "core activities" in a single appropriation line, which has been accepted by the Council and ACABQ since it was first introduced in the supplementary budget estimates for the biennium 1980-1981, provides UNDP's management with a necessary degree of flexibility and is in the best interests of the organization.

52. In considering this question, members of the Council will note that ACABQ, on the basis of the information provided to it, felt that a compelling case had not yet been made to change the format of the appropriation resolution, but requested the Board to keep the matter under review and to report back to it and the Governing Council if the situation so warranted.

2. Observations relating to matters which have been, and continue to be, under review by the Council and its Committee of the Whole

Budgetary trends (paras. 77-84 of the audit report)

53. This section of the audit report deals principally with the ratio of programme support and administrative costs to programme expenditure, a subject which has been of continuous concern to, and examination by, members of the Council. The views of the auditors and of the Administration on this issue are presented in some detail in the audit report. UNDP will be able to provide the Council with updated information in respect of 1987 at the thirty-fifth session in June 1988.

Programme and project management (paras. 85-107 of the audit report)

54. The subjects dealt with in this section of the report—delivery policy, project design, appraisal and approval process, project monitoring by UNDP field offices, agency execution, role of Governments in project implementation, government execution and add-on funds—are all very familiar to members of the Council and many of them will arise, in a different context, in the course of the Council's thirty-fifth session. In particular, government execution will be the subject of a report by the Administrator (DP/1988/19/Add.2), requested by the Council, on an evaluation study undertaken to make a comprehensive assessment of the impact and cost-effectiveness of government-executed projects, including the long-term financing of the administrative costs associated with this modality. The Council may wish to take into account the comments of the external auditors when it considers the proposals made by the Administrator in that report.

3. Observations relating to other matters

55. The annex to the present document lists the audit observations relating to matters other than those dealt with under categories 1 and 2 above. They include, as indicated, some observations which gave rise to a qualification in the audit opinion and these have been discussed in paragraphs 22 to 41 above.

56. In respect of the remaining observations, corrective action either has been or is being taken as reflected in the audit report. UNDP will report orally on any
further significant developments which may occur by the time of the thirty-fifth session. With regard to housing operations, it should be noted that document DP/1988/51, "Annual review of the financial situation, 1987" contains new proposals by the Administrator. When considering these proposals, members of the Council may wish to take into account the comments of the external auditors on these matters.

D. General Assembly resolution 42/206, paragraph 6: financial procedures and related administrative and management controls

57. In accordance with this paragraph, the Administrator is required to report to the Governing Council in 1988 on ways of improving the efficiency and effectiveness of financial procedures and controls, including those relating to the payment of benefits and allowances to staff members, and also to improve the accounting system and related administrative and management controls.

58. The specific question of internal control procedures relating to staff benefits and allowances was the subject of a special report by the Secretary-General to the forty-second session of the General Assembly in response to General Assembly resolution 41/176. 4/

59. The report includes a description of the reviews made by UNDP of the system of internal controls relating to education grant, income tax reimbursement, rental subsidy deduction, dependency allowances and the medical expenses assistance plan, as well as a summary of the results of these reviews and of steps being taken to improve and strengthen the relevant internal control procedures.

60. Concerning income tax reimbursement, the comprehensive audit of reimbursements made in respect of the years 1983 and 1984, referred to in paragraph 11 of the document, is nearing completion and UNDP plans to continue to audit, on a test basis, such reimbursements, as well as education grant claims in the future. As stated in the document, improvement of internal control procedures is a continuous process. Any further significant developments in this area which may occur by the time of the Council's thirty-fifth session will be reported orally to the Council.

61. With regard to other improvements in financial controls, the accounting system, and related administrative and management controls, the response of the Administration to the audit report itself contains several examples of areas where UNDP is making significant efforts to achieve such improvements. Notable among these are the steps being taken to strengthen budgetary control described in paragraph 75 of the audit report and improvements in project management and control of electronic data processing activities, referred to in paragraph 117 of the audit report.

62. In addition, there are many other areas in which UNDP is making continuous efforts to improve efficiency and effectiveness in financial management. The current work plan of the Division of Finance includes, for example, the following major objectives on which work is ongoing or is planned to commence in 1988:

/...
(a) Redevelopment of the automated financial systems for budget, treasury and accounting functions to respond to present and future accounting and information requirements;

(b) Phased introduction of an automated accounting system for UNDP field offices;

(c) Documentation of all existing internal control systems and review of their adequacy;

(d) Preparation of a Finance Manual for headquarters operations;

(e) Information campaign and training for headquarters staff, other than those in the Division of Finance, who carry out financial functions;

(f) Subject to the Council's review of government execution at the thirty-fifth session, introduction of a revised financial reporting and accounting system for government-execution.

63. The above illustrates that UNDP is keenly aware that there is a continuous need to improve existing financial controls and procedures and to adapt them to changing conditions, that it is demonstrably responsive to that need and continues to exert its best efforts, within the resources available for that purpose, to meet its responsibilities in this area.

E. General Assembly resolution 42/206, paragraph 12: periodicity of financial reporting

64. In paragraph 9 of its resolution 41/176, the General Assembly had requested the Board of Auditors to study the possibility of submitting reports on a biennial basis and to report on the matter to the General Assembly.

65. In his introductory remarks to the Fifth Committee at the forty-second session of the General Assembly, the Chairman of the Board noted that, for an organization currently operating on an annual basis, a change to a biennial reporting period would require a specific legislative decision by the legislative body of that organization to amend its financial regulations. He also pointed out that such a change would, in alternate years, considerably delay the consideration of audit reports by the legislative bodies concerned. He said that, if such a change were agreed upon, the Board would wish to retain the possibility of submitting specific annual reports to ACABQ if the situation so warranted.

66. Members of the Committee who addressed the point expressed the view that they were not in favour of introducing a biennial reporting cycle for those organizations currently reporting on an annual basis, since in their view that would work against the objective of strengthened financial management and control.
F. General Assembly resolution 42/206, paragraph 13: inviting Governments represented on the governing bodies of the organizations concerned to give full consideration to the reports of the Board of Auditors and ACABQ and to the related comments made in the Fifth Committee.

67. In accordance with the practice established in 1985, the documentation provided to the Governing Council under this agenda item is intended to give members of the Council a full opportunity to consider all matters relating to the audit of UNDP, as called for by this paragraph of resolution 42/206.

G. General Assembly resolution 42/206, paragraph 14: more detailed audit reports on special accounts, such as accounts of the non-core programmes of UNDP.

68. In connection with this paragraph, it should be noted that the 1987 audit programme of the Board of Auditors, as stated by the Chairman of the Board in the Fifth Committee, includes a review of the operations of the United Nations Capital Development Fund (UNCDF), the United Nations Sudano-Saharan Office (UNSO) and the Office for Project Services (OPS).

Notes


2/ A/42/579.


4/ A/42/438.
## Annex

### REPORT OF UNITED NATIONS BOARD OF AUDITORS ON UNDP FOR 1986

#### Categorization of auditors' observations

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(Footnotes on following page)
Audit observations which appear to be inconsistent with established policy and procedures, including, in some cases, the UNDP Financial Regulations or other Governing Council decisions.

Category II. Audit observations relating to matters which have been and continue to be the subject of detailed review by the Council (and its Committee of the Whole) and which the Council will no doubt wish to take into account in its future consideration of these subjects.

Category III. Audit observations relating to other matters. These include matters on which the Administration has taken or is taking corrective measures. They also include, as indicated, some of the observations which were grounds for the auditors to qualify their audit opinion.

a/ Relate to reasons for qualifications in audit opinion.