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

Concise summary of principal findings, conclusions and recommendations contained in the reports prepared by the Board of Auditors for the General Assembly at its fifty-ninth session

Note by the Secretary-General

The Secretary-General has the honour to transmit to the members of the General Assembly, pursuant to Assembly resolution 47/211 of 23 December 1992, the concise summary of principal findings, conclusions and recommendations contained in the reports on the audit of the accounts for the financial period ended 31 December 2003, prepared by the Board of Auditors.

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Letters of transmittal

9 July 2004

I have the honour to transmit to you, in accordance with the request by the General Assembly in paragraph 18 of resolution 47/211, the concise summary of principal findings, conclusions and recommendations contained in the reports prepared by the Board of Auditors for the General Assembly at its fifty-ninth session.

(*Signed*) Shauket A. **Fakie**
Auditor-General of the Republic of South Africa
and Chairman
United Nations Board of Auditors

The President of the General Assembly
of the United Nations
New York

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Concise summary of principal findings, conclusions and recommendations contained in the reports prepared by the Board of Auditors for the General Assembly at its fifty-ninth session

Summary

The General Assembly, in its resolution 47/211 of 23 December 1992, invited the Board of Auditors to report in a consolidated fashion on major deficiencies in programme and financial management and on cases of inappropriate or fraudulent use of resources, together with the measures taken by United Nations organizations in this regard. The findings, conclusions and recommendations included in the present summary, in addition to those contained in the resolution mentioned above, are mainly those that are, in the view of the Board, of particular importance in relation to common themes in 16 organizations audited by the Board. The detailed findings that relate to a particular organization can be found in the separate audit report on that organization. A list of the organizations audited by the Board appears in annex I.

The Board has opted to address in the present report some recommendations to the United Nations and its funds and programmes in general. This does not mean that all recommendations apply equally to all of the latter: some recommendations may not be applicable to some funds and programmes, or may already have been partly implemented.

The present report comments on previous recommendations of the Board that have not been fully implemented and on the following financial and management issues: modified audit opinions; presentation of financial statements; non-expendable equipment; liabilities for annual leave, end-of-service and post-retirement benefits; programme expenditure; project management; information and communication technology; training; governance review; results-based management and budgeting; internal oversight; treasury and investment management; consultants, experts and temporary assistance; procurement; human resource management and payroll systems; and cases of fraud and presumptive fraud.

Contents

I. Previous recommendations not fully implemented

1. The Board of Auditors has highlighted separately in each report those of its recommendations for the financial periods ended 31 December 1999 and earlier that had not been fully implemented by mid-2004. Five organizations and programmes — the United Nations,[1] the United Nations Drug Control Programme (UNDCP),[2] the United Nations Environment Programme (UNEP),[3] the Office of the United Nations High Commissioner for Refugees (UNHCR)[4] and the United Nations University (UNU)[5] had outstanding recommendations.

2. The Board has summarized, in an annex to each report, the status of each organization's implementation, as at mid-2004, of the Board's recommendations for the financial period ended 31 December 2001. A summary table of the status of implementation of the recommendations by organization is set out in annex II to the present report. All 16 organizations had, to varying degrees, not fully implemented some recommendations. Furthermore, 9 had yet to implement some recommendations. Of 378 recommendations made in the previous biennium (including the recommendations mentioned in para. 1 above), 172 (46 per cent) had been fully implemented, 178 (47 per cent) were in the process of implementation and 28 (7 per cent) had not been implemented.

3. The Board noted the progress made in implementing its recommendations, however, it again encourages those organizations that have not fully implemented the recommendations to take action in this regard, with emphasis on outstanding recommendations dating back to the biennium 1998-1999 and earlier. For those recommendations which were reiterated, the Board also invited the administrations to allocate specific responsibility for their implementing to individuals or divisions, and to do so within a predetermined time frame.

II. Financial issues

A. Audit opinions

4. Of the 16 organizations listed in annex I, the Board issued unqualified opinions for 12 (International Trade Centre UNCTAD/WTO (ITC),[6] United Nations Children's Fund (UNICEF),[7] United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA),[8] United Nations Institute for Training and Research (UNITAR),[9] UNHCR, UNEP, international tribunals for Rwanda[10] and the

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[1] See *Official Records of the General Assembly, Fifty-ninth Session, Supplement No. 5* (A/59/5), vol. I, chap. II.

[2] See ibid., *Supplement No. 51* (A/59/5/Add.9), chap. II. The Board audits and reports on the United Nations International Drug Control Programme which is managed by the Office on Drugs and Crime at the United Nations Office at Vienna. The report therefore refers to both.

[3] See ibid., *Supplement No. 5F* (A/59/5/Add.6), chap. II.

[4] See ibid., *Supplement No. 5E* (A/59/5/Add.5), chap. II.

[5] See ibid., *Supplement No. 5* (A/59/5), vol. IV, chap. II.

[6] See ibid., *Supplement No. 5* (A/59/5), vol. III, chap. II.

[7] See ibid., *Supplement No. 5B* (A/59/5/Add.2), chap. II.

[8] See ibid., *Supplement No. 5C* (A/59/5/Add.3), chap. II.

[9] See ibid., *Supplement No. 5D* (A/59/5/Add.4), chap. II.

[10] See ibid., *Supplement No. 5K* (A/59/5/Add.11), chap. II.

Former Yugoslavia,[11] United Nations Joint Staff Pension Fund (UNJSPF),[12] United Nations Human Settlements Programme (UN-Habitat),[13] United Nations University (UNU) and United Nations). For the other organizations, the Board issued unqualified opinions with emphasis of matter paragraphs for the United Nations Development Programme (UNDP),[14] United Nations Population Fund (UNFPA)[15] and UNDCP.

5. The Board was unable to express an opinion on the financial statements of the United Nations Office for Project Services (UNOPS),[16] for the biennium 2002-2003, since it was unable to obtain adequate assurance on the imprest account balances, inter-office vouchers clearing accounts, inter-fund balances and non-expendable equipment. The Board was also unable to confirm that the value of separation cost was valid, accurate and complete. In addition, the Board: (a) emphasized its concerns that, given the financial position of the UNOPS as at 31 December 2003 and the possible failure to meet its 2004 targets, it may not be able to fund in full any future deficit from its operational reserve, which may result in UNOPS having to significantly curtail its operations; and (b) noted the shortcomings in regard to the newly implemented enterprise resource planning system, as also noted below for UNDP and UNFPA.

6. Regarding the concerns it expressed with regard to UNDP and UNFPA, the Board was unable to obtain adequate assurance to verify the validity, accuracy and completeness of non-expendable equipment. It also raised concerns regarding the control deficiencies, and especially the lack of an independently validated internal control framework for the newly implemented enterprise resource planning system, Atlas, in 2004. Furthermore, although improvements were noted at UNDP, there could be further improvement in regard to the effectiveness of internal controls and procedures and the adequacy of the assurance obtained by UNDP that nationally executed expenditure funds provided had been properly used for the purposes intended. At UNFPA, unreconciled inter-agency balances were sometimes long-outstanding, while the balances in other agencies' accounts might also be inaccurate, thus the value of such balances might be misstated in the financial statements.

7. In the case of the Office on Drugs and Crime at the United Nations Office at Vienna,[17] the Board drew attention to a lack of procedures ensuring completeness and timeliness in the recording of field obligations.

B. Presentation of financial statements

8. The General Assembly, in resolution 55/220 A of 23 December 2000, requested the Secretary-General and the executive heads of funds and programmes of the United Nations, in conjunction with the Board of Auditors, to continue to evaluate what financial information should be presented in the financial statements and schedules and what should be presented in annexes to the statements. In the

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[11] See ibid., *Supplement No. 5L* (A/59/5/Add.12), chap. II.
[12] See ibid., *Supplement No. 9* (A/59/9), chap. II.
[13] See ibid., *Supplement No. 5H* (A/59/5/Add.8), chap. II.
[14] See ibid., *Supplement No. 5A* (A/59/5/Add.1), chap. II.
[15] See ibid., *Supplement No. 5G* (A/59/5/Add.7), chap. II.
[16] See ibid., *Supplement No. 5J* (A/59/5/Add.10).
[17] See ibid., *Supplement No. 5I* (A/59/5/Add.9), chap. II.

light of this request and similar requests from some administrations, the Board reviewed the presentation and disclosure of the financial statements of the United Nations and its funds and programmes for the financial period ended 31 December 2003.

9. While organizations generally complied with the United Nations system accounting standards, the Board made various recommendations on improvements that could be made to the presentation and disclosure of the financial statements. For example, UNDP and UNFPA could improve disclosure relating to investments, while UNFPA could enhance schedule 4 to its financial statements by including information for other resources and not just regular resources. Many of these recommendations were well received and some have already been implemented, for example: the United Nations financial statements were simplified, from 26 statements and 14 schedules for the biennium 2000-2001, to 10 statements and 9 schedules; UNFPA added more notes to improve the overall user-friendliness of the financial statements and for the first time made a provision for doubtful accounts receivable; and UNRWA recognized for the first time income and obligations pertaining to extrabudgetary resources.

10. Annex III to the present report reflects the differences in accounting treatment, presentation and disclosure of the financial statements of the organizations audited by the Board. Some of the key differences are discussed below.

Accounting policies

11. The accrual basis was used by most organizations for recognizing income and expenditure. However, there were exceptions where the cash basis of accounting was used, which is allowed in terms of the United Nations system accounting standards. UNFPA, UNITAR and UNICEF accounted for certain contributions on a cash basis, such as other resources and voluntary contributions, special purpose grants and contributions from National Committees with some exception, respectively. UNDP, UNHCR, UNFPA and UNOPS accounted for staff entitlements on a cash basis. UNDP and UNFPA also used a cash disbursement basis of accounting for programme expenditure implemented by Governments and non-governmental organizations.

12. No organization capitalized non-expendable equipment. Such equipment is expensed on purchase in line with the United Nations system accounting standards, which only require disclosure of the value in a note to the financial statements. All organizations valued non-expendable equipment on a historical cost basis. Organizations established thresholds below which equipment purchased were not recorded as non-expendable equipment. However, such thresholds differed among organizations, for example, the threshold was set at $500 for UNOPS, $1,000 for UNDP, and $1,500 for UNFPA and the United Nations.

13. For programme expenditure, as referred at a subsequent stage in this report, UNDP, UNFPA and the Office on Drugs and Crime created receivables for funds advanced to implementing partners, while UNICEF and UNHCR recorded such funds directly as expenditure in their accounts.

Statements, schedules, notes and annexes

14. The Board noted differences in the presentation of the statements (excluding statements I to III),[18] schedules, notes and annexes in the financial statements of the 16 organizations audited, as highlighted in annex III to the present report. For example, UNICEF included a statement on programme expenditure by country, UNDP included a schedule on programme expenditure by executing agency and source of funds, while other organizations provided no additional information on programme expenditure; the United Nations, UNU, UNICEF, ITC and the international tribunals included information on appropriations in a statement, while UNHCR, UNEP and UNJSPF reflected similar information in schedules; UNDP and UNFPA provided information on investments in schedules and notes to the financial statements, while the Office on Drugs and Crime and UNOPS mentioned this in the notes only. Other organizations did not provide information on investments. Most organizations did not provide additional disclosures on exchange rate differences, while UNHCR and UNRWA did. The International Tribunal for the Former Yugoslavia, ITC, UNITAR and the Office on Drugs and Crime disclosed no such exchange rate differences on the face of the income statement or in the notes thereto. The description of line items in the financial statements also varies significantly among organizations.

15. The above underlines the need for the United Nations and its funds and programmes to harmonize the various financial statements in order to ensure consistent accounting treatment, presentation and disclosure. Several organizations attributed the differences to having to provide specific information to satisfy donor needs. However, the Board notes that the donors to various organizations are often the same. **While there may be elements of uniqueness in each organization's financial statements, the Board is of the view that there are significant opportunities for further harmonization in order to promote a common understanding thereof by stakeholders and to enhance comparability.**

16. The Board is also of the view that the financial report (usually appearing in chapter I in the Board's reports) and the financial statements, both of which are prepared by the Administration, should contain sufficient combined information to enable users to have a good understanding of the operations and performance of the Organization for the financial period concerned. Users should obtain this understanding without having to put the pieces of information together themselves.

Financial report

17. The Board considered governance principles and best practices related to financial reporting.[19] Given the numerous reports required by the governing bodies of the organizations, the Board is aware that, in some instances, the governance principles discussed below may be applied in other documents issued to these governing bodies as part of the organizations' normal reporting process.

[18] Statement I, income and expenditure; statement II, balance sheet; and statement III, cash flow.

[19] For example, *King Report on Corporate Governance in South Africa* (Johannesburg, South Africa, Institute of Directors in Southern Africa, 1994); Sarbanes-Oxley Act of 2002 (United States of America); and *Report of the Committee on the Financial Aspects of Corporate Governance* (more commonly known as the Cadbury report), London, Gee and Co. Ltd., 1992.

18. In terms of governance principles and best practice, the following governance issues are normally reported in a medium such as the financial report (chap. I) that precedes the financial statements: (a) governance and other regulatory bodies; (b) performance reporting and non-financial information; (c) social accounting issues; and (d) risk management, continuity and internal control.

19. **Governance and other regulatory bodies.** Financial reports of organizations did not contain information on, for example, their executive boards, management committees, internal code of ethics and conduct and enforcement thereof and communication policies.

20. **Performance reporting and non-financial information.** There was no mention in any of the 16 financial reports and annual financial statements of performance in terms of organizational objectives and mandate as well as such system-wide objectives as the Millennium Development Goals.

21. **Social accounting issues.** Social accounting issues include (a) environmental reporting; (b) employee and/or human resources reporting, such as an analysis of the composition of staff, an analysis of the skills of current staff compared to the skills needed and details on the future staff requirements (including the continuity plan or rotation policy); and (c) health and safety issues. Organizations could consider the desirability of incorporating such information into their financial reports.

22. **Risk management, continuity and internal control.** The constant identification of risks and continuous development of systems and controls to address those risks is critical to most organizations. Disclosures could deal with the measures put in place to address financial risks, to safeguard assets and financial records and to ensure continuity in the event of a disaster. No such disclosures were included in the financial reports of the United Nations and its funds and programmes. The financial reports generally provided a summary of the financial statements, however, no key indicators/ratios, such as the current ratio (current assets over current liabilities), current assets as a percentage of total assets and cash holdings as a percentage of total liabilities, were included for most organizations. In addition, the financial reports did not contain information on: (a) the existence of a disaster management and recovery plan; (b) internal measures to manage risks; (c) the internal audit function; (d) details of any oversight committee reviewing the work of internal audit; and (e) measures put in place to safeguard the integrity of management and financial information.

23. The provision and disclosure of any information would be subject to, inter alia, constraints of the benefit of providing the information over the cost thereof and also it meeting the general qualitative characteristics of relevance, reliability, comparability and understandability, as stated in the United Nations system accounting standards.

24. **The Board recommended that the United Nations and its funds and programmes consider the additional disclosure of information in terms of governance principles and best practice relating to oversight, performance reporting, social accounting issues, risk management, continuity and internal control issues. In this regard, organizations should revert to paragraph 6 of resolution 57/278 A of 20 December 2002, in which the General Assembly requested the Secretary-General and the executive heads of the funds and programmes of the United Nations to examine governance structures,**

principles and accountability throughout the United Nations system. Better disclosure would be a step towards taking a proactive approach to the review requested by the Assembly. The Board also recommended that the United Nations and its funds and programmes: (a) consider further improvements to the presentation and disclosure of financial statements; (b) disseminate improvements made by other United Nations organizations through inter-agency mechanisms, such as the High-Level Committee on Management; and (c) take further steps to harmonize the financial reports and financial statements to the extent possible.

C. Non-expendable equipment

25. Non-expendable equipment as disclosed in the notes to the Organization's financial statements amounted to an aggregate of approximately $1.1 billion for the United Nations and its funds and programmes as at 31 December 2003, as shown in table 1 below. The Board was unable to obtain adequate assurance to verify the validity, accuracy and completeness of the value disclosed at $149.3 million for UNDP, $57.5 million for UNFPA, $2.4 million for UN-Habitat and $10 million for UNOPS, due to the breakdown in controls and unavailability of supporting evidence. Accordingly, the Board modified its audit report (chapter III — Audit Opinion) regarding UNDP, UNFPA and UNOPS to emphasize its concerns.

Non-expendable equipment values

(Millions of United States dollars)

Organization	*2002-2003*	*2000-2001*
UNDP	149.3	96.6
UNOPS	10.0	9.3
UNFPA	57.5	49.4
UN-Habitat	2.3	1.9
UNEP	15.9	14.0
UNU	5.1	5.0
ICTY[a]	14.5	14.3
UNICEF	118.6	52.3
UNHCR	385.3	288.8
UNRWA	75.2	65.8
UNITAR	0.2	0.1
UNDCP	14.4	4.7
ICTR[b]	14.5	13.2
UNJSPF	8.4	7.4
ITC	2.9	5.7
United Nations	243.4	199.4
Total	**1 117.5**	**827.9**

[a] International Tribunal for the Former Yugoslavia.
[b] International Tribunal for Rwanda.

26. The Board noted various weaknesses in the control of non-expendable equipment at the United Nations, UNICEF, UNHCR, UNEP, UNRWA, UN-Habitat and the Office on Drugs and Crime, such as: physical inventory counts not always conducted at all locations; inventory records not always continuously updated with all additions and disposals of non-expendable equipment; and physical existence of property items could not always be verified because of incorrect location listings and lack of visible identification tags. Inventory records were sometimes not reliable as it was not always possible to reconcile the listing of assets to the inventory records.

27. **The Board recommended that the United Nations and its funds and programmes take action to ensure: (a) the validity, accuracy and completeness of non-expendable equipment, as disclosed in the financial statements; and (b) proper control of non-expendable equipment, in compliance with financial regulations, rules and directives.**

28. The note disclosure on non-expendable property for most organizations was compliant with United Nations system accounting standards. In paragraph 49 of the standards, however, organizations are encouraged to also disclose where possible and to the extent required by the financial policies of the organization, additions and disposals made during the financial period. Not all organizations did so.

29. **The Board recommended that the United Nations and its funds and programmes consider disclosing additions to and disposals of non-expendable equipment in the financial statements for the biennium 2004-2005, as encouraged in the United Nations system accounting standards.**

D. Liabilities for annual leave, end-of-service and post-retirement benefits

30. The United Nations system accounting standards, under paragraph 57, provide that appropriate disclosure should be made in the notes to the financial statements, and estimated liabilities quantified where possible, showing the basis of valuation and that, for after-service medical benefits, such liabilities should normally be determined by actuarial evaluation. Most organizations, some for the first time, called on actuaries in order to comply and properly evaluate their liabilities. However, the Board again noted that funding for such liabilities for staff benefits and after-service health insurance was not provided for properly, if at all, in most of the organizations. An aggregate amount exceeding $3.2 billion represented estimated liabilities as at 31 December 2003.

31. As recommended by the Board in its previous report, UNICEF established a reserve in 2003, initially, of $30 million, against a liability evaluated at $182.5 million; in addition, its net contingent liability was estimated at $66.9 million for accumulated leave and repatriation grant, without a provision, on the basis that expenditures were charged against the budget of the periods when actual payments are made. UNDP set aside $54 million, in addition to the $54 million provided at the end of the previous biennium, and estimated that its liability of $263 million as at 31 December 2003 would be fully funded in 10 to 18 years. At the beginning of 2003, UNITAR set aside a provision for repatriation ($130,737 in 2003) against a total liability of $1.7 million.

32. No action was taken when the reserves could not fully cover the liabilities at such organizations as UNHCR ($290 million), UNRWA ($147.3 million), the Office on Drugs and Crime ($9.8 million) or the International Tribunal for the Former Yugoslavia ($19.4 million). Organizations funded from voluntary contributions are particularly vulnerable to the risk of a downturn in income, which could lead to significant expenditures when no funds are set aside to cover them.

33. The General Assembly, in resolution 58/249 A of 23 December 2003, requested the Secretary-General to report to it on the full extent of unfunded staff termination and post-service liabilities in the United Nations and its funds and programmes and to propose measures that would ensure that progress is made towards fully funding such liabilities. As at July 2004, the report was not yet available.

34. **The Board reiterated its recommendation that the United Nations and its funds and programmes review the funding mechanism and targets for liabilities for end-of-service and post-retirement benefits.**

III. Management issues

35. While noting the progress made with regard to management issues, the Board has made a large number of recommendations in many areas. The present section provides a sample of the findings and of some of the recommendations which may be of common interest.

A. Programme expenditure

36. The United Nations and its funds and programmes have different modalities for implementing programme expenditure at the national level, either directly or through implementing partners. The Board raised concerns in its previous report that there was a lack of consistency among organizations in both accounting treatment and procedures for accountability and related internal controls, and encouraged the United Nations and its funds and programmes to harmonize their accounting treatment and procedures with regard to programme expenditure (A/57/201, para. 44).

37. The two modalities commonly used by the United Nations and its funds and programmes for programme expenditure is nationally executed expenditure and cash assistance to Governments. The Board conducted a review of both for certain organizations within its mandate, namely, UNDP, UNFPA, UNICEF, UNHCR and the Office on Drugs and Crime. The summary information that follows therefore relates to these organizations only. Detailed information relating to each is contained in annex IV.

38. Total programme expenditure for the biennium 2002-2003 amounted to $9.154 billion (in 2000-2001, $7.822 billion) for the organizations included in the present review. Of this amount, $4.215 billion (in 2000-2001, $3.953 billion) related to nationally executed expenditure and cash assistance to Governments.

39. The Board was pleased to note that, in general, improvements had been made that had led to better monitoring and control of programme expenditure for several

funds and programmes. Some matters of concern have, however, been emphasized in the reports on individual organizations regarding outstanding advances and cash assistance provided to implementing partners, terms of reference for project auditors, country office follow-up action of project auditors' findings, and the quantification of qualified audit opinions of project auditors. The Board made various recommendations to address the shortcomings noted in the individual reports.

40. The basis of disbursements and the accounting and recording treatments differed among organizations. UNDP, UNFPA and the Office on Drugs and Crime provided funds to implementing partners through advances. Advances provided were recorded as receivables when disbursed to the implementing partner in the organization's accounts. Expenditure was only recorded in the accounts and the advance balances were reduced proportionally when the prescribed forms detailing the expenditures incurred on the projects for the period were submitted by the implementing partners. On the other hand, UNHCR and UNICEF provided direct cash assistance to the implementing partners, and was recorded directly as expenditure in the organization's accounts when the funds were transferred to them. No balances were therefore reflected as receivables in the financial statements at year-end for funds unspent by the partners.

41. Balances relating to advances (UNDP, UNFPA and the Office on Drugs and Crime) and cash assistance not yet justified (UNHCR and UNICEF) from implementing partners aggregated to $426.7 million as at 31 December 2003. Advances and unjustified cash assistance amounting to $20.7 million was written off by the organizations during the period 2002-2003.

42. At UNDP and UNFPA, all outstanding advances were reviewed issued prior to 31 December 2000 as part of the data-cleaning process for the implementation of their new enterprise resources planning system, Atlas. As a result, UNDP and UNFPA cleared outstanding advances of $19.7 million and $16.2 million, respectively. However, UNDP did not have assurance that the advances of $7.6 million, that had been outstanding for more than a year, had been utilized for the purpose intended. With the ongoing implementation of Atlas, the organizations anticipated a significant improvement in the way individual advances related to nationally executed expenditure were tracked.

43. At UNICEF, cash assistance outstanding for more than nine months was reduced from $18.5 million in the biennium 2000-2001 to $9 million in 2002-2003, a 51 per cent decrease. As a result, the proportion outstanding for more than nine months declined from 10 per cent to only 5 per cent.

44. **The Board recommended that the administrations: (a) continue their efforts to further reduce the balances outstanding; and (b) provide for amounts considered doubtful.**

45. For expenditure incurred on projects, UNDP, UNFPA, UNHCR and the Office on Drugs and Crime require that detailed, quarterly reports be prepared by their country offices and approved by the implementing partner. In addition, they require that project audits be performed by locally appointed auditors on an annual basis, depending on the materiality of the projects, with audit certificates submitted to headquarters for evaluation. UNICEF requires implementing partners to submit financial and delivery reports to its country offices within six months after receiving

the funds, together with supporting documentation. Where implementing partners' controls are considered by UNHCR to be adequate, submission of a simplified Government certificate will suffice. In terms of UNICEF financial circular No. 15, dated 26 March 2001, projects are not subjected to audits, but UNICEF reviews all supporting documentation.

46. The Board was pleased to note improvements made by the organizations in the receipt of delivery reports and audit certificates from project auditors, where required. However, it noted some shortcomings relating to the monitoring and evaluation processes, as indicated below.

47. Internal control weaknesses were reported in 962 project audit reports, representing $107.7 million. There were also instances in which the prescribed financial forms submitted were incomplete or had not been submitted at all. UNFPA was able to document the reasons for the qualifications; however, it was not always able to quantify the effect of the qualification in terms of the Board's previous recommendation. In order to address the qualifications, UNFPA received an action plan for all qualified project audit reports from the applicable country offices.

48. The United Nations Development Programme did not specifically record which local audit reports were qualified or the impact of such qualifications in quantifiable terms. The observations made by the UNDP Office of Audit and Performance Review indicated that there could well be a number of qualified project audit reports. UNDP informed the Board that certain project audit reports indicated a limitation of scope, however, the impact of that limitation was not always quantified in the project auditors' reports. This was partly due to the inconsistent audit reporting formats. UNDP also informed the Board that its technical guidelines, which provided specimen terms of reference for audits of nationally executed projects or those executed by non-governmental organizations, would be revised to clarify requirements and address inconsistencies.

49. In the case of qualified audit reports or a disclaimer on nationally executed expenditure, the Office on Drugs and Crime has neither undertaken action for the recovery of advances nor adjusted the corresponding expenditure reported by UNDP. This requires the concurrence of relevant Governments through UNDP, which certifies the relevant financial reports. After the Board's audit, the Office planned to include appropriate modalities in the revised working arrangement that it had been trying for two years to sign with UNDP, in order to facilitate the recovery of advances made to Governments. In the event of alleged misappropriation of funds, the Office would hold responsible individuals accountable and prosecute them in accordance with national law, where appropriate.

50. **The Board recommended that the administrations: (a) quantify the financial effect of audit qualifications made in respect of nationally executed expenditure and continue to evaluate such qualifications against action plans for reasonableness; and (b) act upon qualified audit reports and reported misuse of funds in regard to nationally executed expenditure.**

51. While the Board commended UNFPA on its efforts to improve the monitoring of nationally executed expenditure, it noted that the policies and procedures financial manual was still not specific and did not clearly state for the project auditors the objective of the audit, its scope and the format of audit reports. Similarly, the Office on Drugs and Crime also requested field offices to pay special

attention to the consistency of the terms of reference for its project audits, including the scope of the audit, and the format and quality of the audit reports on nationally executed projects. The Board saw no evidence of improvement or consistency with regard to the terms of reference, and compliance throughout the Office with UNDP guidelines on the content of audit reports and the follow-up of previous year recommendations had yet to be improved. At UNHCR, the expenditure not yet justified amounted to $118.97 million as at 31 December 2003, while it had amounted to $90.6 million (31 per cent) a year earlier. Further efforts by UNHCR brought down the balance to $9.6 million as at 15 June 2004.

52. **The Board recommended that: (a) UNFPA ensure that standard terms of reference are agreed to by the country office, governmental implementing partners and the auditor of nationally executed expenditure; and (b) both UNFPA and the Office on Drugs and Crime ensure that the scope and format of the audit are consistent.**

53. Country offices of UNDP and UNFPA, in consultation with the implementing partners, are required to prepare action plans to address the findings of the project auditors. The Office on Drugs and Crime issued a letter in November 2003 to all of its country offices requesting that they report on the steps taken to implement the recommendations made by the project auditors. UNICEF follow-up action relates to the submission of the appropriate reports and supporting documentation from implementing partners.

54. At UNDP, however, 40 (36 per cent) of the required 111 country offices did not submit their follow-up action plans for 2001. Furthermore, 20 (28 per cent) of the 71 country office action plans submitted were regarded as inadequate since either the follow-up letter or the cost of the audit was not on the files. In October 2003 and February 2004, the UNDP Office of Audit and Performance Review had sent out reminders to the country offices, requesting them to provide the reasons for not submitting their follow-up action plans; as at 30 April 2004, they had not yet responded to the reminders. At the Office on Drugs and Crime, 19 reports on the implementation of the previous year's recommendations had been submitted and 6 were pending as at April 2004. In many cases, the nationally executed projects that had not been satisfactorily managed in 2002 remained problematic in 2003. UNFPA did not include in its consolidated database all country office action plans relating to the audit reports on nationally executed expenditure as at April 2004, owing to staff constraints and the late receipt of the plans. However, non-compliance in the submission of the plans was taken into account in the overall assessment of a country office.

55. **The Board recommended that the administrations continue to monitor country office follow-up action plans and obtain and evaluate the reasons for their non-submission.**

Working group on resource transfer modalities

56. The Board was pleased to note that, during the biennium 2002-2003, the United Nations Development Group's simplification and harmonization task force on resource mobilization began researching better ways to manage programme expenditure. The task force consisted of representatives of UNDP, UNICEF, UNFPA and the World Food Programme (WFP). In 2003, the task force established a working group on resource transfer modalities to review business and operational

processes, with a view to adopting a harmonized approach to national execution within a specific country.

57. The staff of UNDP, UNICEF, UNFPA and WFP assigned to the working group developed a draft framework, which was tested in Kenya. This framework was intended to assist agencies to harmonize operational procedures related to cash transfers to implementing partners. An assessment of a government’s financial systems would form the basis on which to decide on the transfer modality (direct cash transfers, direct payments, reimbursements or direct agency implementation). The working group also recognized that assessments might be necessary at the level of implementing partner.

58. **The Board encourages the administrations to implement the recommendations made in its reports on the individual organizations, taking into consideration the proposals of the working group on resource transfer modalities.**

Advances to United Nations implementing partners

59. Some United Nations agencies are implementing partners. Outstanding advances to such implementing partners by UNDP increased by some $46 million to $159 million as at 31 December 2003. By the end of April 2004, 6 of the 32 (in 2000-2001, 13 of the 32) executing agencies had not provided UNDP with reconciliations of expenditure incurred. For these 6 agencies, differences between the UNDP balance and the agencies’ status of funds amounted to a net of $6.4 million. Where reconciliations were received, the Board noted differences of $24.1 million (in 2000-2001, $42.2 million) between the amounts reported by the executing agencies and the amounts recorded by UNDP. These differences were partially attributable to timing since, in many instances, the agencies had not accounted for transactions in inter-office vouchers. UNDP informed the Board that steps had been taken to encourage agencies to provide statements and reconciliations. Similarly, differences of approximately $0.8 million were noted between the balances reported in UNFPA accounts and the other United Nations agencies.

60. The Board is concerned that the differences in balances, some long-outstanding, between various United Nations agencies cannot be readily explained. The Board is also concerned that expenditure and advances may be misstated in the financial statements of the various organizations since it is not always possible to verify the reconciling items against the supporting documentation.

61. **The Board recommended that the United Nations and its funds and programmes develop mechanisms to control inter-agency transactions effectively and efficiently and to clear outstanding reconciling items in a timely manner.**

B. Project management

Financial versus technical implementation

62. In paragraph 14 of its report (A/55/487), the Advisory Committee on Administrative and Budgetary Questions encouraged the United Nations organizations to continue to develop and improve performance measurement

standards, and requested the Board of Auditors to pay particular attention to reported expenditures and their relationship to programme delivery.

63. Of the 17 projects at UNU headquarters, project documents indicated a rate of 100 per cent of physical accomplishment on 9 projects while the related financial accomplishments ranged from 56 to 102 per cent for the first year of the biennium 2002-2003. For 8 projects a rate of 100 per cent of physical accomplishment was reported, despite minimal expenditure. This indicated weaknesses in the initial target setting and financial planning and might lead to inadequate measurement of the true performance of programmes or projects.

64. Similarly, at UNDP, the level of physical/technical implementation varied, sometimes significantly, between the different performance indicators within projects. This may indicate that the linkages between individual performance targets and the overall project objective had not been designed appropriately. Unlike physical/technical implementation, financial implementation was not measured at a disaggregated level by performance indicator. Therefore, actual comparison of financial versus physical/technical implementation at the indicator level was difficult to determine. The Board noted projects that were in an advanced stage of technical completion but for which there were substantial remaining fund balances. This may indicate exceptional performance and/or the optimal use of resources. It may, however, also be as a result of the way in which the financial implementation rate was calculated. One reason for the remaining balances on project budgets was the devaluation of the local currency; another reason could be over-budgeting during the project design stage.

65. **The Board recommended that the organizations provide and share guidance on monitoring the correlation between reported expenditures and the level of project implementation. The Board also recommended that organizations improve their performance measurement process in order to: (a) enable the monitoring of technical implementation in comparison to financial implementation at the performance indicator level; and (b) ensure that all targets are realistic and stated in measurable terms, where possible.**

Completion of projects

66. The Board noted instances in which projects were operationally closed but remained open in financial terms for long periods of time. For example, at UNDP, some 668 projects with a programme expenditure value of $1.3 billion were operationally completed on or before 31 December 2002. These projects were, however, not financially completed within the 12-month period prescribed in the UNDP Programming Manual. The Board noted delays during its country office audits, which ranged from 18 months to 8 years. UNDP informed the Board that its Atlas system has a functionality that would allow headquarters to monitor the closure of operationally closed projects at country offices. Another example was at UN-Habitat, where the Board noted that 50 projects valued at $21.63 million, which had been operationally completed for more than 12 months, had not been financially completed as at 31 December 2003. The projects remained financially open for 15 to 49 months from the date that they were operationally closed.

67. **The Board recommended that the organizations: (a) evaluate the causes for the delays in completely closing off projects and take appropriate action to**

rectify those causes; and (b) take steps to finalize all outstanding activities of operationally completed projects in compliance with applicable directives.

C. Governance review

68. The General Assembly, in paragraph 6 of resolution 57/278 A, requested the Secretary-General and the executive heads of the funds and programmes of the United Nations to examine corporate governance structures, principles and accountability throughout the United Nations system and to make proposals on the future format and consideration of the reports of the Board of Auditors by the respective executive boards and the Assembly. **The Board noted that no specific action had been taken by the United Nations and its funds and programmes in this regard.** However, UNDP indicated that it intended to take this matter forward by requesting the High-Level Committee on Management to address the General Assembly's request.

D. Internal oversight

69. As pointed out in the previous biennium, the Board was concerned that the number of information and communication technology auditors at the Office of Internal Oversight Services may not be adequate. The Office conducted only 3 information and communication technology reviews, mostly in the nature of post-implementation reviews, compared to 12 reviews in the previous biennium. **The Board continued to be concerned that the inadequate number of information and communication technology auditors within the United Nations would create a risk that critical information and communication technologies, applications and processes might not be audited and monitored on a regular basis. The Board recommended that the Administration provide for appropriate expertise to review and monitor information and communication technology functions.**

70. The Board noted that a review of the financial statements and accounting procedures was not covered in the internal audit of various United Nations organizations, as illustrated in the following examples: (a) there were no internal audits covering the reliability of the accounting and other data at UNFPA and UNJSPF; (b) the majority of the reports at UNOPS focused on projects and not on audits evaluating and reporting on the reliability of the accounting and other data developed for the production of its financial statements; and (c) UNDP reports focused mainly on issues of management and performance and not on financial procedures and controls. **The Board recommended that UNFPA, UNJSPF, UNOPS and UNDP improve their audit coverage of the reliability of the accounting and other data leading to the production of financial statements.**

71. The Board reviewed the internal audit output at United Nations Headquarters and other organizations during the biennium 2002-2003. There was a 39 per cent decrease in the number of audit reports prepared by UNFPA, from 38 reports in 2002 to 23 reports issued in 2003. At UNDP, there were only 15 audits conducted in 2003, compared to the 35 audits conducted in 2002. UNFPA and UNDP cited the lack of capacity, and reported the impact of the UNDP restructuring for its Office of Audit and Performance Review as the main reason for the decrease in audit outputs.

The Board recommended that UNFPA expedite the filling of vacant posts and that UNDP consider the involvement of its Management Review and Oversight Committee in the appointment and assessment of the head of the internal audit department and in the approval of the annual audit plans. Likewise, of the 11 audits proposed by the Office of Internal Oversight Services for inclusion in the work plan for UNJSPF covering the period 2001-2003, 4 had been carried out as planned, 2 had been carried out a year later and 5 had not been carried out. **The Board recommended that the Office of Internal Oversight Services discuss the internal audit work plan and any major changes with the representative of the Secretary-General and the Chief Executive Officer of UNJSPF and that the plan be approved accordingly by both parties.**

72. Furthermore, the Board noted that at UNFPA and UNJSPF there was no internal audit charter detailing the purpose, authority and responsibility of the internal audit function. UNJSPF and the Office of Internal Oversight Services were in the process of drafting one. At UNRWA, the Audit Inspection Committee consisted of six senior staff but no external members who could promote increased transparency within the organization. Also, no monitoring process to determine the actual status of implementation of audit recommendations was in place. At UNDP, the Management Review and Oversight Committee failed to meet more frequently in order to carry out its oversight responsibilities effectively. There were also shortcomings with regard to the Committee's responsibilities, its membership and a fraud prevention plan, which were not consistent with best practice for oversight committees. At UNJSPF, the Office of Internal Oversight Services internal audit services has, to some extent, lacked the special skills required on investment management matters. **The Board recommended that UNFPA develop an internal audit charter and that other organizations adhere to the oversight responsibilities of their respective internal audit functions.**

E. Results-based management and budgeting

73. As a tool of results-based management, results-based budgeting requires an organization to link its objectives and inputs to expected accomplishments which are to be measured by indicators of achievement. While the Board noted that significant progress had been made in this area of operations, it also noted the following:

(a) At UNDP, the information in the multi-year funding framework for the period 2000-2003 formed the basis of strategic and financial planning; however, the goals were not always in alignment with documentation on the change management process and the Millennium Development Goals. This anomaly had resulted in inconsistencies in the allocation of funds for similar or cross-cutting themes and goals. UNDP took these shortcomings into consideration when compiling the multi-year funding framework for the period 2004-2007. By May 2004, UNDP did not have a clear time frame for the implementation of results-based budgeting;

(b) United Nations Headquarters reported 33,131 quantifiable outputs, of which 643 were postponed to the immediately succeeding biennium and 4,324 were terminated owing either to the decisions by legislative bodies or at the judgement of programme managers. Overall, 99.89 per cent of total appropriations was utilized for the biennium 2002-2003, whereas the average implementation rate for the biennium registered at only 84 per cent. While the existing Integrated Monitoring and Documentation Information System (IMDIS) and Integrated Management Information System (IMIS) serve as tools for monitoring programme and budget performance, respectively, both systems run independently and address different reporting requirements despite dealing with the same programme or project;

(c) UNDP and UNICEF were engaged with UNFPA in developing a conceptual strategic approach to results-based management suitable to the United Nations area of work;

(d) In the case of the UNEP Regional Office for North America, its work plan contained expected accomplishments which did not relate to the objectives of the Office; most of the activities were not time bound; and performance indicators were not defined;

(e) In June 2001, the Chief Executive Officer of UNJSPF submitted to the Fund's Standing Committee a management charter, entitled "Framework for a longer-term vision and objectives of the Fund", as a first attempt at results-based budgeting. The Fund then reviewed its staffing structure. The Office of Internal Oversight Services audited budget practices in January 2003, and made recommendations to better link budget requirements to objectives and results. These recommendations have largely been implemented, but the Fund may still not have the appropriate staff;

(f) At the International Tribunal for Rwanda, staff involved in the preparation of budgets have not gained a thorough understanding of the requirements of results-based budgeting. This notwithstanding, the Tribunal made strides in linking the completion/exit strategy, results-based budgeting concepts and the workload indicators into its final budget proposal for the biennium 2004-2005.

74. For the United Nations, the Administration considered the programme budget for the biennium 2002-2003 to be the first comprehensive results-based budget; it included: (a) objectives, expected accomplishments, indicators of achievement and external factors, in addition to the listing of outputs and resource requirements; and (b) the requirement to measure results arising as a consequence of the outputs delivered. The Administration recognized that it would take several bienniums for the results-based methodology to be used consistently and reliably. Despite this limitation, the Administration reported on its programme performance based on the key results achieved against expected accomplishments.

75. **Overall, the organizations have generally made steady progress with results-based management and budgeting. There is potential for improvement, in particular in the areas of aligning objectives, indicators and accomplishments and further training of staff. The Board encourages the Administration to continue with its efforts and emphasizes that the sharing of lessons learned would be a critical element for the overall success of the United Nations system in operating fully on results-based management and budgeting principles.**

F. Treasury and investment management

76. The United Nations and several of its funds and programmes permanently manage material short-term or medium-term financial assets. The return on investments was generally close to benchmarks, for instance at UNJSPF (which

managed approximately $26 billion) or UNRWA ($140.6 million). It was above the short-term benchmark selected by UNDP, which had approximately $2.5 billion of funds under management as at March 2004. In the case of UNICEF (which managed up to $1 billion), the Board was pleased to note that the recommendations contained in its previous report had been implemented, but in other instances it found a variety of guideline and management problems.

77. Advisory investment committees are usually properly in charge of reviewing policies, risks and performance and related matters, but there was little consistency among them insofar as best practice. The UNRWA committee lacked terms of reference. The United Nations Office at Geneva had no such committee. At UNDP, the most recent internal audit on Treasury was performed in 1985, and no report was issued.

78. Regarding policies, procedures, instructions and tools, UNDP — which also provides services to UNFPA and UNOPS in the areas of cash management, investments and foreign exchange — did not document such procedures as reviewing counterparty limits and performing reconciliations. UNRWA instructions provided no guidance on the procedures to be followed should the agency wish to invest in new instruments. The Board had recommended in paragraph 212 of its previous report that the United Nations Office at Geneva develop suitable tools for cash management in IMIS, and that it frequently review malfunctions and anomalies but, by April 2004, manual spreadsheets were still in use, at a risk. The United Nations Office at Geneva managed on its own a total investment portfolio of $375 million as at 31 December 2003. Regarding investments policies and procedures, the Office relied only on a 1999 inter-agency draft of common principles and policies for investments, and considered that these matters went beyond its authority. When the amount invested in an investment category or with a bank was higher than the recommended ceiling, the only action taken was a note for the file which simply indicated that the situation would be settled the following month. While more than 75 per cent of the $375 million investment portfolio as at 31 December 2003 was managed for Geneva-based funds and programmes, there were no formal written guidelines approved by their management concerning the investment policy and safeguards for their respective shares, and the reporting to be provided by the United Nations Office at Geneva.

79. The United Nations Development Programme did not have cash forecasts using existing information systems or a three-month forward-rolling cash forecast, and its consolidated cash forecast was not distributed to executive management. Also, it did not perform additional verification procedures independent of the trading function, such as monitoring credit and market risk limits, and circulating trade volumes and error statistics to management to aid in the identification of process weakness. Following the Board's audit, UNDP, whose treasury function was otherwise in line with most best practices, was to implement a risk-management module in its new computer system. It was also to formulate a policy and procedures for the revaluation of foreign exchange hedges.

80. The United Nations Office at Geneva managed the investments for the United Nations Staff Mutual Insurance Society against Sickness and Accident (UNSMIS), a fund operated within its administrative services. One investment incurred a loss of $2.9 million in equity. It was duly disclosed in a note to the financial statements, but United Nations financial rule 104.16 also provides that any investment losses must

be reported at once to the Under-Secretary-General for Management, and that a summary statement of investment losses, if any, should be provided to the Board of Auditors within three months following the end of the financial period. No such statement was immediately provided, either to the Under-Secretary-General for Management or to the Board of Auditors.

81. Regarding investment advisers, the Board recommended in 2000 that UNJSPF formally assess the performance for advisory and custody services. Four years later, evaluations remained informal, and similarly phrased from one year to the next and from one adviser to another. The Fund awarded a contract to a California-based real estate consultancy firm. In 1999, the yearly fee of $87,000 was raised to $600,000 to include semi-discretionary services, without the involvement of the Headquarters Committee on Contracts, contrary to procurement rules. No evaluation was filed on the services rendered by this firm, and none of the related meetings on real estate was documented. After competitive bidding, a new adviser was awarded a five-year contract in January 2004, at a cost not to exceed $180,000 yearly.

82. The Pension Fund's Equities and Real Estate-related Investments Unit was nominally responsible for real estate-related securities amounting to over $1.5 billion (7 per cent of the Fund's assets) but had no real estate investment officer, no access to documentation, and no list and audit trail of these investments. Under the personal oversight of the then-representative of the Secretary-General for the investments of the Fund, the former Director of the Investment Management Service personally managed them. Upon his retirement in 2003, the real estate investment guidelines were only in draft form. It was only after the Board's audit that management conducted a comprehensive inventory of real estate files and sought to remedy the gaps in them. The Fund was therefore faced, until the third quarter of 2003, with significant risks owing to the lack of accountability with regard to real estate asset management.

83. In 2001, the Fund's Standing Committee had approved the rental of new premises, in view of a severe lack of office space. The Advisory Committee on Administrative and Budgetary Questions reiterated in 2002 the appropriateness of the Fund's intention. The search resulted in the 2002 decision to purchase a class A, "institutional grade" building located on 41st Street, in the vicinity of the United Nations, as a long-term investment, most of it being rented to third parties. The Fund paid $180.45 million in cash. A mortgage of $133 million was to reduce from 11.8 per cent to 5 per cent the share of this single investment in the real estate portfolio, and to increase the return on investment to an estimated 12.2 per cent, instead of 9.6 per cent (a gain of 1 per cent amounted to $1.85 million per year). The mortgage was never taken, and the Fund's offices never moved into the building. The representative of the Secretary-General and the Office of Legal Affairs, which had not been consulted in time, raised legal issues that have not been clarified. Management has decided to sell the property. By June 2004, a buyer had yet to be found, and the financial outcome of this now short-term investment remained uncertain.

84. The United Nations system maintains a very large number of bank accounts, and has encountered some problems. The UNRWA Treasury technical instructions provided for the review of bank accounts, but their frequency was not stipulated. The Office on Drugs and Crime, United Nations Office at Vienna, had for the second consecutive biennium an undisclosed bank account: it was only when UNDP

reported the proceeds of the sale of equipment from the closed Brussels office that the Office was informed of a local bank account in the name of that office. Information on the opening of the account in 1999 and on its transactions was requested by the Office from the bank only at the time of the Board's audit.

85. During a transfer of balances from an old account of the Office to a new account in the same New York bank, $760,000 disappeared in February 2002 and resurfaced in the new account only in September 2002. There was no audit trail in between and, by May 2004, still no explanation, while the Office has yet to request the payment of interest on the balance unduly kept for over six months.

86. For the period from January to May 2004, UNDP performed no reconciliation for approximately 67 bank accounts managed at headquarters, while only two of its 142 country offices performed one, leaving 160,426 payments (including UNFPA and UNOPS payments) unreconciled and 6,493 unidentified receipts for accounts receivable. The bank reconciliation feature in the new computer system, discussed above, was not operational; furthermore, the new system would provide for one consolidated bank account in the general ledger instead of separate bank accounts, making it very difficult to reconcile bank statements. UNDP had not foreseen the problem and was still in doubt as at June 2004 as to a solution. It indicated that training had been insufficient.

87. **The Board recommends that the United Nations and its funds and programmes review the management of their treasury and investment functions and benchmark them more conclusively with best practices both within and outside the United Nations system.**

G. Information and communication technology

88. In its previous concise report (A/57/201), the Board expressed reservations about the concurrence of a number of costly information and communication technology (ICT) systems within the United Nations system. The Board noted that such investment came at the expense of the same stakeholders — the Member States — while covering the same geographical areas, under similar rules and regulations and working towards the same global ends. Subsequently, by resolution 57/278 A, the General Assembly requested the Secretary-General to ensure that the observations and recommendations of the Board of Auditors were fully taken into account in the revised strategy for information and communication technology for the United Nations before the strategy was considered by the Assembly. It was still too early, at the time of the Board's audit, to assess the extent of the impact of that resolution. **The Board was, however, pleased to note that, following its horizontal review, the United Nations was launching for Headquarters and offices away from Headquarters several initiatives geared towards answering several of the recommendations summarized below.**

Strategies for information and communication technology

89. The Board reviewed the management of the information and communication technology strategies of 23 departments, funds, programmes and institutes covered in the Board's annual or biennial reports to the General Assembly and reporting more than $700 million in direct ICT expenditures for the biennium 2002-2003. The focus of the review was on the economy and efficiency of the processes that support

the ICT strategy: governance, alignment and execution. Several positive features of ICT planning and deployment were identified, but the review focused on the risks and on areas where improvements could be both possible and desirable.

Coordination

90. The Information and Communication Technology Network was created recently as part of the High-Level Committee on Management of the United Nations System Chief Executives Board for Coordination. It is the most recent body to be tasked with improving the coordination of ICT activities throughout the United Nations system. Its predecessor bodies, such as the Inter-Organization Board, the Advisory Committee for the Coordination of Information Systems and the Information Systems Coordination Committee, were all abolished in the past 20 years. There has been a significant lack of continuity in institutional coordination at the most critical time of major investments in large information systems. One longer-established (1997) coordination group, the Inter-agency Telecommunications Advisory Group, has remained active in regard to telecommunications facilities for the field, interoperability and umbrella contracts.

91. To its credit, the Network has adopted initiatives aimed at the implementation of a United Nations extranet and search engine and the adoption of common approaches on information security, procurement and knowledge-sharing. Also, a United Nations projects review committee was created in 2003 to evaluate proposals for major ICT projects and investments. There was, however, little proof of a significant impact in terms of implementation by mid-2004.

92. Within the United Nations, there had been, until the Board’s review, little or no functional reporting relationship between the Information Technology Services Division and the information technology services managers of other entities, including those of the offices away from Headquarters, notably Geneva and Vienna. The ICT managers at United Nations Headquarters, offices away from Headquarters and others are, however, all members of the newly established Information and Communication Technology Network. The first documented meetings of all offices away from Headquarters were held in February and May 2004, with agendas addressing some of the issues raised in the present section.

93. In recent years, all major entities of the United Nations system have developed and published information and communication strategies in relative isolation from each other and from United Nations Headquarters. While strategies have been posted on the web site of the High-Level Committee on Management, there appears to have been few explicit efforts until recently to seek commonalities and synergies in the development and implementation of these strategies. After the Board’s audit, the United Nations has, however, launched several initiatives in that regard.

94. In its report on management information systems (see A/58/82), the Joint Inspection Unit noted that multiple solutions represented expenditures estimated to be in the range of $1 billion over the past decade. Regarding United Nations entities with extensive field operations, the Department of Peacekeeping Operations has continued to use IMIS. However, other field-based organizations reporting to the General Assembly have each developed independently their own systems (UNICEF implementing its system in 1999, UNDP and UNHCR in January 2004, as mentioned below), stating that their requirements are substantially different from those of headquarters-based organizations. The consequence has been not to seek

potential economies of scale and to make it more difficult, if not impossible, to agree on a similar platform when the time comes for the replacement of IMIS.

95. The Office of the United Nations High Commissioner for Refugees stated that, because of its field offices network, it had requirements substantially different from those of headquarters-based organizations, and that collaboration could be encouraged, with frame agreements for licensing solutions, but that the whole United Nations system could not choose one single system. UNICEF likewise considered that its purpose, nature, state of technological development, needs, “business model”, governance and standards might not be relevant or cost-effective for another organization. It stated that common standards and practices might not be necessarily relevant, sharable or cost-efficient for different organizations as they must be applied in context to very specific processes and ICT standards and management. It also stated that following best practices did not necessarily lead to the effective or efficient implementation of an ICT strategy or value for money, since it depends heavily on the maturity of the ICT organization. Such positions may have to be reconsidered in the light of the problems mentioned and of the expenditure in each organization, directly or indirectly funded by the same stakeholders, the Member States.

96. **The Board remains of the view that the commonality of the United Nations system calls for greater inter-agency cooperation in regard to information and communication technology.**

97. Only a minority of organizations have documented ICT strategies. The formats varied, and estimated costs or benefits are not provided for all strategies. This creates the risk that ICT expenditures would not be focused on adding value to the organization and therefore would not support the achievement of mission objectives. The absence of a formal risk analysis may result in the ICT organization being unable to deliver results with the resources available to them (time, funding and human resources).

98. The documents reviewed seldom addressed the alignment of ICT projects with core missions. If this alignment is not sought explicitly, there is a risk of diverting resources towards less-than-productive investments. The available strategies are not always comprehensive. UNHCR adopted a strategic plan in 2002, but no mention is made of estimated costs or quantitative benefits expected from future investment plans. It deals only with finance, budget and other management functions, thus excluding the support provided to refugees, the collection of refugee statistics etc. The International Trade Centre considered that a formal strategy was not necessary, and instead prepared a medium-term plan; in addition, it considered that, in view of its limited activities, the cost of implementing some best practices would offset by far their benefits.

99. Several ICT managers indicated that the information provided to them by IMIS did not give them clear reporting on their ICT expenditures, because the system is based on recording items against objects of expenditure, without the capability to trace costs by function. UNDP, UNFPA and UNICEF agreed on common budgetary standards, but there is no United Nations system-wide formal method for the evaluation of ICT investments and expenditures, for example, whether or not a webmaster in a functional department is part of this cost. The Information and Communication Technology Network has recognized this as a problem but has yet to provide a solution. In the absence of such definitions, the United Nations system

does not have a comprehensive view, or the total cost, of ICT. It also cannot compare such costs internally, or with other points of reference. This has made it difficult to monitor such data as measuring the percentage of ICT expenditures on supporting the core activities of the organizations against the percentage for ICT systems and facilities of a general support nature, a problem similar to that discussed above in regard to staff training. It also impaired the ability of management teams to assess whether or not the outsourcing of such activities might be cost-effective.

100. The United Nations Secretariat and offices away from Headquarters, such as the United Nations Office at Geneva, as well as UNDP, provide services to other entities. The United Nations Office at Geneva provides network services to all regular budget staff in Geneva free of charge, but it charges for services to extrabudgetary staff members — as do the finance, human resources and common support services. These charges are not based on the basis of full cost recovery.

Procurement

101. Regarding procurement, there was no organization-wide, formal method for the evaluation of ICT investments and expenditures. The Board commends the United Nations Secretariat for creating the Projects Review Committee to conduct such reviews prior to any significant expenditure. The Board also noted many collective contracts in New York and Geneva but that there was still room for more joint procurement. While at certain times a location's independent orders may draw attractive special offers, the true cost of their processing includes the activities of the purchasing department in issuing requests for offers, evaluating and processing them etc. The overall cost of an apparently good, isolated deal might be significantly higher than expected.

Post-implementation audits

102. Post-implementation audits have been only rarely conducted. Once a project has been completed, there is no process through which to confirm that the financial benefits used to justify the investment were actually obtained, what additional benefits were gained and, if the expected benefits were not achieved, to determine if the reasons were beyond the organization's control or whether the justification was based on false assumptions.

103. An inter-agency inventory of electronic assets (e-assets) has recently been introduced but it at present covers only some parts of the United Nations, mainly the Secretariat. Several entities, such as the United Nations Secretariat, the Economic Commission for Europe and the Office of the United Nations High Commissioner for Human Rights, have indicated that they maintain inventories or portfolios of information assets: applications, documentation pertaining to such applications and documented plans for the future evolution (enhancement, replacement, abandonment) of these applications. Others, however, such as the International Court of Justice, the Office for the Coordination of Humanitarian Affairs, the United Nations Conference on Trade and Development, the United Nations Interregional Crime and Justice Research Institute, the United Nations Office at Geneva and the United Nations System Staff College. This increases the risk of not having a total view of the current ICT assets and, as a consequence, uncoordinated initiatives to

develop systems and facilities, until the e-assets database is fully populated and updated.

104. While major efforts have been made for the general training of staff members using computers, there was a lack of specific training on how to develop and implement an ICT strategy. This contributes to the risks of having no or incompletely developed strategies, leading to inadequate decisions as regards project priorities, and of overly relying on consultants to develop strategies for which they would not be held accountable.

105. Two formal standards applicable to ICT execution matters are ISO 9001 for total quality management, which the United Nations has recently been considering, and ISO 17799, a code of practice for the management of information security. Several entities have adopted ISO 17799 as the model for managing information security, but none have expressed the intention to seek certification. The Control Objectives for Information and related Technology (COBIT) is a further set of guidelines (not a formal international standard for ICT) which enable self-assessments and management reviews of ICT. None of the entities whose documents were reviewed by the Board reported using it but, by mid-2004, the Secretariat's Information Technology Services Division was taking steps in that direction. Several entities had formal sets of operational best practices for ICT, such as the Information Technology Infrastructure Library (ITIL) which has so far been adopted only by UNICEF and the Department of Peacekeeping Operations. The Information and Communication Technology Network indicated work in progress to compile and disseminate best practices, however, with no target date.

106. Internal audit services have provided some coverage of ICT activities, but there has been a paucity of specialized internal auditors. Several organizations reported no quality assurance polices and procedures, post-implementation benefit audits, or sharing the lessons learned through such audits with other United Nations entities. Funds such as UNICEF have shared best practices with peers in special interest groups but have not implemented project peer reviews that could improve the benefits to be gained through lessons learned. UNICEF considered that this would be impractical in view of the diversity of mission, business purposes, geography, structures and processes among the United Nations organizations. The Board is of the view that there is enough commonality among the Secretariat, the major funds and programmes and the specialized agencies for management to request the implementation of such best practices.

Information security policies

107. Information security policies specify what constitutes appropriate use of the organization's information resources and the mechanisms to protect information from unauthorized disclosure or modification. Most sites reviewed by the Board had little or no such documented policy. UNJSPF has engaged consultants to develop an information security policy, while the United Nations Secretariat was also preparing a set of information security policies which, as at May 2004, was awaiting final clearance. The UNICEF information security policy and related code of conduct were issued in October 2003, and shared with the United Nations Secretariat. As at May 2004, work on the UNICEF disaster recovery plan was still ongoing, although significant steps had been implemented, and the Business Continuity Project had been approved as a framework, with investments to begin in 2004-2005. Disaster

recovery plans were at various stages of development or implementation at several organizations and some entities still had few measures in place in this regard.

108. The Pension Fund noted that the heterogeneity of the ICT systems of the participating agencies requires specific data conversion interfaces, one for each system, to allow pension information to be updated, which entails an additional cost for all participating entities that in the end finance the Fund's overhead.

Enterprise resource planning and other application systems

109. The United Nations Development Programme, in partnership with UNFPA and UNOPS, migrated its data processing in January 2004 to a new enterprise resource planning system, known as Atlas. By May 2004, UNDP, UNFPA and UNOPS did not have an independently validated comprehensive internal control framework for the Atlas system that would adequately mitigate its control risk. This weakness is compounded by the numerous related deficiencies that the Board identified above, such as: inadequate segregation of duties; no internal audit verification of the accuracy and validity of journals resulting from the data clean-up exercise; no operational general ledger; no automated bank reconciliation facility; inadequate controls to prevent payee details; limited monitoring reports; and limited installation of firewalls. While this has not impacted the 2002-2003 financial statements, the Board is concerned that if risks pertaining to the introduction of this significant system after the balance-sheet date are not addressed expeditiously, they may result in major operational difficulties for the organization. There is also a risk for the operations of the Office on Drugs and Crime, United Nations Office at Vienna, which is serviced by UNDP.

110. The United Nations Development Programme spent $56.2 million in the biennium 2002-2003 on ICT, including $24.5 million on Atlas, not including indirect costs. It planned to spend between $69 and $79 million in the 2004-2005 biennium. Its partners, UNFPA and UNOPS, spent $7.3 million and $3.07 million, respectively. UNHCR reported direct expenditures of $37 million on a similar enterprise resource planning system over the years, and UNICEF expenditures on ICT amounted to $50 million in the biennium 2002-2003. UNDP, UNFPA and UNOPS opted for a fast-track methodology to implement Atlas, which came at a high risk given that it required concurrent planning and executing of the various phases of Atlas and the high number of legacy systems (25) and sites (160) involved. The Atlas system was selected in accordance with an approved ICT strategy for 2002-2003 and after proper competitive bidding. Although benefits and outcomes were clearly identified, they were not always defined at a quantifiable and measurable level.

111. The UNDP Brazil country office, which accounts for 14 per cent of all UNDP programme expenditure, did not implement Atlas. It had spent some $1.5 million on a different enterprise resource planning system since 2001, as a pilot project, and was not receptive to changing over to Atlas, believing that it would not meet its needs. There was currently no interface between Atlas and the other system. UNDP reported that a plan had been formulated to mitigate the short-term impact and facilitate the transition to Atlas.

112. The Office of the United Nations High Commissioner for Refugees purchased independently and implemented simultaneously (but in a staggered manner) the same enterprise resource planning software package as UNDP, UNFPA and UNOPS.

UNHCR met with some problems similar to those of UNDP but took a more gradual approach. In 1999, it had purchased the same basic enterprise resource planning package for approximately $2.5 million. It then stopped the project, which was restarted in 2002, with expenditures reported at $16 million for 2003 and budgeted at $18.2 million for 2004, excluding indirect costs and with further developments yet to be funded, such as the human resources application. A first, limited phase went into production in January 2004 at headquarters and for part of the applications only. By April 2004, users were not yet completely familiar with the new processes, and UNHCR had yet to choose the pilot field offices and deployment timetable.

113. On a smaller scale, the Office on Drugs and Crime also rolled out prematurely another new accounting information system, ProFi, at the United Nations Office at Vienna. Although the Board had identified in its previous report,[20] and in the following audits, data discrepancies between the then existing system and ProFi and recommended that the former system should not be replaced before full consistency had been obtained, the Office on Drugs and Crime did not follow that recommendation. As a consequence of the absence of test closure, the Board was not in a position to audit the reliability of the interface between ProFi and other sources for accounting data. In this respect, part of the benefit of the investment in ProFi was lost. On the other hand, UNRWA purchased a finance and human resource management system for $1.09 million. Although the purchase contract had an initial implementation date of 10 June 2001, the systems were only partially implemented by April 2004. Owing to the time overruns, the contract was amended for an additional amount of $0.2 million. The Board acknowledges that some of the delays were due to circumstances beyond the control of UNRWA.

114. At UNHCR, the project had been under consideration for four years but the Board noted expressions of user dissatisfaction, often attributed to deficiencies in the internal coordination of the management of the project. Users did not always have proper testing opportunities, or a full view of their own processes on such issues as data entry validation and follow-up error management, general ledger data control, data traceability, end-of-year closing procedures, or available reports. The risks involved are those of less-than-satisfactory development and cost-effectiveness, and a potential loss of data reliability. The Board found that the system's response time was adequate for normal use but that many batch processes took a long time, and that users had no information when their batch processes could not run, at a risk of data loss. The migration of the 2003 data was almost completed by April 2004, with only 470 of 1.5 million transactions remaining to be entered.

115. At UNHCR, however, the data conversion reconciliation and adjustments, instead of being tested in a separate environment, were made directly in the production environment, with the risk of unintentional data modifications. UNHCR activated user accounts and profiles as soon as the appropriate training had been provided but with no formal user access management, such as those relating to staff rotation or termination, and no specific information on or measures taken against ICT fraud.

116. The Board similarly noted that, at UNICEF, users of a new software which was otherwise implemented in a satisfactory manner might perform actions at all stages,

[20] *Official Records of the General Assembly, Fifty-seventh Session, Supplement No. 5I* and corrigendum (A/57/5/Add.9 and Corr.1).

from the creation to the final validation of a paying action or document, with a risk of inadequate segregation of duties. UNICEF has not issued clear guidelines to the business owners in the field on how to monitor access log files in order to keep track of connections, connection attempts and the other actions that should be monitored for security purposes.

117. On 24 March 2003, UNDP and UNHCR signed a memorandum of understanding which set out the objectives, scope and principles of their cooperation in co-managing their respective new systems. A second memorandum of understanding was signed on 5 September 2003 to share outsourcing services. UNHCR reported little coordinated solutions to similar technical problems, glitches or risks, or to access rights and security management. Both parties have therefore lost part of the potential savings in time and costs, and the added cost-effectiveness and performance that could have been secured by a proper synergy.

118. **In conclusion, the Board is pleased to note that action is under way to remedy several of the weaknesses that it has noted in the design and implementation of information and communication technology strategies but, taking into account the most recent and costly developments, it reiterates its recommendation that a comprehensive, United Nations-wide review be undertaken with the aim of further coordinating information and communication technology efforts in order to ensure that, in terms of cost-effectiveness, the approaches taken are, in the long term, in the best interests of Member States.**

H. Human resources management and payroll systems

119. The authority to modify the United Nations staff regulations rests with the General Assembly, and to modify the staff rules it rests with the Secretary-General. The Secretary-General delegated to the UNICEF Executive Director in 1947 full authority to apply the staff rules but not to amend them. However, successive UNICEF executive directors did so by creating special allowances, benefits and temporary contracts. Meanwhile, the UNICEF Human Resources Manual was never finalized, rules on salaries and allowances remaining dispersed in numerous instructions. Following the Board’s audit, UNICEF has started to update it. Despite the monitoring of allowances by the inter-agency hardship working group, there is a risk of costly competition among agencies. The cost of the UNICEF special operations living allowances has doubled, from $3.3 million in 2001 to $6.9 million in 2003, partly owing to deviations from the United Nations mission subsistence allowance system. UNICEF indicated that this was indispensable in attracting high-quality staff to difficult and hazardous locations, classified as non-family, and that all international agencies had basically the same policy, with some adjustments in some circumstances, to particular operational requirements. However, its list of sites (47 areas in 1999, 71 in 2003) included 10 countries in which the United Nations pays no mission subsistence allowance. **The Board recommends that UNICEF ascertain, where applicable, that its staff regulations, rules and allowance schemes comply with United Nations instructions and disseminate lessons learned to the United Nations and its funds and programmes.**

120. The Board was pleased to note that UNHCR had addressed the main concerns expressed in its previous reports in new guidelines, by establishing a new contract

policy for the Professional category, and redefining the policies on rotation, staff between assignments and vacancy management. UNHCR disclosed more complete staff statistics and introduced, in 2004, a system to track staff members assigned to temporary assistance. In comparison, the biennial UNICEF support budget provided no indication of posts charged against trust funds. The number of authorized posts rose from 6,525 in 2001 to 7,224 in 2003, but these figures did not include temporary fixed-term staff or United Nations volunteers and supernumerary posts. The expenses for temporary staff appointments, the duration of which was repeatedly extended, rose by 43 per cent between the period 2000-2001 and the period 2002-2003, to $100 million. **The Board recommends that UNICEF fully disclose intended and actual staff figures, regardless of funding or contract category, and disseminate lessons learned to the United Nations and its funds and programmes.**

121. The level and duration of staff vacancies remained a prevalent concern. The position of Director of the Pension Fund’s Investment Management Service, who is in charge of $26 billion in assets, was vacant for over five months in 2003-2004. The Administration commented that the search for the new Director had been undertaken in accordance with standard United Nations employment policies and procedures, and a new Director was eventually appointed in May 2004. This was also the case with the position of Director of the Internal Audit Division of the Office of Internal Oversight Services at United Nations Headquarters and the position of Director of the Office of Audit and Performance Review at UNDP. As at October 2003, UNRWA had a vacancy rate of 8.8 per cent among its 23,400 area staff posts as against 5.1 per cent two years earlier. The vacancy rate for its 140 international staff posts decreased, however, from 27.4 per cent in the previous biennium to 7.9 per cent. The international staff vacancy rate at UNICEF was constantly above the 6 per cent rate used for budget assumptions, and all categories were understaffed except for staff members at the D-1 level, who were more numerous than the corresponding authorized posts. While such vacancy rates reflect flexibility, they may undermine the relevance of the budgetary process and the proper delivery of programmes and services.

122. **The Board recommends that all offices, funds and programmes, where applicable, endeavour to limit the gap between staff budgeting and actual recruitment. The Board also recommends that the United Nations consider the appropriate means to prevent the recurrence of vacancies in key senior management positions.**

123. Despite instructions for a more balanced geographical distribution, at UNITAR in 2003, 85 per cent of staff came from industrialized countries. At UNICEF, developing countries represented 81 per cent of staff, but only 47 per cent of international staff and 29 per cent of senior management. Its Executive Board, noting in 1991 the same 47 per cent figure, had requested an expansion of recruitment from developing countries and a report in 1992 on the action taken in that regard; 12 years later, the report had not yet been provided. **The Board recommends that UNICEF and UNITAR continue their efforts to comply with General Assembly resolutions on the geographical balance of recruitments and disseminate lessons learned to the United Nations and its funds and programmes.**

124. Performance appraisal systems date back to different periods, with no system-wide common practices. Although progress was noted, appraisals were not systematically performed or documented. The risk is that of an adverse impact on staff efficiency and effectiveness.

125. The Office on Drugs and Crime, with 58 staff members on field assignment, drafted a provisional rotation policy in 1995, which was never adopted or implemented. By the end of 2002, one third of the 21 field representatives had been in place for durations ranging from 4 to 6.6 years. At UNICEF, some headquarters staff members have been on the same post since 1990, including on posts subject to rotation. This come at a risk in terms of efficient change and promotion management, while succession planning has sometimes yet to be improved and will increasingly be a challenge. UNFPA did not have a succession plan in place as at June 2004. UNFPA informed the Board that it had identified succession planning as a key focus area in the medium to long term, and it had therefore established the Human Resource Strategic Planning Unit. It intends to have a comprehensive staffing policy completed by the end of 2004, followed by the completion of the succession plan by early 2005.

126. **The Board recommends that offices, funds and programmes review and, where appropriate, improve the management of staff performance appraisal, rotation and succession planning.**

127. The Board is pleased to note that, regarding the payment of pensions to judges in active service, addressed in one of the Board's reports for the biennium 2000-2001, the General Assembly, in resolution 58/264 of 23 December 2003, stated that no retirement pension should be payable to a former member of the International Court of Justice, the international tribunals for Rwanda and the Former Yugoslavia who had been elected a member of another of the three courts, until he or she ceases to hold that office. The International Court of Justice reported that since the Board's audit, it had suspended such payments.

I. Training

128. The Board of Auditors reviewed the management of training across the departments, funds, programmes and institutes of the United Nations in regard to reporting, policy and planning, governance, knowledge-sharing, inter-agency coordination and support, and evaluation. In a report provided to the Advisory Committee on Administrative and Budgetary Questions at its request (A/58/384, annex), the Board had found that: the priority and perspective conferred on training and staff development were generally in conformity with international best principles and practices; training policies, guidelines and plans were frequently formulated in line with that priority; there were instances of successful planning, knowledge-sharing and delivery at many levels; systems to optimize the planning of limited training resources were usually in place at large United Nations sites; and, regarding governance, the United Nations common system appeared to be in line with the trend that was moving away from a hierarchical organization towards decentralized networks of partnerships and alliances.

129. The Board had also found, however, that: policies and plans were sometimes incomplete, missing or belatedly endorsed, for example, at UNU headquarters, which did not conduct any staff training in 2002-2003; management information

systems did not always provide sufficient data on training expenditure to lead to well-informed planning decisions and monitorings; indicators were not always comprehensive and reliable; overall staff figures — indicating the total number of potential trainees — were not consistently reported due to the diversity in contractual status, duration and reporting methods; and that data could not be aggregated or compared without a significant margin of error among various sites, much less at the United Nations common system level.

130. As a result, ratios such as the percentage of training expenditures to total staff costs — a commonly used indicator in some Member States — could seldom be accurately computed or compared with those of other institutions. The few ratios available, such as the percentage of training expenditures compared to total staff costs (reported by the Office of Human Resources Management at 0.74 per cent in the 2000-2001 biennium and at 0.79 per cent in 2002) were significantly below those indicated in most private sector benchmark data, although they were close to the figures provided by a few other international organizations. There might be a risk that resources devoted to training are insufficient to achieve the objectives.

131. Beyond the efforts of the Staff College mentioned below and the Learning Managers Network, synergy at the common system and decentralized levels could be improved. Inter-agency benchmarking and coordination was informal and did not result in consistent system-wide methods for developing and sharing reporting tools, materials or rosters of training providers at all appropriate geographical levels. The attainment of the goal of creating a United Nations common system culture through training might therefore be handicapped, impairing the efficiency of significant human resources and expertise. In this regard, the Board is pleased to note that, after its review in July 2003, the Human Resources Network of the High-Level Committee on Management endorsed an organizational learning framework aimed at sharing and developing training practices and tools throughout the United Nations system.

132. In its report to the Advisory Committee, the Board had noted that, since strategic targets and achievements were less than reliably quantified, the evaluation systems used for monitoring the efficiency and effectiveness of training programmes were for some organizations inadequate. The measurement and the benchmarking of the effectiveness of training performance were in progress, but were still far from extensive. While this situation was found in many institutions outside the United Nations, it could impair results-based budgeting and the successful attainment of goals.

133. It had also noted that internal and external audits had shown many occurrences of a lack of adequate reporting, planning and coordination, leading to the risk of cost-inefficiency. That situation might affect the cost-effectiveness of the many human resources development efforts and thereby the attainment of the objectives set by the governing bodies. In this regard, a case in point is the status of implementation of the General Assembly’s request, in resolution 55/247 of 12 April 2001, that the Secretary-General ensure proper training for improving the skills of personnel involved in the procurement process. The Inter-Agency Procurement Working Group did task a subgroup on procurement training and professional certification with assessing system-wide training needs and proposing training delivery mechanisms, but the Administration has yet to answer the General Assembly’s request in a comprehensive manner. By June 2004, the Secretariat had

not called upon the Staff College in regard to this matter, although the latter could implement the common United Nations procurement training curricula and professional certification of procurement. Such delays and deficiencies in coordination could lead to the risk of further procurement dysfunctions across the United Nations system.

134. Another example concerns distance learning, which might be considered as appropriate for the worldwide network of the United Nations. Savings in travel costs and staff time could be achieved. The Advisory Committee on Administrative and Budgetary Questions recently welcomed in this respect the steps taken by peacekeeping missions to use videoconferencing facilities to conduct training activities for delivery of in-mission courses in a cost-effective manner (A/58/759, para. 78). There was, however, little evidence of cooperation in this field, for instance between the Staff College, which was in contact with UNITAR and UNU but with no concrete results, and other United Nations organizations engaged in training and research. The College could not even determine the share of e-learning activities in those of its own training programmes delivered in 2002 and 2003 or expected in 2004-2005, as management considered it too expensive and time-consuming to extract such data. The United Nations International Research and Training Institute for the Advancement of Women was considering developing some of its own e-learning, despite extremely limited means. UNRWA reported that it was reviewing its education assistance programme so that a consolidated policy on education assistance and distance learning could be further developed and integrated, as appropriate. Considering the often costly investments required, a careful inter-agency monitoring and evaluation of the cost-effectiveness of such programmes would be appropriate.

135. Evaluation is another issue of paramount importance and unequal implementation. The Office of Human Resources Management of the United Nations Secretariat and a few other teams have developed evaluation, based on the four-level Kirkpatrick’s schema (trainees’ perception, learning gained, impact on job performance, business impact of training). However, this approach has not been often used, and seldom beyond the trainees’ perception level. The Staff College established and implemented a monitoring and evaluation system, but by May 2004 it had yet to share it with other organizations. UNRWA concurred with the need to evaluate training but had not done it in the absence of a qualified training officer, which it planned to recruit.

136. Of special interest in this field is the United Nations System Staff College, a project transformed in 2002 into an institution for system-wide knowledge management, training and continuous learning for the staff of the United Nations system. Its activity remained rather modest (4,817 participant-days of training in 2003, against 4,707 in 2002 and 9,334 in 2001 under its previous status), while total reserves and fund balances as at 31 December 2003 increased to $4.8 million (66 per cent of the reported expenditure for the biennium 2002-2003).

137. **The Board’s conclusion is that there is room for improvement in the management and coordination of staff training so as to align better the human resources capacity of the United Nations with its mission, structure and culture, and to optimize the impact of the United Nations System Staff College and distance learning.**

J. Consultants, experts and temporary assistance

138. A special service agreement is a contracting tool for the hiring of skilled individuals for a range of short-duration activities, whether in the project context or within an organization. Consultants may be hired under one or more contracts for a period not exceeding 11 consecutive months, or 239 days. Where services are required beyond the 11-month duration, there should be a mandatory four-month break in service. The cost of such agreements at UNDP amounted to $16.1 million for the biennium 2002-2003. At UNDP, instances were noted where individuals had been contracted for periods longer than 11 consecutive months or their contracts had been extended without the mandatory four-month break in service. UNDP headquarters did not have a special service agreement review committee, as required by its guidelines for the use of special service agreements (UNDP/ADM/95/63). It was noted that performance evaluations were not always completed for special service agreements.

139. The review of special service agreements, institutional contract agreements and personal service agreements at UNU indicated various weaknesses in the hiring and reviewing and monitoring of performance of the temporary assistance contracted in. Similarly, special service agreement performance evaluation forms at UNFPA were not always completed and attached to the certification for payment form. Also, submission of attendance records was not attached to the certificate of payment for special service agreements.

140. Appointments of limited duration are intended to be a flexible hiring tool and are used for appointments for a minimum of six months and a maximum of three years or, exceptionally, four years. The cost of such appointments at UNDP amounted to $21.5 million for the biennium 2002-2003. Some activities performed were of a nature that was regular and continuing for UNDP, which was contrary to the guidelines, and therefore should not be classified as appointments of limited duration. At UNOPS, contracts were not always signed by the appointees. In some cases, the most recent appointment letter on file did not specify the contract period.

141. In the biennium 2002-2003, UNICEF spent over $160 million for consultants, an increase of 24 per cent over the previous biennium. Institutional consultancy with firms increased by 42 per cent to some $70 million. UNICEF did not issue yearly reports on the use of consultants, as required by its Human Resource Manual. The most recent report (1999) included data from 72 per cent of the offices, leaving some 15 per cent of consultants unaccounted for, and provided no data on geographical distribution. Since December 2002, UNICEF has automated the data in ProMS but has issued no report. UNICEF also contracted with a number of consultants to perform regular staff functions for more than a month; this was contrary to its guidelines.

142. At UNEP, time frames for the accomplishment of tasks by consultants were not always clearly defined, instalment payments were not supported with progress accomplishments reports as required, a certain consultant’s performance was rated “excellent” despite delays in delivery, contracts were signed only after the effective start date and some contracts were not signed by either party. The Board was concerned that payments were made to consultants without the required approval or evidence that the consultants had agreed to the terms of the contract.

143. **The Board recommended that organizations comply with instructions on the engagement of consultants, properly file signed letters of appointment or contracts before the start dates and properly monitor the related deliverables.**

K. Cases of fraud and presumptive fraud

Cases reported

144. During the biennium 2002-2003, 7 of the 16 audited United Nations organizations reported to the Board several cases of fraud and presumptive fraud, as shown in the table below. The Administrations reported actions taken against responsible staff as well as to prevent recurrences.

Reported cases of fraud and presumptive fraud

Entities	*Number of cases*	*Estimated loss (United States dollars)*	*Amount recovered (United States dollars)*
United Nations	14	707 304	10 183
UNICEF	37	703 356 (24 cases) Undetermined (13 cases)	198 380
UNFPA	2	82 464	18 784
UNHCR	19	150 000	41 500
UNRWA	7	9 458 (3 cases) Undetermined (4 cases)	8 475
ICTR*	3	129 880 (1 case) Undetermined (2 cases)	-
UNDP	20	512 175 (13 cases) Undetermined (7 cases)	146 153

* International Tribunal for Rwanda.

Fraud prevention plan and policy

145. The Board noted the need to establish a comprehensive policy on fraud prevention throughout the United Nations Secretariat and in some offices, funds and programmes, such as ITC and UNITAR. A number of United Nations funds and programmes (UNHCR, ITC, UNITAR, UNRWA UNFPA, International Tribunal for the Former Yugoslavia) have instituted measures to address the risks of fraud and corruption, but in most cases such plans were not comprehensive: they seldom included formal corruption and fraud risk assessment mechanisms or a fraud prevention committee; they did not always conduct ethics, anti-corruption and fraud-awareness training sessions and workshops; and the resolution mechanisms for incidents and allegations of corruption and fraud were not always designed or implemented efficiently.

146. Some entities, such as UNDCP, since May 2004, have more comprehensive instructions, although at UNICEF they were not always fully implemented. UNOPS, UNDP and UNFPA had compiled a fraud prevention strategy which included training staff on principles of fraud awareness by 2005, publishing a handbook on fraud prevention by 2005 and establishing a fraud hotline (no target date specified).

The strategy, however, was pending approval by May 2004. UNHCR noted that the Finance and Budget Network of the High-Level Management Committee had created, in 2004, a working group for risk-assessment and a joint definition of fraud.

147. **The Board recommends that the United Nations Secretariat and the United Nations funds and programmes develop, document and implement a plan against the risk of internal corruption and fraud, including fraud-awareness initiatives. The Board also recommends that UNDP, UNOPS and UNFPA intensify efforts to finalize the fraud prevention strategy and fraud policy statement.**

(*Signed*) Shauket A. **Fakie**
Auditor-General of the Republic of South Africa

(*Signed*) Guillermo N. **Carague**
Chairman, Philippine Commission on Audit

(*Signed*) François **Logerot**
First President of the Court of Accounts of France

9 July 2004

Note: The members of the Board of Auditors have signed only the original English version of the report.

Annex I

Organizations reported on for the financial period ended 31 December 2003

United Nations[a]

International Trade Centre UNCTAD/WTO[b]

United Nations University[c]

United Nations Development Programme[d]

United Nations Children's Fund[e]

United Nations Relief and Works Agency for Palestine Refugees in the Near East[f]

United Nations Institute for Training and Research[g]

Voluntary funds administered by the United Nations High Commissioner for Refugees[h]

Fund of the United Nations Environment Programme[i]

United Nations Population Fund[j]

United Nations Human Settlements Programme[k]

Fund of the United Nations International Drug Control Programme[l]

United Nations Office for Project Services[m]

International Criminal Tribunal for the Prosecution of Persons Responsible for Genocide and Other Serious Violations of International Humanitarian Law Committed in the Territory of Rwanda and Rwandan Citizens Responsible for Genocide and Other Such Violations Committed in the Territory of Neighbouring States between 1 January and 31 December 1994[n]

International Tribunal for the Prosecution of Persons Responsible for Serious Violations of International Humanitarian Law Committed in the Territory of the Former Yugoslavia since 1991[o]

The Board also examined the accounts of the United Nations Joint Staff Pension Fund, and the audit report thereon will be included in the report of the United Nations Joint Staff Pension Board.[p]

Notes

[a] *Official Records of the General Assembly, Fifty-ninth Session, Supplement No. 5* (A/59/5), vol. I. In addition, the Board reported on the capital master plan (A/59/161).

[b] Ibid., *Supplement No. 5* (A/59/5), vol. III.

[c] Ibid., *Supplement No. 5* (A/59/5), vol. IV.

[d] Ibid., *Supplement No. 5A* (A/59/5/Add.1).

[e] Ibid., *Supplement No. 5B* (A/59/5/Add.2).

[f] Ibid., *Supplement No. 5C* (A/59/5/Add.3).

[g] Ibid., *Supplement No. 5D* (A/59/5/Add.4).

[h] Ibid., *Supplement No. 5E* (A/59/5/Add.5).

[i] Ibid., *Supplement No. 5F* (A/59/5/Add.6).

[j] Ibid., *Supplement No. 5G* (A/59/5/Add.7).

[k] Ibid., *Supplement No. 5H* (A/59/5/Add.8).

[l] Ibid., *Supplement No. 5I* (A/59/5/Add.9).

[m] Ibid., *Supplement No. 5J* (A/59/5/Add.10).

[n] Ibid., *Supplement No. 5K* (A/59/5/Add.11).

[o] Ibid., *Supplement No. 5L* (A/59/5/Add.12).

[p] Ibid., *Supplement No. 9* (A/59/9).

Annex II

Status of implementation of recommendations for the period ended 31 December 2001, by organization

	Number of recommendations	*Implemented*	*Under implementation*	*Not implemented*[a]
United Nations	67	17	46	4
International Trade Centre UNCTAD/WTO	4	4	0	0
United Nations University	7	4	3	0
United Nations Development Programme	46	21	24	1
United Nations Children's Fund	47	35	12	0
United Nations Relief and Works Agency for Palestine Refugees in the Near East	27	14	8	5
United Nations Institute for Training and Research	5	3	0	2
Office of the United Nations High Commissioner for Refugees[b]	34	16	18	0
United Nations Environment Programme	8	5	3	0
United Nations Population Fund	31	8	23	0
United Nations Centre for Human Settlements	6	4[c]	0	2
United Nations International Drug Control Programme	14	4	8	2
United Nations Office for Project Services	18	7	10	1
International Criminal Tribunal for Rwanda	19	11	6	2
International Criminal Tribunal for the Former Yugoslavia	18	12	6	0
United Nations Joint Staff Pension Fund	27	7	11	9
Total	**378**	**172**	**178**	**28**
Percentage	100	46	47	7

[a] Includes recommendations in reports on periods prior to 2000-2001 which have not yet been implemented.
[b] For the Office of the United Nations High Commissioner for Refugees (UNHCR), the status reported is in respect of the period ended 31 December 2002 since UNHCR has an annual financial cycle.
[c] Three recommendations were overtaken by events.

Annex III

Condensed comparison of information in the financial reports and financial statements of the organizations audited

	UN	UNU	UN-Habitat	UNEP	UNHCR	UNICEF	ITC	UNDP	UNFPA	UNOPS	UNRWA	ICTR	UNDCP	ICTY	UNITAR	UNJSPF
1. Financial report																
Overview of the financial statements	X	X		X	X	X	X	X	X	X	X		X			
Information on internal audit					No			No	No	No	No	No		No	No	No
Information on the risk management policies								No	No	No	Yes	No	No		No	No
Information on the organizations code of ethics			No		No	No	No	No	No	No	No	No	No		No	No
Information on health and safety practices			No		No	No	No	No	No	No	No	No	No		No	No
Information on social aspects such as policies that define social investment prioritization and spending			No		No	No	No	No	No	No	No	No	No		No	No
Information on risk and plans to address the risks disclosed such credit risk, risk of exposure to foreign currencies			No		No	No	No	Yes	No	No	Yes	No	No		No	No
2. Accounting policies																
Income recognition																
Accrual basis		X	X	X	X					X	X	X	X	X	X	
Modified accrual	X					X	X	X	X							
Expenditure recognition																
Accrual basis	X	X	X	X	X		X				X	X	X	X	X	X
Accrual except staff entitlement and project components implemented by Governments, non-governmental organizations and direct execution which are recognized on a cash basis						X		X	X	X						
3. Statement of income, expenditure and changes in reserves and fund balances (statement I)																
3.1 Main line items of Income																
Allocations from other funds	X															
Contributions	X	X	X	X	X	X	X	X	X		X	X	X	X	X	X
Exchange adjustments					X	X			X		X					
Funding from reserves and fund balances	X											X		X		
Funds received under inter-organizational arrangements	X					X	X								X	
Income for services rendered	X	X					X									
Interest income	X	X	X	X	X		X	X	X	X	X	X	X	X	X	
Investment income																X

	UN	UNU	UN-Habitat	UNEP	UNHCR	UNICEF	ITC	UNDP	UNFPA	UNOPS	UNRWA	ICTR	UNDCP	ICTY	UNITAR	UNJSPF
Jointly financed activities	X															
Miscellaneous income		X	X	X		X				X			X			X
Other/miscellaneous income	X				X		X	X	X		X	X		X	X	
Participants contributions																X
Private sector division income/net revenue producing activities	X					X										
Support income										X			X		X	
Public donations													X			
Sales income and royalties from publications		X														
Service income										X						
3.2 Main line items of expenditure																
Acquisitions	X	X	X	X			X					X		X	X	
Administration expenses/biennial support budget						X		X	X	X	X		X			X
Compensation awards																
Contractual services	X	X	X	X			X					X		X	X	
Development support services								X			X					
Expenditures					X											
Fellowships, grants and contributions			X	X			X									
Implementation of enterprise resource planning system									X							
Operating expenses	X	X		X			X					X		X	X	
Other	X		X				X	X	X		X	X		X	X	
Prior period adjustments	X								X							
Programme expenditure, assistance and budget						X		X	X		X		X			
Programme support cost	X			X		X	X	X	X		X		X		X	
Provision for doubtful collection of contributions receivable									X							
Staff and other personnel costs	X	X		X			X					X		X	X	
Travel	X	X	X	X			X					X		X	X	
3.3 Other line items																
Net excess (shortfall) of income over expenditure	X		X	X			X					X				X
Credits to Member States	X															
Earmarked fund reserves			X													
Financial reserves/endowment fund				X												
Fund balance			X			X		X								
Increase in reserves						X										
Inter-fund adjustment													X			

	UN	UNU	UN-Habitat	UNEP	UNHCR	UNICEF	ITC	UNDP	UNFPA	UNOPS	UNRWA	ICTR	UNDCP	ICTY	UNITAR	UNJSPF
Net changes in provisions													X			
Other adjustments to reserves and fund balances	X	X					X						X			
Prior period adjustments			X		X				X				X	X		X
Refund to donors and transfers (to) from other funds	X		X				X	X	X		X		X		X	
Reserve and fund balances			X	X		X										
Reserves and fund balances, beginning of period	X	X	X				X		X		X	X		X	X	
Reserves and fund balances, end of period	X		X				X		X		X	X		X		
Savings on, or cancellation of, prior periods' obligations	X	X	X	X	X		X	X		X		X	X	X	X	
Transfer (to) from reserves								X			X					
Transfer supplementary programme to annual programme					X											
Transfer to reserves for other after service health insurance						X										
Transfer within reserves and resources									X							
Transfers (to) from other funds	X	X	X		X		X									
Transfers (to) from other organizations	X															
Transfers from surplus	X											X		X		
Write-offs/prior periods' adjustments						X										
4. Statement of assets, liabilities and reserves and fund balances (statement II)																
4.1 Main asset lines																
Accounts receivable and deferred charges						X		X		X	X		X			X
Accrued interest								X		X			X			
Allowance for write-downs								X								
Assessed contributions receivable from Member States	X											X		X		
Capitalize rehabilitation								X								
Cash								X	X	X	X					
Cash and term deposits	X	X	X	X		X	X					X	X	X	X	X
Cash pools	X	X										X		X		
Construction cost and work-in-progress	X							X			X					
Contributions receivable			X						X							
Deferred charges	X	X	X	X			X					X		X		
Inter-fund balances receivable	X	X		X			X					X				
Inter-office transactions pending processing	X	X					X					X		X		
Inventories						X					X					
Investments	X	X						X	X	X			X			X

	UN	UNU	UN-Habitat	UNEP	UNHCR	UNICEF	ITC	UNDP	UNFPA	UNOPS	UNRWA	ICTR	UNDCP	ICTY	UNITAR	UNJSPF
Land, buildings and equipment	X					X					X					
Loans to Government								X								
Operating funds provided to implementing partners				X				X	X				X			
Other accounts receivable	X	X	X	X			X					X		X	X	
Other accounts receivable and deferred charges									X				X			
Pledged contributions receivable														X		
Prepaid benefits and expenses											X					X
Provision for doubtful collection of receivables									X							
Receivables from funding sources							X								X	
Voluntary contributions and pledges receivable	X	X		X												
4.2 Main liability lines																
Accounts payable					X	X				X	X					X
Accounts payable due to other resources and funds								X						X		
Accounts payable to UNDP									X							
Contributions or payments received in advance	X				X	X			X			X		X	X	
Deferred credits and income			X	X				X								
Due to other United Nations organizations										X						
Due to United Nations general fund															X	
Income received in advance											X					
Inter-fund balances receivable and payable	X	X	X	X			X					X		X		
Inter-office transactions pending processing	X	X										X				
Medical insurance plan						X										
Operating funds payable to implementing partners								X	X							
Other accounts payable	X	X	X	X			X		X			X		X	X	
Other liabilities	X	X					X								X	
Reserve for after-service health benefits								X								
Trust funds						X										
Unliquidated obligations	X	X	X		X	X		X	X				X		X	
Unliquidated obligations — current period							X					X		X		
Unliquidated obligations — future period							X					X		X		
4.3 Main reserves and fund balances																
Accumulated unexpended resources										X						
After-service health insurance						X										
Authorized retained surplus	X	X														

	UN	UNU	UN-Habitat	UNEP	UNHCR	UNICEF	ITC	UNDP	UNFPA	UNOPS	UNRWA	ICTR	UNDCP	ICTY	UNITAR	UNJSPF
Balances related to projects funded by donors	X	X					X								X	
Capital assets						X										
Capital funds relating to land and buildings	X															
Cumulative surplus (deficit)	X	X	X				X					X		X	X	
Earmarked fund reserves			X													
Endowment fund								X								
Financial reserve			X													
Financial reserves/endowment fund, beginning of period				X												
Financial reserves/endowment fund, end of period				X												
Fund balance — authorized level								X								
Fund principal	X	X														X
Insurance						X										
Operational reserve	X		X				X	X	X	X	X				X	
Procurement services and related costs						X										
Programmable fund balances									X							
Reserve for allocations																
Reserves and fund balances, beginning of period				X												
Reserves and fund balances, end of period				X												
Reserves for allocations	X															
Special capital reserve and resources								X			X					
Unexpended resources								X			X					
Working capital funds	X															
5. Statement of cash flows (statement III)																
5.1 Main items of cash flow																
Cash flows from operating activities	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Cash flows from investing and financing activities	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Cash flows from other sources	X	X	X	X	X	X	X	X	X		X	X	X	X	X	
Net increase (decrease) in cash and term deposits	X	X	X	X			X		X	X					X	X
Cash and term deposits, beginning of period	X	X	X	X	X	X	X		X	X	X	X	X	X	X	
Cash and term deposits, end of period	X	X	X	X	X	X	X		X	X	X	X	X	X	X	
Footnotes refer to relevant notes to the financial statements and other disclosure	X	X	X													
5.2 How is the movement of working capital disclosed?																
Face of the cash flow statement				X	X			X	X	X	X	X				

	UN	UNU	UN-Habitat	UNEP	UNHCR	UNICEF	ITC	UNDP	UNFPA	UNOPS	UNRWA	ICTR	UNDCP	ICTY	UNITAR	UNJSPF
Disclosed in a note to the financial statements						X							X			
Movement not disclosed at all	X						X							X	X	X
6. Notes to the financial statements																
6.1 Specific notes																
Organization and its activities	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Summary of significant accounting and financial reporting policies	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
All fund summaries: Income and expenditure and changes in reserves and fund balances; Assets, liabilities and reserves and fund balances; Cash Flow	X											X			X	
Status of appropriations	X											X		X		X
Technical cooperation activities	X						X									
General trust funds	X															
Accounts receivable, deferred charges and accounts payable			X		X			X	X	X						
Accounting for operational and investment activities																X
After service health insurance						X			X							
Ageing analysis of contributions receivable						X										
Assets, liabilities, reserves and fund balances												X		X		
Biennial support budget									X							
Breakdown of expenditure					X	X										
Buildings and equipment						X										
Cash and term deposits					X	X				X			X			
Cash flow summary				X												
Cash regular resources								X								
Combined statements			X													
Contingent liabilities									X	X						
Contributions in-kind						X		X							X	
Contributions receivable from Governments									X							
Contributions received in advance						X			X							
Currency exchange adjustment						X										
Deferred income													X			
Ex gratia payments and write-offs										X						
Fund balances													X			
General fund							X									
Government letters of credit								X								

	UN	UNU	UN-Habitat	UNEP	UNHCR	UNICEF	ITC	UNDP	UNFPA	UNOPS	UNRWA	ICTR	UNDCP	ICTY	UNITAR	UNJSPF
Hedging									X							
Host Government contributions										X						
Implementation of the enterprise resource planning system									X							
Income received for the biennial support budget								X								
Insurance reserves						X										
Interest income								X					X			
Inter-fund adjustments and balances			X	X									X			
Inventories						X										
Investments								X	X	X			X			
Liabilities for end-of-service and post-retirement benefits	X	X			X	X	X				X			X	X	
Liquidity position						X										
Medical insurance plan						X										
Miscellaneous income						X				X			X			
Non-expendable property	X	X	X	X	X	X	X		X			X	X	X	X	
Operational reserve									X	X			X			
Other accounts receivable						X							X			
Other income and expenditure								X								
Pension benefits									X							
Prior period adjustments				X					X							
Programme support costs							X									
Provision for doubtful collections of accounts receivable					X				X				X			
Regular budget expenditure													X			
Reserves			X	X		X		X	X							
Restatement of prior period comparatives			X													
Termination payments									X							
Transfer to the biennium support budget						X										
Transfers between programmes and funds					X											
UNJSPF						X				X	X		X			
Unliquidated obligations						X		X	X				X			
Unspent allocations and future commitments								X	X							
Voluntary contributions receivable					X											
Working capital fund					X											
Write-offs during 2003					X	X										

	UN	UNU	UN-Habitat	UNEP	UNHCR	UNICEF	ITC	UNDP	UNFPA	UNOPS	UNRWA	ICTR	UNDCP	ICTY	UNITAR	UNJSPF
7. Specific questions in financial statements																
7.1 How are after-service health benefits disclosed?																
Disclosed in the notes but not provided for	X	X			X	X	X		X	X	X		X	X	X	
No separate disclosure												X				
Disclosed in the notes and partially provided for					X			X								
7.2 How are exchange rate differences disclosed?																
Disclosed in note					X						X					
Face of statement I			X	X		X			X							X
Not disclosed							X					X	X	X	X	
Accounting policy	X	X								X		X				
7.3 How are non-expendable inventory/fixed assets disclosed?																
Note for total figure at acquisition and depreciated value					X											
Note disclosing historical cost	X					X	X		X	X	X	X	X	X	X	X
Not disclosed		X	X	X												
8. Other statements																
Breakdown of programme expenditures by country						X										
Financial resources						X										
Environmental fund				X												
General fund — status of expenditure against budget															X	
General Trust Fund				X												
Other special funds	X															
Reconciliation of reserves and fund balances from regular resources									X							
Revolving Fund activities				X												
Special Account for Programme Support Costs				X												
Statement of appropriations	X	X				X	X					X		X		
Status of funding for the approved regular resources and other resources						X										
Technical cooperation activities	X															
United Nations capital assets and construction-in-progress	X															
United Nations General Fund and related funds	X															
United Nations general trust funds	X															
9. Schedules are labelled as schedules but they are actually statements																
United Nations funds held-in-trust	X															

	UN	UNU	UN-Habitat	UNEP	UNHCR	UNICEF	ITC	UNDP	UNFPA	UNOPS	UNRWA	ICTR	UNDCP	ICTY	UNITAR	UNJSPF
Special accounts for programme support costs	X															
Common support services	X															
United Nations jointly financed activities	X															
Other funds	X															
Schedules																
Accounts receivable from investments																X
Administrative budget and expenditure for the biennium										X						
Annual programme schedule of appropriations					X											
Biennial support budget								X	X				X			
Combined status of contributions on general trust funds				X												
Combined status of pledges unpaid as at 31 December 2003		X														
Contributions receivable by donor						X										
Convertible and non-convertible cash and term deposits			X													
Cost sharing									X							
Earmarked project activities — status of allocations			X													
Environment Fund — all				X												
Foreign tax accounts receivable																X
Investments								X	X							X
List of contributions received by donor country						X										
List of voluntary contributions to trust funds by donor country																
Movements in regular resources by country and region									X							
Non-earmarked project activities — status of allocations			X													
Operating funds advanced to executing agencies													X			
Other income and expenditure								X	X							
Programme activities — status of allocations			X													
Programme budgets per sector and region													X			
Programme expenditure and support cost by executing agency and source of funds													X			
Programme expenditure by executing agency and source of funds								X								
Project expenditure and support costs and fees for the biennium										X						
Reimbursable services and miscellaneous activities								X								
Special Account for Programme Costs			X													
Status of appropriations																X
Status of contributions				X	X				X							

	UN	UNU	UN-Habitat	UNEP	UNHCR	UNICEF	ITC	UNDP	UNFPA	UNOPS	UNRWA	ICTR	UNDCP	ICTY	UNITAR	UNJSPF
Status of indicative contributions																
Status of non-earmarked contributions and unpaid pledges			X													
Status of prior year outstanding contributions					X											
Status of prior year projects					X											
Status of voluntary contributions																
Summary status of appropriations, allocations: Environment Fund				X												
Supplementary programmes					X											
Support budget for the Environment Fund				X												
Trust funds						X										
Trust funds established by UNDP								X								
United Nations construction-in-progress — schedule of construction-in-progress expenditures	X															
United Nations General Fund — revenue-producing activities	X															
United Nations General Fund — schedule of miscellaneous income	X															
United Nations general trust funds	X															
Voluntary contributions for the biennium													X			
10. Annexes																
Detail of income and expenditure broken down by year						X										
Glossary of terms						X										
Double counting in the financial statements															X	

Annex IV

Comparative analysis of resource transfer modalities

	Summary	*UNDP*	*UNFPA*	*UNICEF*	*UNHCR*	*UNDCP*
Status of Implementation of previous recommendations relating to NEX/CAG nationally executed expenditure and cash assistance to Governments	17 recommendations implemented, 20 under implementation and 1 not yet implemented.	8 recommendations implemented, 5 under implementation and 1 not yet implemented.	1 recommendation implemented and 11 under implementation.	5 recommendations implemented and 1 under implementation.	3 recommendations implemented.	3 recommendations under implementation.
Recommendations of the Board relating to nationally executed expenditure and cash assistance to Governments for the period 2002-2003		1. Intensify its efforts to complete the review of outstanding advances provided to Governments and non-governmental organizations and to provide for amounts considered doubtful. 2. Include audit clauses in project agreements and ensure that their implementation is monitored. 3. Devote special attention to those country offices that do not submit their follow-up action plans and obtain and evaluate the reasons for non-submission. Evaluate the feasibility of expanding the comprehensive audit recommendation database system to include also the monitoring of the status of implementation of audit recommendations made by the nationally executed expenditure project auditors.	1. Intensify its efforts to implement the age analysis on the Atlas system so as to better monitor funds advanced to implementing partners. 2. Include in its monitoring tools details of the appointment of auditors of nationally executed expenditure; use such details to verify compliance with the criteria set forth in its Policies and Procedures Financial Manual; and establish a clear and achievable time frame within which to achieve the implementation of this recommendation. 3. Expedite finalization of its draft guidance on appointment of project auditors; communicate them to the country office and monitor compliance with the directives.	1. Continue its efforts to (a) further reduce the balance outstanding for more than nine months; and (b) improve disbursement planning by focusing on regions and countries with the highest risk in cash assistance management.	1. Take further steps to obtain and verify in a timely manner all subproject monitoring reports from implementing partners. 2. Continue to assess the qualifications of those implementing partners whose accounting systems and internal controls are not adequate.	1. Follow up all audit reports on nationally executed expenditures outstanding for the bienniums 2000-2001 and 2002-2003. 2. Strengthen its control and requirements on nationally executed projects. 3. Achieve greater consistency in the substance and form of audit reports on nationally executed expenditures. 4. Act upon qualified audit reports and reported misuse of funds.

Summary	UNDP	UNFPA	UNICEF	UNHCR	UNDCP
	4. Base its planned audit coverage of nationally executed expenditure projects in accordance with its criteria. Continue to evaluate the reasons for nationally executed expenditure projects not being subjected to audit by the country offices, in terms of UNDP guidelines. 5. Intensify its efforts to complete the compilation of the comprehensive database in order to facilitate the implementation of a risk-based assessment model. 6. Quantify the financial effect of qualified audit opinions on nationally executed expenditure and evaluate such qualifications against the action plans for reasonableness.	4. Ensure that standard terms of reference are agreed by the country office and governmental implementing partners and the auditor of nationally executed expenditure; ensure that the scope and format of the audit is consistent; compile a mandatory checklist of the standard requirements to assist country offices in adhering to the requirements of the UNFPA Policies and Procedures Financial Manual; and establish a clear and achievable time frame within which to achieve the implementation of this recommendation. 5. Address the shortcomings in the Policies and Procedures Financial Manual with regard to the terms of reference of auditors of nationally executed expenditure, with due consideration given to the harmonization process on resource mobilization. 6. Devote special attention to country offices which had not submitted their audit plans in time by requesting them to commence with the planning exercise well in advance of the prescribed deadline; and allocate specific responsibility within a clear time frame to implement this recommendation.			

Summary	UNDP	UNFPA	UNICEF	UNHCR	UNDCP
		7. Follow-up on country offices that fail to comply with the organization's directives on the audit of projects.			
		8. Include in a consolidated database all country office action plans relating to the audit reports on nationally executed expenditure; and the possibility of using the comprehensive audit and recommendation database system to monitor the status of implementation of audit recommendations in respect of nationally executed projects.			
		9. Quantify the financial effect of audit qualifications made in respect of nationally executed expenditure and continue to evaluate such qualifications against action plans for reasonableness.			
		10. Clarify the responsibility and reporting mechanisms to monitor valid key compensating controls implemented in those country offices at which assurance on programme expenditure is low.			
		11. Continue with its efforts to develop a risk-based database.			
		12. Continue its efforts to obtain and record particulars of actual audit costs for all audits of nationally executed projects.			

	Summary	*UNDP*	*UNFPA*	*UNICEF*	*UNHCR*	*UNDCP*
Total programme expenditure 2000-2001	$7.823 billion	$4.2 billion	$0.522 billion	$1.897 billion	$1.1 billion	$0.104 billion
Total nationally executed expenditure and cash assistance to Governments, 2000-2001	$3.953 billion	$2.6 billion	$0.191 billion	$0.368 billion	$0.756 billion	$0.038 billion
Nationally executed expenditure and cash assistance to Governments as a percentage of total programme expenditure, 2000-2001	51 per cent	62 per cent	36 per cent	19 per cent	68 per cent	36 per cent
Total programme expenditure, 2002-2003	$9.154 billion	$4.9 billion	$0.647 billion	$2.2 billion	$1.3 billion	$0.107 billion
Total nationally executed expenditure and cash assistance to Governments, 2002-2003	$4.215 billion	$2.9 billion	$0.204 billion	$0.480 billion	$0.599 billion	$0.032 billion
Nationally executed expenditure and cash assistance to Governments as a percentage of total programme expenditure, 2002-2003	46 per cent	59 per cent	31.5 per cent	21 per cent	44 per cent	30 per cent
Other programme modalities amounts (e.g., direct execution)	$4.939 billion	$2 billion	$0.443 billion	$1.72 billion	$0.701 billion	$0.075 billion

	Summary	*UNDP*	*UNFPA*	*UNICEF*	*UNHCR*	*UNDCP*
Other programme modalities as a percentage of total programme expenditure	54 per cent	41 per cent	68.5 per cent	79 per cent	56 per cent	70 per cent
Basis of disbursements (i.e., cash assistance or advance)		Advance of funds	Advance of funds	Cash assistance	Cash assistance	Advance of funds
Accounting and recording policies and procedures		Funds advanced are recorded as receivables. Once the appropriate forms are submitted by the implementing partner detailing the expenses incurred on the projects for the period, the expenditure is recorded and the advance balance is reduced proportionally.	Funds advanced are recorded as receivables. Once the appropriate forms are submitted by the implementing partner detailing the expenses incurred on the projects for the period, the expenditure is recorded and the advance balance is reduced proportionally.	Expenditure is recorded when the funds are transferred to the implementing partner, therefore no balances are reflected as receivables in the accounts for funds provided that have not yet been spent.	Expenditure is recorded when the funds are transferred to implementing partner, therefore no balances are reflected as receivables in the accounts for funds provided that have not yet been spent.	Funds advanced are recorded as receivables. Once the appropriate forms are submitted by the implementing partner detailing the expenses incurred on the projects for the period, the expenditure is recorded and the advance balance is reduced proportionally.
Financial and programme monitoring		Quarterly delivery reports are prepared by the country offices, signed by the implementing partner and contain the expenses incurred for the quarter. These reports are submitted to headquarters. Project managers are responsible for monitoring the budget and expenditure incurred on projects. Project audits are performed on an annual basis, depending on materiality of projects for which audit certificates are also submitted to headquarters.	Quarterly forms are prepared by the country offices, signed by the implementing partner and contain the expenses incurred for the quarter. These reports are submitted to headquarters. Project managers are responsible for monitoring the budget and expenditure incurred on projects. Project audits are performed on an annual basis, depending on the materiality of projects for which audit certificates are also submitted to headquarters.	Implementing partners are required to submit financial and delivery reports within six months of receiving the funds to country offices, together with supporting documentations such as invoices, payroll and other relevant documents. The reports are reviewed by a programme and finance officer. Where the implementing partner's controls are considered to be sufficient, a simplified	Implementing partners submit quarterly subproject monitoring reports which are reviewed by the programme officers at the country offices. Some implementing partners are requested to submit an audit certificate as well. Country offices submit to headquarters twice a year project monitoring reports.	Quarterly delivery reports are prepared by the country offices, signed by the implementing partner and contain details of the disbursements made during the quarter. These reports are sent to headquarters. Programme managers are responsible for the monitoring of the budget and expenditure. Audit of ongoing national projects with

	Summary	UNDP	UNFPA	UNICEF	UNHCR	UNDCP
				government certificate suffices. Global quarterly monitoring is also done at headquarters.		expenditure over $10,000 are performed on an annual basis. Audit reports are submitted to the country office and transmitted to headquarters.
Headquarters monitoring		Internal auditors evaluate the audit reports received from nationally executed expenditure auditors, which are captured onto a database and monitored against the audit planning database to ensure that all audit reports are received from the nationally executed expenditure auditors. Advances outstanding are monitored by the finance section at headquarters.	Internal auditors evaluate the audit reports received from nationally executed expenditure auditors, which are captured onto a database and monitored against the audit planning database to ensure that all audit reports are received from the nationally executed expenditure auditors. Advances outstanding are monitored by the finance section at headquarters.	Headquarters only monitors the amount of cash assistance outstanding for more than nine months. Liquidation processes are reviewed by internal audit during field visits.	Headquarters monitors the payments for which no subproject monitoring reports have been received and the receipt of audit certificates. It also monitors the verifications made by programme offices on subproject monitoring reports.	Monitoring of the advance is left to field officers and UNDP.
Recourse action taken and follow-up		Country offices, in consultation with the implementing partner, prepare action plans to address the findings of the nationally executed expenditure auditors. These action plans are submitted to internal audit for monitoring.	Country offices, in consultation with the implementing partner, prepare action plans to address the findings of the nationally executed expenditure auditors. These action plans are submitted to internal audit and the geographical divisions for monitoring.	Country offices will follow up with implementing partners until appropriate documentation is submitted. Ability of country offices to pay cash assistance can be suspended in case of bad monitoring.	Recourse action taken through UNHCR when necessary (e.g., blacklisting)	Recourse action taken through UNDP when necessary.
Nationally executed expenditure and cash assistance to Governments subject to project audits	$2.501 billion	$2.016 billion	$0.162 billion	Not applicable to cash assistance according to UNICEF financial circular No. 15, dated 26 March 2001.	$0.291 billion	$0.032 billion

	Summary	*UNDP*	*UNFPA*	*UNICEF*	*UNHCR*	*UNDCP*
Number and value of qualified nationally executed expenditure and cash assistance to Governments audit certificates		Information not available owing to inconsistencies in the audit reports of the nationally executed expenditure auditors.	As at April 2004, 67 qualified audit reports received. The financial effect was not quantified by internal audit.	Not applicable to cash assistance according to financial circular No. 15, dated 26 March 2001.	Did not monitor this figure	Nine audit certificates totalling $10.5 million
Value of advances outstanding or unjustified balances at period end	$426.7 million	$102.3 million	$15.8 million	$186 million	$118 million	$4.6 million
Value of advances or unjustified balances older than six months		Complete age analysis was not available.	Complete age analysis was not available.	$29 million	$3.06 million	Complete age analysis was not available.
Value of advances and unjustified balances written off during the period	$20.7 million	$19.6 million	None	$0.5 million	$0.6 million	None