BUDGETARY AND FINANCE COMMITTEE
Thirty-fifth session
6 June-1 July 1988, Geneva
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. K. Tenkorang (Ghana)

Addendum

CHAPTER I. MATTERS REFERRED TO THE COUNCIL BY THE COMMITTEE

A. Government execution

1. For its consideration of the financial implications of this subject, under item 4 of the Council's agenda, the Committee had before it the report of the Administrator contained in document DP/1988/19/Add.2. This report summarized the principal observations and recommendations of the evaluation study of government execution, carried out in response to decision 87/14 of 19 June 1987, and provided the Administration's comments on those recommendations.

2. The item was first introduced by the Director, Policy Division, BPPE, who stated that, in principle, government execution was the modality under which all UNDP-financed projects should ultimately be executed. In the meantime, between the extremes of full government execution on the one hand and full agency execution on the other, there existed a wide range of options under which Governments could work in association with agencies with varying degrees
of government involvement. He stressed the importance of increased government involvement in the execution of projects, which helped to instil the quality of self-reliance, gave Governments a more responsible role in the execution of their projects and greater interest in their successful execution.

3. Referring to the results of the evaluation study carried out by two consultants, the Director, Policy Division, stated that, in terms of quality, government-executed projects had been found to be generally comparable to projects executed by agencies, and that, in terms of cost, project inputs were found to be somewhat lower for government-executed projects in most cases. In terms of administration and accountability, however, there were significant problems, as UNDP requirements for financial reporting and audit were frequently not being met. A separate consulting firm had been hired by the Administrator to examine that aspect of government execution and it was the recommendations of the firm which the Committee was being asked to consider.

4. The Deputy Assistant Administrator, BFA, then addressed the accounting and audit issues, covered in paragraphs 42 to 61 of DP/1988/19/Add.2.

5. With regard to financial reporting, he explained that, on average, only about 30 per cent of the expenditures incurred on government-executed projects was made by Governments themselves out of funds advanced to them by UNDP. The remaining expenditures were disbursed by the UNDP treasury, UNDP field offices or co-operating agencies and were, accordingly, subject to the internal control and other established financial procedures of UNDP and the agencies. UNDP accepted the consultant's recommendation that the existing accounting procedures be revised so that all UNDP and agency payments would be recorded by UNDP directly as project expenditure and Governments would be required to report only on disbursements made out of funds advanced to them by UNDP. UNDP would generate the project delivery reports and send them to Governments for their certification.

6. The Deputy Assistant Administrator explained that the additional accounting workload which government execution entailed for the Division of Finance basically stemmed from the fact that for these projects UNDP was accounting at the project level and in many respects carried out the functions of an executing agency. As explained to the Council last year, and as confirmed by the findings of the consultant, it was essential that DOF be strengthened in order to carry out the work. However, although the consultant had recommended an increase in the level of additional resources approved by the Council until 31 December 1988, the Administration considered that the
present level of $400,000 per year could be maintained, in view of the simplifications in procedures which the proposed revised instructions were expected to bring about.

7. With regard to audit, the Deputy Assistant Administrator pointed out that the present requirement under the UNDP Financial Regulations for an audit of every government-executed project every year was considerably more stringent than that required for projects executed by UNDP and the agencies; the latter were audited only on a sample basis, as determined by the external auditors of those organizations. Taking into account the recommendations of the consultant, the Administrator proposed to establish a small unit, headed by two professional staff, whose function would be to monitor and administer the audit process for government-executed projects. It would be necessary to review the situation in each recipient country to determine the most appropriate and effective means of obtaining audit coverage in the country concerned. UNDP was already aware, on the basis of its experience to date, that the audit function operated in a widely different manner from country to country. In some countries, the present requirements of UNDP were being largely met by the national auditing authorities. In others, it might be necessary to hire a local professional auditing firm, or one from an adjoining country. In some cases, and as a last resort, it might be necessary, in agreement with the Government concerned, to use UNDP internal audit staff.

8. Finally, the Deputy Assistant Administrator addressed the question of the source of financing for the amounts required, totalling $700,000 per year ($400,000 for accounting work to be performed by DOF; $300,000 for the internal audit section of UNDP). He recalled that in 1987 the Administration had recommended charging the additional DOF costs to the add-on funds. The Council, however, had decided that they should, until December 1988, be charged to the support cost line. In view of the fact that accounting and audit costs in the case of other executing agencies were paid for out of the 13 per cent support cost reimbursement made to them, the Administration still believed that the add-on funds would be the logical source of funding for these costs.

Summary of the discussion in the Committee

9. While there was general agreement that the additional amounts being requested for DOF and the Division for Audit and Management Review (DAMR) were reasonable, varying opinions were expressed as to the most appropriate source of funding for these costs.
10. Several members of the Committee expressed their disagreement in principle with the proposal that the additional resources requested should be financed from add-on funds. Some of them felt that that was contrary to the spirit of paragraph 31 of General Assembly resolution 42/196, in which the Council had been requested to consider what further support and flexibility might be called upon to facilitate government execution of projects. Charging those costs to add-on funds was a disincentive, rather than an incentive, to further government execution, and perpetuated government dependence on UNDP, rather than self-reliance. Some felt that the UNDP biennial budget was a more appropriate source of funding for the costs. It was pointed out that the purposes for which add-on funds were originally established included the training of government staff and that more emphasis should be given to that area as a means of dealing with the problem.

11. Other members agreed with the proposal made by the Administration to charge add-on funds for the costs. Some indicated that they could, however, agree to the costs being charged to the support cost line as an interim solution. The Council’s consideration of matters relating to the reimbursement of support costs to agencies should also be taken into account in that connection.

12. Some members felt that further information was required on the issues. In particular, more details were requested concerning the number and levels of staff required and of the length of time they would be needed. One member inquired whether a change in UNDP Financial Regulations would be necessary if the new procedures proposed for audit were adopted and whether the UNDP external auditors had reviewed the proposals. Another member wondered whether some of the functions for which additional resources were being requested could not be transferred to staff in UNDP field offices. Noting that only 40 per cent of earned add-on funds had so far been used, he wondered how the remaining balance of add-on funds would be utilized.

13. One member stated that, in his view, the procedures described in paragraph 68 of document DP/1988/19/Add.1 were unacceptable as they infringed upon the sovereign right of Governments to decide how projects were to be implemented.

Response of the Administration

14. Responding to the question raised concerning the appraisal process followed prior to designation of a Government as executing agency, the Director, Policy Division, RPPE, explained that the procedures described in...
paragraph 68 of document DP/1988/19/Add.2 were fully consistent with the UNDP Financial Regulations and he did not believe they infringed upon the sovereign rights of Governments. It was normal practice for the Administrator to seek the advice of resident representatives on all projects in exercising his accountability for UNDP funds as a whole. He also assured the Committee that UNDP was fully aware of the value of training activities in support of government execution. Some projects had already been approved for that purpose and further training activities could be expected to be approved in the future.

15. With regard to the source of financing of the additional amounts requested for UNDP headquarters, the Deputy Assistant Administrator noted the divergent views of the members on the question. He confirmed that the level of staff required in the Division of Finance consisted of one professional supervisor, five accounts assistants and one clerk/typist. He hoped that the level of staff would be adequate for the next two years at least, particularly in view of further planned improvements in the computerized accounting systems, but would refer the matter to the Council again if that should not prove to be the case. With regard to the staff requested for the monitoring of the audit process, he could not be certain at that stage whether the request matched actual needs, but UNDP would report again to the Council, if necessary, in the light of the experience gained.

16. The Deputy Assistant Administrator also explained that the additional accounting staff recommended by the consultant were not being requested by the Administration since it was hoped that the newly proposed procedures would facilitate the reconciliation of accounts in respect of government execution. He confirmed that UNDP's external auditors had reviewed the proposals contained in document DP/1988/19/Add.1 and had welcomed them. The auditors would of course be able to review their effectiveness at a later stage. He also confirmed that the present financial regulations required annual audited accounts from Governments and these regulations would therefore have to be changed if the proposed new approach were adopted.

17. In response to further queries, the Deputy Assistant Administrator stated that it would not be possible to redeploy other existing accounting staff to work in connection with government execution, since such staff were already fully occupied on other essential tasks. Nor did he believe that the internal audit staff could be used to assist in the accounting for government execution, as that would represent a basic departure from the principles of