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Financial reports and audited financial statements, and reports of the Board of Auditors

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Report of the Advisory Committee on Administrative and Budgetary Questions

1. In accordance with financial regulation 12.11, the Advisory Committee on Administrative and Budgetary Questions considered the report of the Board of Auditors on the financial report and audited financial statements for the United Nations peacekeeping operations for the 12-month period ended 30 June 2000.[1] The report was considered in advance form, in English only, as the printed version was not available. The Committee also had before it a report of the Secretary-General on the implementation of the recommendations of the Board of Auditors concerning United Nations peacekeeping operations for the period ending 30 June 2000 (A/55/380/Add.2).

2. **The Advisory Committee is of the opinion that the information provided in the report of the Secretary-General on the implementation of the recommendations of the Board of Auditors should include the progress achieved, as well as the results and changes produced by implementing those recommendations or by the corrective measures taken in response.**

3. Financial issues are covered in chapter II, paragraphs 13 to 47, of the Board's report. The Advisory Committee inquired about the contingent liabilities of $68 million disclosed in note 9 to the financial statements, indicated in paragraph 14 of the report. The Committee notes that of the total, an amount of $39.9 million relates mainly to claims for contingent-owned equipment, based on the old method of reimbursement, which was in place before 1 July 1996. The Committee points out that the new procedures for contingent-owned equipment would not give rise to this situation, as funds are authorized in advance by the General Assembly for this purpose. The Committee notes that there is a difference of opinion between the Board and the Administration on the treatment in the accounts of the $39.9 million. As indicated in paragraph 17 of the Board's report:

> "The Administration is of the opinion that, since the funding for the claims is unavailable it is not possible to obligate such amounts until a future action is taken by the General Assembly on appropriations for funding such claims and therefore the claims are recognized as a contingent liability pending future decisions by the General Assembly. The Board is of the view that the claims represent a present obligation as it relates to benefits already received in the current period by the United Nations as verified by the Department of Peacekeeping Operations." (See also A/55/380/Add.2, para. 5)

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4. The Advisory Committee had an extensive exchange of views with the members of the Audit Operations Committee and with representatives of the Secretary-General on this issue. The Committee understands that, for the two closed missions concerned, the United Nations Operation in Somalia (UNOSOM) and the United Nations Assistance Mission for Rwanda (UNAMIR), the Administration, in the context of final performance reports, will be submitting proposals to the General Assembly on the funding requirements to cover the pending claims of troop-contributing countries. Pending submission of these final performance reports and related action by the General Assembly, it is not possible to obligate funds and reflect them in the financial statements; the amounts certified by the Secretary-General are therefore shown as contingent liabilities. The Committee recalls that the Administration has followed the same practice in the past in cases such as the United Nations Peace Forces headquarters. **Under the circumstances, the Advisory Committee has concluded that the procedure followed by the Administration is broadly in conformity with regulations 3.10 and 4.1 of the Financial Regulations and Rules of the United Nations.**

5. The balance of the contingent liability includes an amount of $1.3 million related to pending claims from Governments for damage to contingent-owned equipment, and $26.8 million related to claims under litigation arising from UNOSOM.

6. The Advisory Committee welcomes the comments and recommendations of the Board contained in paragraphs 21 and 22 of its report regarding the need to avoid setting off accounts payable against accounts receivable, thus ensuring compliance with the United Nations accounting standards. The representatives of the Secretary-General informed the Committee that this issue related to two missions that owed each other funds and that the matter had been corrected. **The Advisory Committee, nevertheless, stresses the need to ensure that this practice is not extended to other operations of the United Nations.**

7. In addition, the Advisory Committee notes that the treatment of income, referred to in paragraphs 33 and 34 of the Board's report, concerns an issue of transparency in income and expenditures transactions related to services rendered by United Nations peacekeeping missions to other partners in the area of operation. The representatives of the Secretary-General confirmed that, henceforth, such income would be recorded under miscellaneous income.

8. The Advisory Committee is seriously concerned, however, that an amount of $2.1 million was obligated by the United Nations Transitional Administration in East Timor (UNTAET) without valid supporting documentation, as indicated in paragraph 25 of the Board's report. **The Advisory Committee cannot accept the statement made by the Administration in paragraph 8 of the report of the Secretary-General (A/55/380/Add.2), indicating that the audit findings in respect of UNTAET "were by their nature exceptional, and that the mission has taken note of the need to comply strictly with rule 104.1 of the Financial Regulations and Rules". The Committee is of the opinion that raising obligations without valid supporting documentation creates a potential for fraud.**

9. The Advisory Committee recalls that, in paragraph 10 of its previous report (A/54/801), it noted with concern the large overdue amounts related to staff and non-staff activities, and requested the Board to follow up on this matter in its next audit. In this regard, the Committee notes that the Board noted an improvement in the recoverability of staff debts.[2] The Committee was provided with information, upon inquiry, showing that the amount related to staff receivables, at 30 June 1999, was $1,218,902, whereas for the same number of missions, at 30 June 2000, it amounted to $822,620. The Committee was further informed that the improvement was due to a number of measures taken, including, among others, enforcement of staff "check-out" procedures, whereby accounts receivable were recovered from personnel prior to their departure from the missions; enforcement of recovery policy by deducting telephone and liberty mileage charges from the mission subsistence allowance or salary, as appropriate; and more vigorous follow-up action from Headquarters.

10. As regards the implementation of the reformed procedures for determining reimbursement to Member States for contingent-owned equipment,[3] **the Advisory Committee requests that a comprehensive assessment be made, in the context of the next audit, of all aspects of the implementation of the arrangements for contingent-owned equipment, preferably at selected representative missions.** Lessons learned from such a comprehensive audit

would be useful and would be available to other missions. **The Advisory Committee is aware that the new procedures constitute a very complex process of inspection and reporting on contingent-owned equipment and self-sustainment. The Committee invites the Board to ascertain the extent to which the process is being implemented efficiently and in a timely manner, and whether there is capacity at the field mission to discharge the many responsibilities and tasks entrusted to the mission under the arrangements for contingent-owned equipment. The Board is also invited to inquire about the adequacy and effectiveness of resident auditors, since the effective performance of this resource is a valuable tool for the ultimate achievement of the overall goals of external audit** (see A/55/828, para. 4).

11. **The Advisory Committee trusts that the changes recommended by the Board in paragraph 59 of its report, namely, that the Administration should instruct field missions to send verification reports in respect of contingent-owned equipment directly to the Finance Management and Support Service, where the comparison to the memoranda of understanding should be performed, and accepted by the Administration, will eliminate the delays in the processing of claims for contingent-owned equipment reported by the Board.** The Committee notes, from the statement made by the Administration in paragraph 10 of document A/55/380/Add.2, that the Logistics and Communications Service will continue to assist in the technical aspect of the review of the verification reports. **The Advisory Committee understands that such technical reviews will be undertaken on the basis of request from the Finance Management and Support Service, rather than on the basis of a mandatory requirement.**

12. The Advisory Committee welcomes the considerable attention given in the audit to inventory management by the Field Assets Control System. The Committee notes that the Board expressed reservations about note 8 to the financial statements on non-expendable equipment, where it was not possible to reconcile the value of $457.3 million with information available on the Field Assets Control System. The Board made three important recommendations in paragraphs 67, 72 and 80 of its report. In this connection, the Committee recalls its recommendation regarding the need for the submission of a progress report on the implementation of the initial stage of the Field Assets Control System, made in the context of its report (A/54/841, para. 38). The progress report has now been issued (A/55/845). The Committee understands that the Office of Internal Oversight Services has completed an evaluation report on the Field Assets Control System. The Committee will submit its comments in this regard when it considers the report of the Secretary-General.

13. The Advisory Committee was informed that the Field Administration and Logistics Division had instructed all missions to expedite the processing of all transactions relating to non-expendable property and to ensure that information in the Field Assets Control System was regularly updated. Other measures taken in this regard include training of staff members, periodical physical inventory counts, provision of bar codes for non-expendable property and regular update of the Field Assets Control System databases of the missions.

14. The issue of procurement is covered in paragraphs 82 to 122 of the report of the Board of Auditors. The Advisory Committee notes the recommendation in paragraph 95 that the Administration undertake a review of current resources available to meet peacekeeping procurement needs, establish more systems contracts where possible and encourage proper procurement planning. The Administration, in paragraph 16 of the implementation report (A/55/380/Add.2), indicates that, besides continuing to explore additional areas to establish systems contracts, the Secretary-General is undertaking further reviews and follow-up of the procurement reform. Under the circumstances, the Committee is of the opinion that the statement reported in paragraph 96 of the Board of Auditors report, as to the support by the Department of Peacekeeping Operations for the establishment of a fully resourced peacekeeping section dedicated to its procurement requirements, is premature.

15. The Advisory Committee was informed that the Under-Secretary-General for Peacekeeping Operations had received delegated authority to procure goods and services for up to $1 million, where those goods and services were available locally in the field missions at cheaper prices, and were not covered by systems contracts issued by the Headquarters Procurement Division. The Committee recalls that this increase was recommended in paragraph 169 (f) of the report of the Panel on United Nations Peace Operations (A/55/305-

S/2000/809). This delegation permits the re-delegation of authority, in whole, or in part, to heads of mission or chief administrative officers, certain conditions having been met, as deemed appropriate by the Under-Secretary-General for Peacekeeping Operations, who is held ultimately responsible. The Committee was further informed that this delegation of authority was for a trial period of two years, and that it would be reviewed to ascertain the merits of its continuation. **The Advisory Committee requests that it be appraised of the results of this review. In this connection, the Committee recalls the observation made in paragraph 6 of its report (A/55/458), that before delegation of authority is made to the field there is need to ascertain that adequate capacity exists both at Headquarters and the field to discharge and monitor the functions that have been delegated.**

16. In the course of its review of the Board's report, the Advisory Committee was made aware of the critical need for training and retention of staff in missions, not only in procurement functions but in inventory management, as well. The Committee must also express concern about the fact that, often, less priority seems to be given to the functions of procurement and inventory management in field missions, although these areas are frequently affected by high vacancy rates, because personnel, once trained, tend to leave for other assignments. This seems to account, for example, for instances such as those referred to by the Board in its report, which cited lack of procurement planning, or non-receipt of vendor evaluation reports. **The Advisory Committee stresses that procurement and inventory management are functions that account for large investment by the Organization, and that it is essential for all concerned to take steps to ensure that adequate qualified staff are assigned, trained and retained to perform the related activities and tasks in field missions.**

Notes

[1] *Official Records of the General Assembly*, *Fifty-fifth Session*, *Supplement No. 5* (A/55/5), vol. II.

[2] Ibid., chap. II, para. 20.

[3] Ibid., paras. 48-63.