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FINANCIAL, BUDGETARY AND ADMINISTRATIVE MATTERS

Audit reports

Note by the Administrator

SUMMARY

The present note summarizes significant observations of external auditors of the executing agencies on their 1991 accounts relating to funds allocated to them by UNDP. Pursuant to Governing Council decision 92/39, the Administrator has included comments on corrective action taken in response to observations made by the external auditors. Document DP/1993/48/Add.1 contains the audited accounts and audit reports of the executing agencies as at 31 December 1991.
INTRODUCTION

1. The external audit reports and audited accounts of executing agencies relating to funds allocated to them by the United Nations Development Programme (UNDP) as at 31 December 1991, submitted in accordance with regulation 17.1 of the UNDP Financial Regulations, are contained in the addendum to the present document (DP/1993/48/Add.1), together with a summary of the Status of Funds submitted by all executing agencies as at 31 December 1991. Sections I to XXI of the present document contain the Administrator’s comments on significant observations made in the audit reports of those agencies.

I. UNITED NATIONS DEVELOPMENT PROGRAMME

2. The Administrator’s comments concerning the report of the United Nations Board of Auditors are contained in document DP/1993/49.

II. UNITED NATIONS

3. In the course of its audit of the United Nations, the United Nations Board of Auditors examined the administration of technical cooperation activities carried out by the Department for Technical Cooperation for Development. The Board’s findings are reflected in paragraphs 280 to 282 of its report to the General Assembly.

III. UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

4. The external auditors issued an unqualified opinion on the financial statements for the biennium ended 31 December 1991. Although the financial statements were not qualified, the auditors made the following observations:

(a) Accounts payable. As a result of their examination of the system for recording accounts payable, the auditors concluded that there was a possibility that some invoices and claims from creditors outstanding as at 31 December 1991 may not be recorded in the reported balances;

The auditors recommended that a more appropriate accounting system for recording outstanding liabilities should be established;

UNIDO Administration did not implement the recommendations of the external auditors as the current systems and procedures for raising and recording obligations, including accounts payable, were adequate to ensure that all material expenditure was recorded and reported in the relevant accounting period. In their view, a system of centralized registration would require the assignment of additional staff to this specific task. In the Administration’s view, the cost/benefit of this initiative is not beneficial;

(b) Unliquidated obligations. The external auditors observed that although the percentage of unliquidated obligations to total expenditure for the
current biennium had slightly decreased since 1989, the total amount of unliquidated obligations is rather high.

There was also a substantial delay in the processing of Field Inter-Office Vouchers (FIOVs) and FIOVs received in February 1991 were not processed at the end of 1991. The auditors stated that these delays were unacceptable and that every effort should be made to process all FIOVs promptly.

UNIDO administration acknowledged that large amounts of unprocessed FIOVs resulted in a proportionately high amount of unliquidated obligations (approximately 60 per cent). It also indicated that the backlog of approximately nine months in processing charges from Field Offices covering UNDP and other sources of funds is a result of the extreme shortage of staff in the Unit processing these charges. Additional staff was deployed to the Unit in May 1992. It is expected that the FIOV processing will be more current as of the end of the financial year 1992, when the accounting records are closed at the end of January 1993;

(c) **Timely submission of project performance evaluation reports (PPERs).** At the time of the external auditor's review, in February 1992, only 65 per cent of the PPERs scheduled for 1991 had been received. UNIDO administration promised to do its utmost to reduce the delays.

The auditors recommended that UNDP Administration should fully support the action taken by UNIDO towards a timely submission of the PPERs.

The Administrator fully supports the importance of the timely submission of PPERs and is advising UNIDO accordingly;

(d) **Quality of PPER exercises.** The auditors learnt that, in 1990, for approximately 48 per cent and 57 per cent of the PPERs reviewed with respect to projects backstopped by the Department of Industrial Operations (DIO) and other parts of the Secretariat, 12 per cent and 29 per cent (DIO and non-DIO projects) respectively, were found poor and unacceptable.

UNIDO administration considered that, in general, the performance reports were more than acceptable and that, overall, the internal evaluation system is functioning well.

The auditors strongly recommended that UNDP Administration should take appropriate steps with a view to further improving the quality of the PPER exercises.

The Administrator is pleased to inform the Governing Council that UNDP will be discussing this matter with UNIDO and that he has referred it to the Bureau for Policy and Programmes Evaluation for further follow-up;

(e) **Timely production of project outputs.** The auditors noticed that, in 1990, only 44 per cent of the projects were found to be performing "more than planned" or "as planned", as against 60 per cent in 1989. "Project design" and "input delivery" were identified as main problem areas.
Management shared the auditors' view that inadequate project design is a very likely source of problems.

The auditors strongly recommended that UNDP Administration should assist UNIDO in its endeavour to preclude the recurrence of factors affecting timely production of project outputs.

The Administrator is contacting UNIDO to discuss this issue and identify more specifically the details of problems encountered, including in what way UNDP may assist the process.

IV. INTERNATIONAL LABOUR ORGANISATION

5. The external auditors issued an unqualified opinion on the financial statements for the biennium ended 31 December 1991. Although the financial statements were not qualified, the auditors made the following observation:

(a) Inventory control. The Technical Cooperation Equipment and Subcontracting Branch (EQUIPRO) of ILO maintains a master inventory of non-expendable technical cooperation equipment. Project officers in the field are required to carry out annual inventory checks and submit certificates to EQUIPRO covering all inventory items in their custody.

Project officers response to the annual ILO certification of project inventories was poor. The external auditors recommended that, as a matter of priority, ILO review the status and management of inventories and arrangements for ensuring that they are kept up to date.

The Administrator is pleased to inform the Governing Council that ILO has indicated that the project officers are aware of the audit observation and that non-compliance will be treated most seriously.

UNDP will follow up with ILO to ensure that this matter is addressed and resolved.

V. FOOD AND AGRICULTURAL ORGANIZATION OF THE UNITED NATIONS

6. The external auditors issued an unqualified opinion on the financial statements for the biennium ended 31 December 1991. Although the financial statements were not qualified, the auditors made the following observations:

(a) Unliquidated obligations. The agency conducted a series of reviews of unliquidated obligations. However, the auditors pointed out that there is scope to strengthen these procedures to avoid audit adjustments in the future and recommended that additional controls should be programmed into the computerized accounting system.

The Administrator is pleased to report that the problems identified by the external auditors regarding fellowship obligations have now been eliminated following a review and amendment of the procedures;
(b) Reconciliation of accounting records. Reconciliations of the accounting records of FAO with those of UNDP were not completed on a timely basis. The auditors recommended that they be done more promptly.

The Administrator is pleased to report that UNDP has received reconciliations from FAO as at 30 June and 30 September 1992;

(c) Closer management scrutiny of draft accounts. Audit adjustments to the cash balance held on behalf of UNDP amounting to $1.5 million were necessary. The auditors recommended that to avoid such recurrences, there should be closer management scrutiny of the draft accounts and supporting working papers.

The Administrator has taken note of this observation and will follow-up with FAO, as appropriate;

(d) Accuracy of inventory records. A review of inventory records revealed that the accuracy is affected by delays in the confirmation from field offices of receipts or disposals and that the manually maintained portions of the inventories require updating. The auditors recommended that the status of $4.3 million of inventory classified as "transferred to Governments" be reviewed.

The Administrator is pleased to report that FAO is currently implementing the recommendation made by the external auditors;

(e) Standard basic executing agency agreement. An updated executing agency agreement between UNDP and FAO has not yet been signed.

The Administrator is pleased to report that the new agreement has been reviewed and agreed upon by UNDP and the agency and will be signed shortly.

VI. UNITED NATIONS EDUCATIONAL, SCIENTIFIC AND CULTURAL ORGANIZATION

7. The external auditors issued an unqualified opinion on the financial statements for the biennium ended 31 December 1991. Although the financial statements were not qualified, the auditors made the following observations:

(a) Quality of financial reporting on projects. Slow processing of field expenditure reported through the inter-office voucher (IOV) system adversely affected the quality of financial reporting data on projects. Adequate measures to rationalize the organizational structure and working methods involved were initiated.

UNESCO Administration has responded that a centralized IOV unit was created in order to accelerate the processing of IOVs received from field offices;

(b) Computerized budget control system. International experts' costs are adequately controlled, accounted and reported by UNESCO; however, minor adjustments to computerized budgetary control system and to statistical reports were necessary.
UNESCO Administration has indicated that the necessary adjustments to the computer system for recording expert costs have been made;

(c) **Policy of one-year, fixed-term contracts.** The policy of awarding one-year contracts to international experts renders staff administration more difficult but appears to be in line with the specific circumstances of the operational project environment.

UNESCO Administration has stated that awarding fixed-term contracts for internationally recruited staff is standard within the United Nations common system. This affords greater flexibility and reduces exposure to higher termination indemnities for staff whose continued service is subject to tripartite review;

(d) **Project delivery.** Increased budgetary flexibility apparently did not enhance project delivery.

UNESCO Administration believes it is difficult to quantify a direct causal relationship between increased flexibility and project implementation rates in percentage terms. The flexibility rule allows for automatic rephasings of unspent allocations from the first to the second year of a two-year budget cycle and the impact is twofold: (a) it reduces administrative work; and (b) it provides more realistic forecasting and phasing of project inputs.

There was a resultant increase in the delivery of UNDP projects since 1987;

(e) **Improved project management capabilities.** The Field Staff Training Manual issued should contribute to improve project management capabilities in UNESCO field offices.

UNESCO Administration agrees with this assessment and fully realizes that the development of management capabilities requires an ongoing, priority commitment to training and support of field staff in order to realize the full potential of decentralization;

(f) **Project management monitoring and evaluation.** Effective project management monitoring and evaluation could improve through a more efficient use of the information database concerned and through more rigorous briefing and training of national project managers.

UNESCO Administration plans to update the database systematically and on a priority basis both for quantity of data entered and for quality of project descriptive data. This updating will be closely monitored with periodic assessments made to ensure that the database becomes a viable and widely available project management tool with telecommunications links to all major field offices. UNESCO will explore with UNDP whether briefing and training of national project managers could be financed directly from UNDP project budgets;

(g) **Programme evaluation.** The auditors highlighted the need for programme-level evaluation.

In its response, UNESCO Administration recognized the need to intensify evaluation activities at the programme level. Efforts are being made to obtain
additional funding to permit a significantly enhanced level of evaluation activity. The new support cost system of UNDP as applied to UNESCO, also provides for technical services (TSS-2) such as project appraisal and evaluation to be reimbursed directly from project budgets.

VII. INTERNATIONAL CIVIL AVIATION ORGANIZATION

8. The external auditors issued an unqualified opinion on the financial statements for the year ended 31 December 1991 and made no further observations. The long-form report referred to in the auditors' report on page 61 of document DP/1993/48/Add.1 was not available from the agency.

VIII. WORLD HEALTH ORGANIZATION

9. The external auditors issued an unqualified opinion on the financial statements for the biennium ended 31 December 1991 and made no further observations.

IX. WORLD BANK

10. The external auditors issued an unqualified opinion on the financial statements for the year ended 31 December 1991 and made no further observations.

X. INTERNATIONAL FINANCE CORPORATION

11. The external auditors issued an unqualified opinion on the financial statements for the year ended 31 December 1991 and made no further observations.

XI. UNIVERSAL POSTAL UNION

12. The external auditors issued a qualified opinion on the financial statements for the year ended 31 December 1991 as the auditors could not agree on the balances reported by UPU and UNDP.

13. The following were the issues reported by the auditors as the basis for qualification of the financial statements:

   (a) Bookkeeping. The books of account were not always updated. Accounting errors were noted and these will be corrected in 1992. Transactions will have to be recorded in respect of "Petty cash", "Advances on mission costs", "Accounts receivable" and "Accounts payable", as part of the required follow-up action.

   The Administrator is pleased to note that the agency has stated that the amounts in arrears have been cleared;

(b) Operating fund. The auditors stated that they were unable to determine whether the balance of the UNDP operating fund statement as at
31 December 1991 agreed with the balance of the status of funds at that date prepared by UPU.

The Administrator notes that although there was a difference of $74,210.81 between the status of funds submitted by UPU and UNDP operating fund statement OFS 91-12, the amount represented differences of IOV charges that were recorded by UNDP and not by UPU.

The reason for this is that the agency's books of account close prior to those of UNDP. The outstanding charges to be recorded by UPU were processed by the agency during the financial year 1992.

XII. INTERNATIONAL TELECOMMUNICATION UNION

14. The external auditors issued an unqualified opinion on the financial statements for the year ended 31 December 1991. Although the financial statements were not qualified, there were certain operational issues that were noted by the auditors that required follow-up action by ITU.

15. The following issues were mentioned by the auditors:

(a) Allocations for projects funded by indicative planning figures (IPFs), Special Programme Resources (SPR), the Special Measures Fund for the Least Developed Countries (SMF/LDC) and Government cash counterpart contributions (GCC). The auditors noted that for some IPF and LDC projects, the allocation is less than expenditure or is non-existent. In some cases, the difference is due to adjustments that should be taken into account in the annual mandatory revision and which will be the subject of an additional allocation. The auditors requested ITU to obtain the missing allocations.

The allocations for three LDC-funded projects mentioned in the 1990 audit report were still not allocated. The auditors again requested ITU to obtain the missing allocations.

For a GCC-funded project, the difference between actual expenditure and the allocation amounted to $1,350. The auditors requested ITU to request a revised allocation from UNDP.

The Administrator advises the Governing Council that UNDP will provide ITU with the outstanding allocations;

(b) Status of funds. The auditors noted that there was a net difference of $3,247 between the status of funds at 31 December 1991 prepared by ITU and the UNDP final operating fund statement OFS 91-12. The individual differences have been identified and are to be corrected in 1992.

The Administrator is pleased to inform the Governing Council that the appropriate adjustments will be made by UNDP for the financial year 1992;

(c) Unliquidated obligations. The unliquidated obligations posted to the account do not include all obligations contracted up to 31 December 1991. In addition, the cost of equipment expressed in another currency was not based on
the United Nations rate of exchange for December 1991. Steps have been taken to ensure that this inaccuracy is not repeated in the future.

The Administrator is pleased to report that ITU has indicated that the United Nations operational rates of exchange were used for the financial year 1992.

XIII. WORLD METEOROLOGICAL ORGANIZATION

16. The external auditors issued an unqualified opinion on the financial statements for the biennium ended 31 December 1991. Although the financial statements were not qualified, the auditors made the following observations:

(a) Budget and unliquidated obligations. The measures decided by the General Assembly of the United Nations at its forty-fourth session modifying the remuneration of staff in the Professional and higher categories effective 1 July 1990, resulted in higher expert costs. In some cases, the gap between expenses and approved budget have exceeded the flexibility margins. Excess amounts that were less than 2 per cent of total budgeted expenses have been taken care of during the annual rephasing of projects at the beginning of 1991. Three projects show expenditure with no corresponding budgets.

For a particular project, commitments for equipment amounted to $134,272, of which unliquidated obligations amount to $34,106 for a budget of $160,959 as of 31 December 1990. In 1991, the budget was reduced to $130,000 but the unliquidated obligations have not been modified accordingly.

The Administrator will follow-up with the agency to ensure that the corrections are made for the financial year 1992.

XIV. INTERNATIONAL MARITIME ORGANIZATION

17. The external auditors issued an unqualified opinion on the financial statements for the year ended 31 December 1991 and made no further observations.

XV. WORLD INTELLECTUAL PROPERTY ORGANIZATION

18. The external auditors issued an unqualified opinion on the financial statements for the year ended 31 December 1991 and made no further observations.

XVI. INTERNATIONAL ATOMIC ENERGY AGENCY

19. The external auditors issued an unqualified opinion on the financial statements for the year ended 31 December 1991 and made no further observations. The long-form report referred to in the auditors' report on page 115 of document DP/1993/48/Add.1 was not available from the agency.
XVII. INTERNATIONAL TRADE CENTRE

20. The external auditors issued an unqualified opinion on the financial statements for the year ended 31 December 1991 and made no further observations.

XVIII. WORLD TOURISM ORGANIZATION

21. The external auditors issued an unqualified opinion on the financial statements for the year ended 31 December 1991. Although the financial statements were not qualified, the auditors made the following observations:

   (a) Completion of computer programme development. The external auditors strongly recommended early completion of the computer programme to enable reports to be provided to UNDP with breakdown of expenditure by budget lines and, consequently, reporting for timely decision-making. UNDP has taken note of this observation and has expressed its hope to WTO that this will be addressed, as indicated;

   (b) Provision of cash for expenditure for programmes of associated and cooperating agencies. The observation was made that, under the present practice of financing various agency programmes, UNDP does not provide funds in cash for either associated or cooperating agency programmes.

   The Administrator believes that there is some misunderstanding on this and will, consequently, be contacting WTO to resolve the matter.

XIX. AFRICAN DEVELOPMENT BANK

22. The external auditors issued an unqualified opinion on the financial statements for the year ended 31 December 1991 and made no further observations.

XX. ASIAN DEVELOPMENT BANK

23. The external auditors issued an unqualified opinion on the financial statements for the year ended 31 December 1991 and made no further observations.

XXI. INTERNATIONAL MONETARY FUND

24. The external auditors issued an unqualified opinion on the financial statements for the year ended 31 December 1991 and made no further observations.