

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

Distr.
GENERAL

DP/1990/76
31 January 1990

ORIGINAL: ENGLISH

Thirty-seventh session
28 May-28 June 1990, Geneva
Item 9 (d) of the provisional agenda

FINANCIAL, BUDGETARY AND ADMINISTRATIVE MATTERS

Audit reports

Note by the Administrator

SUMMARY

This document contains the comments of the Administrator concerning the report of the United Nations Board of Auditors on the financial statements of the United Nations Development Programme for the year ending 31 December 1988. In particular, it provides further information on follow-up action taken in response to Governing Council decision 89/61 of 1 July 1989 and General Assembly resolution 44/183 of 19 December 1989.

Document DP/1990/69 summarizes the action taken by the executing agencies in response to the significant observations of their external auditors on their 1988 accounts relating to funds allocated to them by the United Nations Development Programme. Document DP/1990/69/Add.1 contains the audited accounts and audited reports of the executing agencies as at 31 December 1988.

INTRODUCTION

1. In accordance with previous Governing Council decisions, as well as General Assembly resolution 44/183 of 19 December 1989, the Administrator is bringing to the attention of the Council the audit report of the United Nations Development Programme (UNDP), 1/ the report of the Advisory Committee on Administrative and Budgetary Questions (ACABQ) thereon, 2/ the related comments made in the Fifth Committee and the resolution adopted by the General Assembly at its forty-fourth session on financial reports and audited financial statements and reports of the Board of Auditors (General Assembly resolution 44/183).
2. The external audit reports and audited accounts of executing agencies relating to funds allocated to them by UNDP as at 31 December 1988, submitted in accordance with regulation 17.1 of the UNDP Financial Regulations, are contained in document DP/1990/69/Add.1, together with a summary of the status of funds submitted by all executing agencies as at 31 December 1988. Document DP/1990/69 contains the Administrator's comments on actions taken by the executing agencies in response to significant observations made in the audit reports of those agencies. It should be noted that since 1988 was the first year of the biennial period used by the United Nations system, the audit reports being presented this year include audited financial statements and audit reports in respect of only those organizations audited on an annual basis.

I. UNITED NATIONS DEVELOPMENT PROGRAMME

3. The Administration provided a detailed written response to all the observations made by the United Nations Board of Auditors in its report. Those comments are included in the report of the Board of Auditors. 1/
4. The audit report included numerous findings in the areas of accounts, budgetary control, programme management, personnel management, public information activities, UNDP field activities, the United Nations Development Fund for Women (UNIFEM), the United Nations Revolving Fund for Natural Resources Exploration (UNRFNRE), other trust funds, and other miscellaneous matters. The auditors qualified their opinion on the UNDP financial statements for 1988 as a result of several of their findings. The number of qualifications was substantially less than in previous years; those remaining were the same as those which had led the auditors to qualify their opinion on the UNDP accounts for 1987.
5. Owing to the length of the audit report and the extensive response by the Administration, no attempt will be made in the present document to summarize their contents. This document highlights, in tabular format, those observations which have led to a qualification of the audit opinion and other observations which relate to matters of particular concern to the Council and which the Council will no doubt wish to take into account in its future consideration of the subjects concerned. It also summarizes the results of the review of the audit report by ACABQ and by the Fifth Committee; refers to discussions of matters arising from the audit at the Panel of Auditors and at the Consultative Committee on Administrative

Questions (Finance and Budgetary Questions (CCAQ(FB)) as appropriate; and indicates significant actions subsequently taken by the Administration in response to the reports and the relevant paragraphs of General Assembly resolution 44/183 which have a direct impact on UNDP. Information on further follow-up which may be available by June 1990 will be reported orally to the Council at its thirty-seventh session.

Financial report and audited statements for the year ended 31 December 1988 (Document A/44/5/Add.1)

Report of the Advisory Committee on Administrative and Budgetary Questions (Document A/44/543)

Summary of discussions in the Fifth Committee

Comments by the Administration

I. ACCOUNTING DELINIATION BETWEEN PROGRAMME, PROGRAMME SUPPORT AND OPERATING EXPENSES

[Paras. 42-46 of the above report]

The Board of Auditors have stated that the current guidelines were unsatisfactory and that the dividing line between these categories was not clear. In their opinion, there was a need to distinguish clearly between project expenditures and operating costs, which could be achieved by the issuance of precise guidelines; such guidelines should be communicated to the Governing Council.

The Advisory Committee recommended that the guidelines for programme and logistical projects be reviewed by the UNDP administration in consultation with the Board, taking into account the magnitude of the funds involved.

As regards project-funded posts at headquarters, the Advisory Committee was of the view that care should be taken in the establishment of such posts and that UNDP should provide full disclosure in its budget document.

Members of the Fifth Committee urged the Administration to solve the technical problems with regard to the certification of programme expenditures and programme support costs.

The Administration agrees that there is a need for further clarity. A comprehensive presentation on the issue of delimitation was made to the Council in budget document DP/1988/52 and, following its debate on the subject, again in 1989; UNDP now includes up-to-date information on all existing arrangements. Furthermore, by its decision 89/61, the Council modified the appropriation structure, which should result in a more transparent presentation of UNDP programme support and administrative budget. On the specific issue of programme and logistical projects, the 1984 guidelines will be revised based on experience to-date and changed circumstances, as necessary. As regards project-funded posts at headquarters, UNDP issued new guidelines after a thorough review of the existing posts and the internal control mechanisms to ensure adherence to these guidelines.

II. AUDIT OF PROGRAMME EXPENDITURE INCURRED BY UNITED NATIONS EXECUTING AGENCIES

[Paras. 49-53 of the above report]

The Board felt that, since a material element of UNDP programme expenditure was incurred by United Nations agencies and was unaudited at the time of signing the report, it was unable to give an unqualified opinion on the 1988 financial statements.

The Advisory Committee took note that the matter was under discussion at the inter-agency level and that the UNDP Governing Council had requested appropriate amendments to the UNDP Financial Regulations to provide for the submission of audited accounts on a biennial basis.

The Committee welcomed and approved the changes as recommended by Governing Council decision 89/61, which, *inter alia*, decided that, with effect from the biennium 1990-1991, audited financial statements for UNDP shall be submitted, after a review by ACABQ, to the General Assembly and to the Governing Council on a biennial basis.

UNDP believes that the biennialization of its financial statements should result in the removal of this qualification, providing audit certificates from the external auditors of the executing agencies are received prior to the closure of UNDP accounts. The proposed revisions to UNDP Financial Regulations in response to paragraph 5 of decision 89/61 are presented in document DP/1990/63.

III. AUDIT OF AND ACCOUNTING FOR GOVERNMENT-EXECUTED PROGRAMME EXPENDITURE

[Paras. 54-59 of the above report]

The Board remarked on the lack of progress made in obtaining audited statements for programme expenditure executed by Governments. It further stated that almost 100 per cent of this expenditure was not supported by adequate audit evidence.

The Advisory Committee pointed out that this was a matter of serious concern and should be resolved as soon as possible, and recalled paragraph 6 of decision 89/61 of the Governing Council, which "urges the Administrator ... to continue his efforts to obtain audit coverage of funds disbursed by Governments in their capacity as executing agencies for UNDP-financed projects ..."

The Advisory Committee also noted that the Board had not examined the new accounting procedures issued by UNDP and assumed that this would be undertaken as part of its audit of the 1989 accounts to satisfy itself that improvements will result from this change.

The Committee urged the Administration to solve this problem at the earliest, noting that the new procedures implemented by the Administrator should lead to a substantial improvement in the accounting for government-executed programme expenditures. In this connection, the Deputy Assistant Administrator indicated that, without the full co-operation of the Governments, this qualification might remain for the next few years.

As stated in its response contained in document A/44/5/Add.1, the administration is making a concerted effort to implement the new procedures which were introduced with effect from January 1989, including training of project personnel, with encouraging results. The Administration expects that with the introduction of detailed audit guidelines, which have been circulated to field offices and Governments, and field missions which have taken place or are planned, significant progress could be expected for 1989.

A separate document containing proposals and recommendations for the implementation of paragraph 31 of General Assembly resolution 42/196, in response to decision 88/18, is also being provided to the Council.

IV. ACCOUNTING FOR UNLIQUIDATED OBLIGATIONS

[Paras. 60-67 of the above report]

The Board of Auditors continued to feel the need for UNDP to revise its accounting policies for recording obligations, in order to establish principles that cannot be abused. In this respect, they called for the compliance of generally accepted accounting principles, based on the concept of delivery of goods and services.

The Advisory Committee pointed out that this matter had been discussed for a number of years and had also been studied by the Panel of Auditors, who recommended a review be undertaken to establish the nature and extent of possible abuses. ACABQ welcomed this approach and stated "the extent of possible abuse of the present system is still not clear to the Advisory Committee". It therefore requested the Board to continue examining the question of unliquidated obligations with a view to ascertaining the extent of abuse and to report accordingly.

The Committee requested completion of the review and clarification of accounting policies on the recording of unliquidated obligations. The Deputy Assistant Administrator explained that there were no international accounting standards for government accounting. Given the importance of this issue, he would continue to discuss this question with the executing agencies to determine if modifications to existing procedures may respond to the concerns of the Board.

The Panel of Auditors is continuing its review of this question. Further consultations with the Board and executing agencies in progress. UNDP considers this issue should also be discussed in the context of harmonization of accounting practices of the United Nations system, in full consultation with the Panel of Auditors. It further believes that any solution should take into account the practical difficulties involved in defining and determining the time of actual delivery, especially in the UNDP scenario of world-wide field offices and the dispersed points of delivery. It is also important that any such policy be implemented consistently and reliably and not result in additional administrative burden.

V. COST SHARING APPORTIONMENT

[Paras. 68-70 of the above report]

The Board stated that the year-end apportionment exercise, which was based on the policy set out in the Programme and Policy Manual, comprised numerous exceptions. It called for adherence to the stated policy and requested that deviations should be adequately justified and documented, and asked for a revision of the policy to include global (multi-year) project budget apportionment.

The Advisory Committee endorsed the recommendations of the Board and requested the Administration to address the views and implement the recommendations of the Board.

Although this item was not specifically discussed in the Fifth Committee, the resolution calls upon the Administration to take steps to implement the recommendations by the Board and the Advisory Committee.

The Administration is aware that in a number of instances there has been a departure from the stated policies and procedures. The main reasons for this is the timing of the receipt of contributions and specific requests regarding the apportionment by recipient Governments. Nevertheless, it intends to undertake a complete review, so as to implement changes proposed and ensure adherence to them.

VI. ACCOUNTING FOR CASH-COUNTERPART CONTRIBUTIONS

[Paras. 76-78 of the above report]

The Board was not able to give an unqualified opinion since a breakdown of cash counterpart expenditure by project was not available. They noted however, that executing agencies had been requested to submit an additional schedule indicating, project-by-project local currency expenditure charged to government cash counterpart contributions.

The Advisory Committee requested that every effort be made to resolve this problem. It noted that the Administration had requested executing agencies to provide UNDP with information on local currency expenditure to permit UNDP to reconcile the individual project balances with its records.

The Committee did not discuss this matter specifically.

The information originally requested from the executing agencies did not prove to be adequate to enable full reconciliation of the unexpended balances of individual projects. UNDP has requested the executing agencies to provide further information on local currency expenditure to permit such a reconciliation and it expects that it will be completed in time for the 1989 financial statements.

VII. BUDGETARY TRENDS AND CONTROL

[Paras. 81-83 of the above report]

The Board indicated that the ratio of operating costs to total expenditure had decreased in 1988, noting, however, that the calculation was conservative.

On the issue of budgetary discipline, it felt there was widespread exceeding of allotments in the field offices, despite the "information campaigns" and training of staff in the field. The Board also pointed out that the responsibility granted to certifying officers was a personal one and could not be delegated.

The Advisory Committee agreed with the Administration that one object of budgetary control is to guard against overexpenditure in the appropriation line. Nevertheless, it felt that widespread exceeding of allotments could point to the need for correction, either in the size of the allotments or in procedures for authorizing commitments.

The Advisory Committee noted that part of the problem stemmed from obtaining accurate information on

The Committee welcomed the efforts made to date in improving budgetary control and called upon the Administrator to apply existing controls and procedures in order to ensure that expenditures do not exceed the level of funds provided under allotments in accordance with financial rules and requested him also to enforce existing disciplinary measures with a view to enhanced accountability of budgetary discipline.

The Administration is making every effort to ensure stricter budgetary control. Procedures and systems are being improved to facilitate the work of certifying officers. For instance, an on-line enquiry system is being introduced for headquarters managers, and an enhanced Automated Field Office Accounting System embodying an allotment control facility, is being introduced in the second quarter of 1990, combined with appropriate training of the certifying officers.

the status of disbursements and hoped the computerization programme in the field would address this area.

The Administration is also considering how best to deal with the General Assembly's concern with the need to exercise greater expenditure control. The allotment mechanism, which collectively never comes near to exceeding appropriation levels, has always been employed to authorize organizational units to incur expenditures. There have been cases where field office expenditures have exceeded their authorized allotments. These instances are usually occasioned by the difficulties encountered as a result of the shortness of time available at year end for revision of allotments commensurate with needs. Never have these expenditures in excess of allotments caused the programme to be in danger of spending beyond the approved appropriation levels.

VIII. CASH MANAGEMENT

[Paras. 85-92 of the above report]

The Board of Auditors, while acknowledging that the UNDP and trust fund cash management guidelines, as currently established, have been followed, felt that they did not identify the policy objectives of the organization nor did they provide enough guidance on reporting and management procedures to be implemented. The Board called for a review of the existing guidelines in respect of exchange risk management and investment monitoring procedures.

The Advisory Committee endorsed the objectives of UNDP investment policies and stated that although current fluctuations cannot be eliminated entirely, the risks should be minimized and requested the Board to indicate whether UNDP practices involved risks which could be avoided. The Committee also expressed concern about the costs of using option contracts as a hedge.

The Committee called upon the Administration to take the necessary steps in implementation of the recommendations of the Board of Auditors and the Advisory Committee.

Revised cash management guidelines have been drafted to address the issues raised by the Board of Auditors. These are currently being reviewed by UNDP senior management and their implementation is expected within the next few months.

IX. SUB-TRUST FUNDS

[Para. 75 of the above report]

The Board of Auditors pointed out that a number of sub-trust funds were in deficit as a result of spending in excess of contributions or as a result of contributions. The Board underlined that trust funds should be accepted on a fully funded basis and when payment lag behind, the activities may be modified or terminated.

The Advisory Committee fully endorsed the recommendations of the Board and asked UNDP not to commence implementation until a firm assurance was given that funds were available.

The Committee did not discuss this matter specifically.

It is standard UNDP practice to enter into signed agreements with donor Governments before the implementation of any sub-trust fund programme. On occasion, delays in receipt of contributions cause them to go into a temporary deficit. However, the Administration will continue to maintain strict control, bearing in mind the need for the continuation of operations in instances when delays are of a procedural nature.

Notes

1/ Official Records of the General Assembly, Forty-fourth Session,
Supplement No. 5A (A/44/5/Add.1).

2/ A/44/543.

