



United Nations

**Fund of the United Nations International
Drug Control Programme**

Financial report and audited financial statements

**for the biennium ended
31 December 1999 and**

Report of the Board of Auditors

**General Assembly
Official Records
Fifty-fifth session
Supplement No. 5I (A/55/5/Add.9)**

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United Nations • New York, 2000

Note

Symbols of United Nations documents are composed of capital letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

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Abbreviations

ACFR	Association of Casa Famiglia Rosetta
CAMH	Centre for Addiction and Mental Health
CCLEC	Caribbean Customs Law Enforcement Council
CCSA	Canadian Center on Substance Abuse
CE	Council of Europe
CECAFEC	Ecuadorian Centre for Training of Street Educators
CICP	Centre for International Crime Prevention
CIJ	Centros de Integración Juvenil
DESA	Department of Economic and Social Affairs
ECSWPR	European Centre for Social Welfare Policy and Research
ESCAP	Economic and Social Commission for Asia and the Pacific
FAO	Food and Agriculture Organization of the United Nations
Gilead	Gilead Church
ICPO/ Interpol	International Criminal Police Organization/Interpol
IFND	International Federation of NGOs against Drug Abuse
ILANUD	United Nations Latin American Institute for the Prevention of Crime and the Treatment of Offenders
ILO	International Labour Organization
IMO	International Maritime Organization
ITU	International Telecommunication Union
NCA	Norwegian Church Aid
NGO/CONS	The Consortium
OAS	Organization of American States
OAU	Organization of African Unity
RFHL	Swedish Association for Help and Assistance to Drug Abusers
SAPS	South African Police Service Dog School
SESI	Social Service Industry (Brazil)

UNAIDS	Joint United Nations Programme on HIV/AIDS
UNDCP	United Nations International Drug Control Programme
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
UNICRI	United Nations Interregional Crime and Justice Research Institute
UNIDO	United Nations Industrial Development Organization
UNOPS	United Nations Office for Project Services
UNV	United Nations Volunteers
UWI	University of West Indies
WA	working arrangement
WC	World Concern
WCO	World Customs Organization
WHO	World Health Organization
WSB	World Scout Bureau

Letters of transmittal

10 May 2000

Sir,

In accordance with financial regulation 11.4 of the United Nations and financial rule 15.3 of the Fund of the United Nations International Drug Control Programme, I have the honour to submit the financial statements of the Fund of the United Nations International Drug Control Programme for the biennium 1998-1999 ended 31 December 1999.

Copies of these financial statements are made available to the Commission on Narcotic Drugs and the Advisory Committee on Administrative and Budgetary Questions.

Yours sincerely,

(Signed) Pino **Arlacchi**

The Chairman
United Nations Board of Auditors
United Nations Headquarters, New York
Two United Nations Plaza, Room 2680
New York

30 June 2000

Sir,

I have the honour to transmit to you the financial statements of the Fund of the United Nations International Drug Control Programme for the biennium 1998-1999 ended 31 December 1999, which were submitted by the Executive Director. These statements have been examined and include the audit opinion of the Board of Auditors.

In addition, I have the honour to present the report of the Board of Auditors with respect to the above accounts.

Accept, Sir, the assurances of my highest consideration.

(Signed) Sir John **Bourn**
Comptroller and Auditor General of the
United Kingdom of Great Britain and Northern Ireland
and Chairman
United Nations Board of Auditors

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

Chapter I

Report of the Executive Director

1. The Executive Director has the honour to submit the financial statements of the Fund of the United Nations International Drug Control Programme (UNDCP) for the biennium 1998-1999 ended 31 December 1999, in accordance with rule 15.3 of the Financial Rules of the Programme and General Assembly resolution 46/185 C of 20 December 1991.

Financial situation

2. The biennium 1998-1999 marked a turning point in the financial position of the Programme. Total income increased by \$38.6 million, or 37.4 per cent, over the biennium 1996-1997. Total expenditure increased by \$32.2 million, or 30.8 per cent. As shown in table 1 below, income increased from \$52 million in 1997 to \$70.3 million in 1998 and \$71.6 million in 1999, reversing several years of declining income and reflecting increased support to the Programme by Member States. The turnaround in income has been followed by improved programme delivery, with expenditure increasing from \$51.1 million in 1997 to \$55.1 million in 1998 and \$80 million in 1999, again dramatically reversing several years of a downward spiral in programme delivery. Most importantly, as compared with 1996-1997, in 1998-1999 direct project expenditures against the programme budget increased by 39 per cent, whereas support costs were contained within an approved 10 per cent budget increase.

3. In 1999, project implementation improved dramatically as a result of the introduction in 1998 of more focused programme priorities, the decentralization of responsibility to the field and the streamlining of implementation arrangements. The Programme is now classified into four main sectors or thematic areas. A history of annual programme expenditure is given by each sector in table 2 below. In 1998-1999, the overall implementation rate of the budget was 85 per cent against an 80 per cent rate forecast for final expenditures in the programme budget. Major increases were achieved in 1999 in the crop-elimination sector, particularly in the Andean region, Afghanistan and the security belt around it, Pakistan, Myanmar and more recently the Lao People's Democratic Republic. An impressive 82 per cent implementation rate was also achieved in 1998-1999 in the more complex drug abuse prevention and reduction sector, with a notable achievement being the successful completion of the HIV/AIDS and drugs-reduction programme in Brazil during the biennium.

4. In addition to the Fund, the Programme is financed under the regular programme budget of the United Nations with a total expenditure of \$14.4 million during the biennium 1998-1999 (see note 3 to the financial statements). Whereas the Fund supports activities geared towards assisting developing countries in international drug control, the regular budget share of the Programme is concerned mostly with treaty implementation and legal affairs. The Fund accounted for approximately 90 per cent of resources available to the Programme in 1998-1999, compared with approximately 10 per cent covered under the regular budget of the United Nations.

Statement I**Income and expenditure and changes in fund balances**

5. Voluntary contributions increased in 1998-1999 by \$29.2 million, or 32 per cent, over 1996-1997. However, this increase was all in special-purpose or earmarked contributions, which increased by \$32.7 million, while general-purpose or unearmarked contributions declined by \$3.5 million in 1998-1999 as compared with 1996-1997. A major increase of \$8.8 million was also recorded in cost-sharing contributions owing almost entirely to the introduction of large cost-sharing projects in Brazil.

6. While general-purpose income declined by \$3.5 million in 1998-1999 compared with 1996-1997, general-purpose expenditure increased by \$1.4 million. Thus, in 1998-1999 expenditure exceeded income by \$11.3 million as compared with a \$6.6 million deficit in 1996-1997. The general-purpose fund balance has therefore substantially declined over the last two bienniums. However, it should be noted that the general-purpose fund balance is being reduced to fund those priority areas of the programme budget which have not attracted special-purpose funds but which are necessary to implement in order to achieve mandated objectives and maintain a balanced programme.

7. Special-purpose income exceeded expenditure in 1998-1999 by \$16.7 million, resulting in a substantial increase in the special-purpose fund balance. As explained above, while income started to increase substantially from 1998 onwards, matching improvements in project delivery occurred only in 1999 when necessary management and implementation arrangements could be put in place.

Statement II**Assets, liabilities, reserves and fund balances**

8. Statement II shows the assets, liabilities, reserves and fund balances as at 31 December 1999. As authorized by the Commission on Narcotic Drugs, reserves have been established at \$12 million and have been consolidated under the general-purpose fund as one operational reserve to protect the financial viability and integrity of the Fund. The purpose and nature of this reserve is fully disclosed in note 16 to the financial statements. Compared with 1996-1997, the total fund balance increased by \$6,795,654, or 11.2 per cent, because of the significant increase in special-purpose net income. However, of greater significance and concern is the \$11,897,997 decline in the general-purpose balance available for future programme activities. As per note 9 to the financial statements, available general-purpose funds declined from \$13,745,762 at 1 January 1998 to \$1,847,765 at 31 December 1999. The decline results from the shortfall between income and expenditure, a continuing trend that restricts the operational and financial flexibility of the programme.

Statement III**Cash flow**

9. Net cash inflow from operating activities amounted to \$5,870,039 in 1998-1999 as compared with net outflow of \$10,360,710 in 1996-1997. This substantial improvement in operating cash flow is due primarily to increased special-purpose net income as well as the tighter control exercised over funds advanced to executing agencies. Cash inflows from operating activities, were increased by more cash

inflows from investing activities amounting to \$9,683,051 in 1998-1999 as compared to \$6,978,310 in 1996-1997. Better cash and investment management contributed with improved inflows from investing activities despite periods of falling interest rates during the biennium. The net result of these cash inflows has been an increase of \$16,975,543 in total cash, term deposits and investments during the biennium.

Schedules

10. The financial statements are supported by six schedules. Schedule 1 shows the status of voluntary and cost-sharing contributions and has been reformatted to show in a more transparent manner income, collections and pledges made by donor countries during the biennium. Schedule 2 shows the status of general-purpose contributions. Total unpaid pledges as at 31 December 1999 under the general-purpose fund amounted to \$1,069,828 due from 16 countries, representing only 3 per cent of total general-purpose income for 1998-1999. This is a substantial improvement over 1996-1997, at the end of which some 20 per cent of general-purpose income still had to be collected. Schedule 3 shows the status of the approved programme budget and final expenditure. As mentioned above it reflects an overall programme delivery rate of 85 per cent, which is impressive by any United Nations standard. Implementation rates were particularly impressive in Latin America (107 per cent), West and Central Asia (100 per cent) and East Asia and the Pacific (98 per cent). Schedule 4 discloses programme expenditure and programme support costs by executing agency and funding source, and schedule 5 gives the status of the approved biennial support budget. As shown in schedule 5, the \$34.8 million support budget for 1998-1999 was overspent by only \$0.3 million, or less than 1 per cent, owing to uncontrollable exchange rate losses. Schedule 6 shows the status of operating funds advanced to agencies as at 31 December 1999. This schedule has been reformatted to distinguish clearly between amounts advanced to agencies (\$9.5 million) and amounts due to agencies (\$8.5 million).

Notes to the financial statements

11. The financial statements include 18 notes. Note 2 describes the accounting policies applied in the preparation of the statements. The remaining 17 notes provide additional information and clarification of the Programme's financial activities for which the Executive Director has administrative responsibility.

Table 1
Income, expenditure and fund balance

(Millions of United States dollars)

Table 2
Programme by sector 1988-1999 (net of support costs)

(Millions of United States dollars)

Chapter II

Report of the Board of Auditors

Summary

The Board of Auditors has reviewed the operations of the United Nations International Drug Control Programme (UNDCP). The Board has audited the financial statements for the biennium ended 31 December 1999 and has conducted two management audits, covering programme planning and performance and procurement.

The Board's main findings are as follows:

(a) UNDCP had not complied with the requirement of the United Nations accounting standards to disclose liabilities for end-of-service benefits, post-retirement benefits and annual leave;

(b) The Programme's financial position improved significantly during the biennium 1998-1999, when it achieved a net excess of income over expenditure of \$5.4 million, compared with a net excess of expenditure over income of \$1.1 million in 1996-1997;

(c) Disbursements of \$14.2 million incurred through the United Nations Development Programme (UNDP) on nationally executed projects were not supported by audit reports. Accordingly, there was insufficient evidence to allow the Board to form an audit opinion on this expenditure;

(d) UNDCP had neither followed up on nor received audit reports covering the \$17.9 million incurred through UNDP on nationally executed expenditures in 1996-1997, which had not been received at the time of the Board's last report;

(e) UNDCP had not reconciled its bank accounts properly for significant periods, with the result that two accounts, totalling \$825,000, were not brought to account until the Board carried out its audit;

(f) UNDCP had not cleared three advances totalling \$345,000, one of which was made in 1993;

(g) The Programme's procurement activities were undertaken by more than seven different agencies, and UNDCP did not routinely prepare procurement plans, thereby precluding any advantage from economies of scale;

(h) A contract for a public awareness campaign was cancelled one month after the award when pledged funds failed to materialize. UNDCP settled with the contractor in the amount of \$235,000 (58 per cent of the contract value) for preparatory work, and the campaign was never completed.

The Board made recommendations to improve compliance with the United Nations accounting standards, to strengthen accountability and planning and to improve procurement practices and procedures.

A list of the Board's main recommendations is included in paragraph 11.

A. Introduction

1. The Board of Auditors audited the financial statements of the Fund of the United Nations International Drug Control Programme (UNDCP) for the period from 1 January 1998 to 31 December 1999. The audit was conducted in conformity with article XII of the Financial Regulations and Rules of the United Nations and the annex thereto, and the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. These standards require that the Board plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the expenditures recorded in the financial statements for the period from 1 January 1998 to 31 December 1999 had been incurred for the purposes approved by the governing bodies; whether income and expenditures were properly classified and recorded in accordance with the Financial Regulations and Rules; and whether the Programme's financial statements presented fairly the financial position as at 31 December 1999. The audit included a general review of financial systems and internal controls and a test examination of accounting records and other supporting evidence to the extent the Board considered necessary to form an opinion on the financial statements. The Board also carried out audits in UNDCP field offices in Bolivia and Brazil.

3. In addition to the audit of the accounts and financial transactions, the Board carried out reviews under regulation 12.5 of the Financial Regulations and Rules of the United Nations. The reviews concerned primarily the efficiency of financial procedures, the internal financial controls and, in general, the administration and management of UNDCP. In 1998-1999 the Board examined the Programme's national programme planning and performance monitoring procedures, as well as procurement.

4. The Board continued its practice of reporting the results of specific audits in management letters containing detailed observations and recommendations to the Administration.

5. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board's observations on all matters contained in the present report were communicated to UNDCP. UNDCP has confirmed the facts on which the Board's observations and conclusions are based and has provided explanations and answers to the Board's queries.

6. A summary of the Board's recommendations is contained in paragraph 11 below. Detailed findings are in paragraphs 13 to 61.

7. The General Assembly, in its resolution 52/212 B of 31 March 1998, accepted the recommendations of the Board of Auditors for improving implementation of its recommendations approved by the Assembly subject to the provisions contained in the resolution. The Board's proposals, which were transmitted to the Assembly in a note by the Secretary-General (A/52/753, annex), included the following main elements:

(a) The need for specification of timetables for the implementation of recommendations;

(b) The disclosure of office-holders to be held accountable;

(c) The establishment of an effective mechanism to strengthen oversight in regard to the implementation of audit recommendations. Such a mechanism could be in the form of either a special committee comprising senior officials or a focal point for audit and oversight matters.

The Board noted that the Administration had generally complied with those requirements.

1. Previous recommendations not fully implemented

8. In accordance with section A, paragraph 7, of General Assembly resolution 51/225 of 3 April 1997, the Board has highlighted separately below one recommendation made in its reports relating to the bienniums 1992-1993, 1994-1995 and 1996-1997 that has not been fully implemented.

9. The Board had recommended that UNDCP review and simplify its financial accounting arrangements. Following the transfer of the Programme's accounting function from United Nations Headquarters to the United Nations Office at Vienna from 1 January 1996, UNDCP has maintained a spreadsheet system to integrate United Nations Office at Vienna postings and expenditure details reported by executing agencies. This process involves significant re-inputting of data, thus increasing the risk of error, and does not facilitate production of the financial statements, which requires further manual input. While noting that a contract has now been awarded to develop an integrated financial accounting system, the Board encourages UNDCP to complete this process as a matter of priority.

10. In accordance with General Assembly resolution 48/216 B of 23 December 1993, the Board also reviewed the measures taken by the Administration to implement the recommendations made in its report for the period ended 31 December 1997. Details of the action taken and the comments of the Board are set out in the annex to the present report.

2. Main recommendations of the present report

11. The Board recommends that UNDCP:

(a) Disclose in the notes to the financial statements the value and method of valuation of liability for end-of-service benefits, post-retirement benefits and annual leave, in compliance with the United Nations accounting standards (para. 14);

(b) Strengthen its efforts to encourage UNDP to secure the necessary audit reports for nationally executed projects, and, where appropriate, to extend the arrangements whereby nationally executed projects are audited by local accountancy firms (para. 21);

(c) Follow up, in liaison with UNDP, all audit reports outstanding in respect of the bienniums 1996-1997 and 1998-1999 (para. 22);

(d) Ensure that bank reconciliations are regularly and promptly undertaken both at headquarters and in field offices and that long-outstanding items are investigated (para. 27);

(e) Assist those Governments that are without national drug master plans or their equivalent to produce plans as soon as possible identifying and prioritizing

specific drug-related problems and establishing a course of action at the government level to address them (para. 40);

(f) Develop central guidance on planning that sets clear standards and promotes greater consistency and comparability between planning documents (para. 44);

(g) Ensure that all future annual reports provide an analysis of actual results and outputs compared with the objectives set out in the relevant country or regional plans (para. 49);

(h) Coordinate its procurement activities with the aim of concentrating procurement into fewer agencies, thereby benefiting from economies of scale (para. 51);

(i) Require departments to prepare procurement plans for submission to the relevant procurement units (para. 54);

(j) Issue clear guidelines to field offices on the procurement procedures to be followed and the delegated limits that apply (para. 59);

(k) Work with the United Nations Office at Vienna to draw up an agreement with it specifying the level and quality of all services provided, including procurement (para. 60).

12. The Board's other recommendations are shown in paragraphs 29, 31 and 33.

B. Financial issues

1. United Nations accounting standards

13. The Board assessed the extent to which the UNDCP financial statements for the biennium ended 31 December 1999 conformed to the United Nations accounting standards. The review indicated that the presentation of the financial statements was generally consistent with the standards. However, the Board notes that UNDCP had not yet complied with the United Nations accounting standards to quantify liabilities for end-of-service benefits, post-retirement benefits and annual leave. UNDCP informed the Board that it expected to have quantified those liabilities in time for the data to be included in the financial statements for 2000-2001.

14. The Board recommends that UNDCP disclose in the notes to the financial statements the value and method of valuation of liability for end-of-service benefits, post-retirement benefits and annual leave, in compliance with the United Nations accounting standards.

2. Programme expenditure incurred by executing agencies

15. Because the Board does not have access to the expenditure records of all executing agencies, it relies on audit reports from other auditors to confirm that funds advanced to executing agencies and national Governments have been properly expended on UNDCP projects.

16. The Board noted in its report on the UNDCP financial statements for 1996-1997¹ that expenditures of \$17.9 million out of the \$18.6 million incurred through UNDP on nationally executed projects were not supported by audit reports at the

date of finalization of the statements. The Board recommended that UNDCP carry out liaison with UNDP to ensure that audit reports are received for all nationally executed expenditures incurred through UNDP as the executing agency.

17. The Board notes with concern that, since the Board's report on the biennium 1996-1997, UNDCP has received neither follow-up nor audit reports covering the \$17.9 million incurred through UNDP on nationally executed expenditures in 1996-1997.

18. For the biennium ended 31 December 1999, UNDCP incurred \$97.3 million in programme expenditures, which included \$49.4 million incurred through agencies and \$18.3 million in nationally executed programmes incurred through UNDP as the executing agency. UNDCP succeeded in obtaining audit reports for \$49.1 million out of the \$49.4 million expenditure incurred by executing agencies. However, for nationally executed projects, UNDCP managed to obtain audit clearance for only \$4.1 million of the \$18.3 million in expenditures incurred in 1998-1999. There was, therefore, insufficient evidence to allow the Board to form an audit opinion in respect of national execution expenditure amounting to \$14.2 million. UNDCP informed the Board that audits were under way to cover \$11.6 million of this amount.

19. The Board notes that UNDCP worked closely with UNDP in the biennium 1998-1999 to try to increase the audit coverage of nationally executed projects. However, UNDP was able to obtain audit reports for only 8 projects with expenditures of \$675,303, compared with a target of 16 projects with expenditures of \$3.9 million.

20. UNDCP engaged local accountancy firms to audit nationally executed projects in Barbados, Bolivia, Brazil, Pakistan and Viet Nam. These efforts resulted in the receipt of audit reports in respect of \$1.5 million in expenditures.

21. The Board recommends that UNDCP strengthen its efforts to encourage UNDP to secure the necessary audit reports for nationally executed projects, and, where appropriate, to extend the arrangements whereby nationally executed projects are audited by local accountancy firms.

22. The Board also recommends that UNDCP follow up, in liaison with UNDP, all audit reports outstanding in respect of the bienniums 1996-1997 and 1998-1999.

3. Financial position

23. As shown in statement I, total UNDCP income of \$141.9 million in 1998-1999 exceeded its total expenditure of \$136.5 million by \$5.4 million. This excess of income over expenditure, together with other adjustments, provisions and transfers, increased the Programme's combined fund balance by \$6.8 million, from \$60.5 million on 1 January 1998 to \$67.3 million as at 31 December 1999. This represents a significant improvement compared with the biennium 1996-1997, when UNDCP had a net excess of expenditure over income of \$1.1 million.

24. In its report on the UNDCP financial statements for the biennium 1996-1997, the Board noted that UNDCP was making efforts to broaden its donor base by launching a new fund-raising campaign. In 1998-1999, total UNDCP income

increased to \$141.9 million compared with \$103.3 million in 1996-1997, representing an increase of some 37 per cent.

Control of bank accounts

25. The Board found that an amount of \$762,000 held in a local bank account at 31 December 1999 had not been recorded in the UNDCP general ledger and that this had remained undetected owing to shortcomings in bank reconciliations. UNDCP took action to correct the omission and include the amount as programme budget income.

26. The Board also found that \$63,000 had been paid into the UNDCP headquarters bank account in January 1999 but remained unrecorded in the UNDCP ledgers until the Board brought it to the Programme's attention in March 2000. The item had appeared as a reconciling item on the Programme's bank reconciliation for 15 months. Bank charges totalling \$1,000 also remained unrecorded in the UNDCP ledger for the same period. The Board was concerned that funds under the Programme's stewardship had gone unrecorded.

27. The Board recommends that UNDCP ensure that bank reconciliations are regularly and promptly undertaken both at headquarters and in field offices and that long-outstanding items are investigated.

Advances

28. Schedule 6 to the financial statements shows that advances totalling \$345,713 made to Gilead Church (\$175,080), the United Nations Volunteers (\$162,200) and the United Nations Population Fund (\$8,433) had remained unchanged since 1996-1997. UNDCP informed the Board that the amount advanced to the church had been advanced in 1993 and was still in dispute in April 2000. The other two amounts were advanced in 1997 and remained unchanged, as the agencies had not submitted certified expenditure returns to clear the advances.

29. The Board recommends that UNDCP take follow-up action to clear these long-outstanding balances.

Project budgets

30. Controls over project budgets were weak at two country offices visited by the Board. Overexpenditures totalling \$65,000 on nine object-of-expenditure lines for five projects were evidenced at Bolivia, and overexpenditures of \$373,000 were reported on 13 object-of-expenditure lines in Brazil. While approval for the overexpenditures was subsequently obtained from UNDCP headquarters, the Board considers that current procedures for the overall monitoring of UNDCP project expenditures were inadequate, as field offices were able to overspend project budgets.

31. The Board recommends that the new UNDCP accounting system capture field office expenditures on a more timely basis in order to improve overall monitoring of project expenditures.

Non-expendable property

32. The Board's audit of non-expendable property revealed that eight items of old or obsolete computer equipment, with an inventory value of \$36,000, could not be located at UNDCP headquarters. The existence of those items had been queried by the United Nations Office at Vienna in June 1999, but UNDCP took no action to try to locate the items. At the request of the Board, UNDCP amended the value of non-expendable property disclosed in note 17 to the financial statements.

33. The Board recommends that UNDCP ensure that all obsolete or untraceable items are presented promptly to the local Property Survey Board for write-off action.

4. Write-off of losses of cash, receivables and property

34. In 1998-1999 UNDCP obtained approval for write-off of losses of cash totalling \$4,730 and for property totalling \$396,000.

5. Ex gratia payments

35. No ex gratia payments were reported during the period.

C. Management issues**1. National programme planning and performance***Introduction*

36. The United Nations International Drug Control Programme aims to ensure coherent and effective action by the international community against drug abuse and illicit drug trafficking. UNDCP has a relatively small funding base and therefore concentrates its interventions on particular regions and countries. It has organized its programme priorities at the global, regional and national levels.

37. Across all subprogrammes, UNDCP works with national Governments to achieve its objectives. As part of its coordination and promotion of international drug control subprogramme, UNDCP aims to improve national capacity to coordinate drug control activities and to develop and implement comprehensive, balanced drug control policies and strategies. It aims to achieve this by establishing or strengthening national drug control planning and coordination institutions, developing national drug control plans and including drug control concerns in national development plans. Of the 20 offices set up to help implement and oversee national programmes, 9 cover a single country each and 11 are regional offices, covering up to 29 countries. In 1998-1999 UNDCP spent \$97.3 million on programme activities and \$19.2 million supporting programmes at the country level.

Scope of review

38. The Board reviewed the extent to which UNDCP had established adequate country plans to guide programmes at the national level and whether UNDCP had successfully implemented the plans during the biennium.

National drug master plans

39. Governments prepare national drug master plans, or equivalent documents, setting out national policies and priorities on drug control programmes. In the 20 countries where UNDCP has an office, 11 national Governments had prepared such plans. Although three country offices had only recently been established, no government master plans had been produced for six of the Programme's longer established offices.

40. The Board recommends that UNDCP assist those Governments that are without national drug master plans or their equivalent to produce plans as soon as possible identifying and prioritizing specific drug-related problems and establishing a course of action at the government level to address them.

Planning at the national and regional levels

41. The Board reviewed the extent of UNDCP planning at the 9 country and 11 regional offices. One of the nine countries did not have a country plan, although it was included as a subsection within the regional plan. Although the country plans varied considerably in content, the quality of the plans was considered by the Board to be generally high. Each usually set out the background and economic and political context of the specific drug problem, the strategy to address the problem and the financial and operational arrangements, including the sustainability of the programmes.

42. Four regional offices produced programme framework documents that set out the proposed UNDCP actions in response to regional drug problems. Two regional offices produced plans of action, one produced a priority programme document and another produced a subregional programme document. Three of the regional offices had not produced any kind of regional plan, although UNDCP informed the Board that in two cases work was under way and the plans were expected to be finalized in the biennium 2000-2001. The Board considers that the programme frameworks, the priority programme and the subregional programme documents in particular were of good quality and that they provided a clear analysis of regional drug problems and proposed strategies for controlling them. However, the two regional plans of action focused primarily on planned and ongoing project activities and were considered by the Board to be less effective in analysing and addressing regional drug problems. UNDCP informed the Board that in this latter regard, there were regular in-depth analyses of drug control problems as well as technical capacities and needs.

43. While the country and regional plans examined by the Board were generally of good quality and included similar analyses, the formats varied considerably, as did the level of detail provided. The Board considers that greater consistency and uniformity in the form and content of planning documents is desirable. Adopting a common format ensures that standards are observed and that the content of plans is consistent and well-presented. A common format also facilitates inter-country comparisons and aggregation of key data for management purposes.

44. The Board recommends that UNDCP develop central guidance on planning that sets clear standards and promotes greater consistency and comparability between planning documents.

Content and quality of planning documents

45. The Board reviewed the UNDCP plans prepared by three country and two regional offices. Specifically, the Board checked whether plans included the following key components:

- (a) Clear links between the country- or region-specific problems and the programmes and objectives outlined in the UNDCP medium-term plan;
- (b) Identification and prioritization of the actions necessary to counter the specific drug control problems of the country and/or region;
- (c) Quantifiable and measurable objectives;
- (d) Timescale for completing the programme;
- (e) Funding and cost estimates;
- (f) Link between the problems and priorities set out in plans and the types of projects actually implemented;
- (g) Whether sufficient funding was available to implement the programme as planned.

46. The Board was pleased to note that all the plans identified and prioritized the actions necessary to counter the specific country or regional drug control problems, addressed the priority areas set out in the Programme's medium-term plan, contained quantifiable objectives and set out timescales and cost estimates.

Performance monitoring

47. All UNDCP country and regional offices are required to produce annual reports, setting out their achievements in relation to the drug problems specific to their country or region. By April 2000, annual reports had been received from 14 out of 17 (82 per cent) of UNDCP field offices for 1998 and from 8 out of 20 (40 per cent) for 1999.

48. The Board reviewed the annual reports submitted by six offices to assess progress against the objectives set out in the country or regional plan. The Board found that UNDCP had not specified a standard format for the annual reports, and their content therefore varied considerably. None of the six annual reports provided an overview of nor referred to the objectives set out in the relevant country or regional plans. The Board could not, therefore, relate the results reported in the annual reports to the objectives and outputs specified in the plans. All annual reports reviewed provided extensive background on the drug problem in the relevant country or region and often measured performance in terms of amounts spent. For example, the 1999 annual report for one country stated that UNDCP continued its assistance to the Government in the framework of the master plan through six national projects at a cost of \$6 million. However, no structured review of progress against planned objectives in the master plan was outlined, nor was it clear that the \$6 million spent had made the desired impact in terms of quantified outputs.

49. The Board recommends that all future annual reports provide an analysis of actual results and outputs compared with the objectives set out in the relevant country or regional plans.

2. Procurement

50. In 1998 UNDCP procured goods and services with a value of \$5.5 million. At the time of the audit, in April 2000, no figures were available for procurement in 1999 as UNDCP was awaiting information from executing agencies that procure on its behalf. In addition, UNDCP informed the Board that it had not received procurement statistics from the United Nations Office for Project Services, which handles most UNDCP procurement. UNDCP does not have its own procurement unit and therefore uses the services of the United Nations Office at Vienna to procure items for headquarters. For field purchases the majority of equipment is purchased through the United Nations Industrial Development Organization (UNIDO). However, some items are purchased locally through UNDCP country offices, normally with the assistance of UNDP. In some cases items are purchased locally by agencies executing projects on behalf of UNDCP. The table below provides a breakdown by agency of items procured on the Programme's behalf in 1998.

United Nations International Drug Control Programme procurement by executing agency (1998)

Agency	Value (thousands of United States dollars)
United Nations Development Programme	1 566
United Nations Office at Vienna	1 541
United Nations Industrial Development Organization	1 400
Canadian Center on Substance Abuse	441
Social Service Industry (Brazil)	351
United Nations Office for Project Services	171
Other	107
Total	5 577

51. The Board was concerned that the Programme's procurement activities were spread across several different agencies. **The Board recommends that UNDCP coordinate its procurement activities with the aim of concentrating procurement into fewer agencies, thereby benefiting from economies of scale.**

Procurement procedures and controls

52. The Board reviewed the procedures and controls surrounding UNDCP procurement both at headquarters and during visits to the UNDCP country offices in Bolivia and Brazil. Overall, the Board found that adequate controls and procedures were in place, and identified key controls over separation of duties, documentation of procedures, budget approval, supplier rosters, competitive tendering, operations of contract committees and payment approval.

53. At Headquarters, the Board reviewed 10 UNDCP purchases totalling \$1.8 million, six of which were processed through the United Nations Office at Vienna and four of which were processed through UNIDO. UNDCP does not require all

units to prepare procurement plans, although a formal plan had been compiled for the purchase of laboratory equipment. The Board considers that efficient and effective planning is an important element in ensuring that good value is obtained for money spent. Generally, the earlier procurement needs are identified, the stronger the position of the buyer in identifying potential suppliers.

54. The Board recommends that in future UNDCP require departments to prepare procurement plans for submission to the relevant procurement units.

55. Of the 10 items reviewed, 3 (30 per cent) were classified as urgent requisitions. Competition was waived for two of them on the grounds of urgency. One related to the award of a \$405,000 contract for a public awareness campaign for the special session of the General Assembly on the world drug problem, held from 8 to 10 June 1998. The Board concluded that the justification for awarding the contract on a waiver basis was not strong. Public relations firms were well-represented in New York and, in the Board's opinion, UNDCP should have invited a number of them to tender. Moreover, the Board notes that three weeks after the contract was awarded and two weeks prior to the special session, UNDCP was forced to cancel the contract when pledged funding did not materialize. Nevertheless, UNDCP settled with the contractor in the amount of \$235,000 (58 per cent of the total contract value) for preparatory work covering the period to 28 May 1998.

56. During visits to two field offices, the Board reviewed 20 items purchased locally. At each office the local UNDP office was used as the procurement agent. At both locations the Board found that adequate controls existed in the areas of separation of duties, supplier rosters, competitive tendering and payment approval.

57. The Board found, however, that the two country offices relied upon UNDP local committees on contracts to review major contracts. At one country office, the UNDP Local Committee on Contracts recommended that two purchases, valued at \$741,000 and \$762,000 respectively, be undertaken without competitive bidding. The contracts were for the production of educational materials and the provision of logistic modelling and technologies under two nationally executed projects.

58. Under UNDCP financial rule 12.1, the Executive Director is responsible for purchasing equipment and supplies with provisions made in the biennial budget. To that end, he may enter into arrangements with the United Nations or an executing agency to use that organization's procurement services, in which case the relevant financial rules and procedures of the organization apply. As the contracts in question related to UNDP-administered nationally executed projects, UNDP procurement rules should have been applied. However, under UNDP procurement rules all waivers in excess of \$30,000 should be referred to its headquarters for scrutiny and approval. In these cases the Local Committee on Contracts exceeded its delegated authority. In one case the Committee acknowledged that it had exceeded its power, stating that reviewing the waiver of competition was not strictly within the competence and mandate of the UNDP Local Committee on Contracts.

59. The Board is concerned that the waiver of competitive bidding for high-value purchases had been authorized locally without reference to the appropriate authority. While noting that UNDCP financial rules provided for local procurement through other agencies, the Board considers that UNDCP failed to ensure that those contracts were subject to appropriate scrutiny. **The Board recommends that UNDCP issue**

clear guidelines to field offices on the procurement procedures to be followed and the delegated limits that apply.

60. The Board recommended² that a service-level agreement be drawn up between UNOV and its various clients in order to achieve maximum accountability. **The Board recommends that UNDCP work with the United Nations Office at Vienna to draw up an agreement with it specifying the level and quality of all services provided, including procurement.**

3. Cases of fraud and presumptive fraud

61. UNDCP reported no cases of fraud or presumptive fraud in the biennium 1998-1999.

D. Acknowledgement

62. The Board of Auditors wishes to express its appreciation for the cooperation and assistance extended to its auditors by the Executive Director and the staff of UNDCP.

(Signed) Sir John **Bourn**
Comptroller and Auditor General
of the United Kingdom of Great Britain
and Northern Ireland

(Signed) Osei Tutu **Prempeh**
Auditor-General of Ghana

(Signed) Celso D. **Gangan**
Chairman, Philippine Commission on Audit

30 June 2000

Notes

¹ *Official Records of the General Assembly, Fifty-third Session, Supplement No. 5I* (A/53/5/Add.9), chap. II, para. 9.

² *Ibid.*, *Supplement No. 5 and corrigendum* (A/53/5 and Corr.1), vol. I, para. 132.

Annex

Follow-up on action taken by the United Nations International Drug Control Programme to implement the recommendations of the Board of Auditors in its report for the biennium ended 31 December 1997^a

Recommendation 9 (a)

1. UNDCP should carry out liaison with UNDP to ensure that audit reports are received for all nationally executed disbursements incurred through UNDP as the executing agency.

Measures taken by the Administration

2. UNDP financial regulation 17.2 requires Governments to submit audited financial reports for nationally executed projects and programmes, and UNDP had, accordingly, set a deadline of 30 April for the submission of such reports. UNDCP did not conduct any parallel follow-up on this issue of its own accord, given the current nature of existing arrangements. Nevertheless, UNDCP expected that some 70 per cent audit coverage of 1998-1999 expenditures would be achieved by 31 May 2000, which would be a significant improvement over the previous biennium. The Chief of the Programme Support Service is responsible for coordinating the submission.

Comments of the Board

3. The Board encourages UNDCP to continue to work with UNDP to secure further improvements in 2000-2001. The position regarding nationally executed projects remains a problem, and the Board is therefore unable to form an opinion on this expenditure.

Recommendation 9 (b)

4. UNDCP should complete and promulgate guidelines on drug control policy as a matter of priority.

Measures taken by the Administration

5. UNDCP concurs with this recommendation and appreciates that the audit report acknowledged the progress already made. While this will be taken forward as a priority, the timing of the issuance of guidance on the various issues highlighted by the auditors depends on a number of external factors. Global programmes on assessing the magnitude of drug abuse and the extent of illicit cultivation have been developed in the light of the policies endorsed during the special session of the General Assembly on the world drug problem. Various guidelines have been and are being prepared on drug control policy. For example, the Commission on Narcotic Drugs submitted a document to the Economic and Social Council on youth and drugs (E/CN.7/1999/8) dealing with the question of how youth programmes should be conceptualized. UNDCP is also working on a handbook for the development of prevention programmes for youth. Other products should be available by the end of 2000.

Comments of the Board

6. The implementation of the recommendation is ongoing. The Board notes that although certain guidelines have been issued, more needs to be done in 2000-2001 to finalize comprehensive guidance material on drug control policy.

Recommendations 9 (c) and (d)

7. UNDCP should:

(a) Strengthen project documents by systematically incorporating baselines, targets and monitoring and evaluation frameworks;

(b) Carry out a thorough appraisal of the scale of the drug problem to be addressed and a cost-benefit analysis of project proposals before projects are approved.

Measures taken by the Administration

8. UNDCP concurs with the recommendation and will continue with the further development of appropriate measures. Revised guidelines on programme and project preparation aimed at substantially improving programme and project documents have been developed and are being tested. They will be formally introduced during 2000. Implementation is being coordinated by the operations branch, with clear identification of staff responsible for checking that these "quality elements" are systematically incorporated into programmes and projects. Programme and project planning will involve a comprehensive assessment of the drug control situation, necessary baseline studies, the establishment of realistic achievement indicators, monitoring systems and evaluation plans. A cost-benefit analysis of programme and project proposals forms an integral part of the preparation and appraisal process.

Comments of the Board

9. The Board notes these important developments and that UNDCP expects to introduce revised procedures to address the Board's concerns during 2000.

Recommendation 9 (e)

10. UNDCP should initiate ex post facto evaluations of projects, where appropriate, to obtain a more reliable assessment of the sustained impact of projects some years after activities have been completed.

Measures taken by the Administration

11. UNDCP agrees that more attention should be given to evaluating the impact of projects. UNDCP aims for lessons learned from projects and programmes to be publicized and disseminated widely to Member States and others and used as a basis to design the next generation of technical assistance interventions. The priority being given to this area is reflected in the recently revised medium-term plan stemming from the action plans adopted by the General Assembly at its twentieth special session, held in June 1998. Emphasis will be placed on assessments at the programme and country levels in support of meeting the specific targets set in the

action plans. During the biennium 1998-1999, two ex post facto project evaluations were conducted, and more are planned for 2000. Furthermore, UNDCP has presented to the Commission on Narcotic Drugs a proposal to institute a series of thematic programme evaluations, the pilot phase of which is starting in 2000. These evaluations will cover systematically the Programme's technical cooperation portfolio of ongoing projects, but will assess the continuing impact of completed projects as well. The aim is not only to review results and impact, but to glean lessons learned for use in future programmes.

Comments of the Board

12. The Board welcomes the priority being given to evaluating of the impact of projects and is pleased to note that two ex post facto project evaluations were conducted in 1998-1999 and that more are planned for 2000.

Recommendation 9 (f)

13. UNDCP should complete the curricula and training materials for the intermediate and advanced courses in contemporary drug-abuse control policy as a matter of priority, develop a training plan with clearly defined responsibilities and a timetable and take action to secure the necessary financial resources.

Measures taken by the Administration

14. Relevant curricula and a detailed syllabus for each of the three training levels — basic, intermediate and advanced — were considered by a UNDCP-wide working group that submitted a report to the Executive Director in October 1996. The report, together with a suggested course of action and timetable, was further submitted to and endorsed by the UNDCP Management Committee, in January 1997, and the Executive Director of UNDCP. Two basic-level training courses have been provided at headquarters and four have been provided in the field, completing the first round of field training. A global internal evaluation was carried out in 1999 and, on the basis of lessons learned, the intermediate and advanced courses will be developed. UNDCP was also setting up a training programme to be implemented by the Management Advisory Unit, in collaboration with the different sections/units and field offices, in the form of a two-year training project aimed at strengthening management capacity and the personal development of staff. Regarding funding, training activities, including field training, were budgeted for in 1998-1999 and were also approved at an appropriate level in the 2000-2001 support budget.

Comments of the Board

15. The Board notes that UNDCP is now in a position to complete the curricula and training materials for the intermediate and advanced courses in contemporary drug-abuse control policy. The Board notes, however, that the pace of progress has been slow and urges UNDCP to complete the design and delivery of these training courses without further delay.

Recommendation 9 (g)

16. UNDCP should ensure that all systems are tested for year-2000 compliance, with sufficient lead time to address any deficiencies.

Measures taken by the Administration

17. UNDCP has fully implemented this recommendation, and no deficiencies whatsoever were found.

Comments of the Board

18. The Board is pleased to note that UNDCP successfully tested all systems for year 2000-compliance and that no deficiencies were found and that no system failures occurred.

Recommendation in paragraph 32

19. UNDCP should ensure that programme frameworks are prepared on a timely basis and that clearer assessments of national legislation and government capacities, as well as financial estimates and lessons learned, are incorporated into the programmes.

Measures taken by the Administration

20. UNDCP concurs with the recommendation. Country and subregional programme frameworks have been replaced by a two-tiered system which, for the first time, integrates substantive and financial planning as reflected in the biennial programme budget. As recommended, financial estimates and lessons learned are now being included together with the programmatic description. Programme documents, which flow from the biennial programme budget, are prepared on the country or subregional level. The programmes thus elaborated are based on a comprehensive situation assessment, including the national legislative and institutional situation and capacity. The decentralization of responsibilities to the field level and the streamlining of procedures had also contributed to required improvements, and technical cooperation work had been reorganized in four thematic areas to provide more coherence to and to act as a platform for programme planning, management, monitoring and evaluation. Further, project ideas, including financial aspects, are now written into these programme documents. The Programme's extensive portfolio of technical cooperation projects (expenditures of \$59.3 million in 1999) are being consolidated into some 65 thematic programmes (country, regional, global) to provide coherence and efficiency, and to allow better monitoring and evaluation.

Comments of the Board

21. The Board welcomes the action taken to improve the preparation of programme frameworks.

Recommendation in paragraph 48

22. UNDCP should adopt a more prudent approach in the planning of its projects, ensuring that projects have realistic start dates and duration and sound procurement planning, financial resources and execution arrangements.

Measures taken by the Administration

23. UNDCP fully concurs with this recommendation. One of the main aims of the revised guidelines mentioned above is to ensure sound programme and project planning, which should result in more realistic starting dates, project duration, activity work plans and related inputs and adequate execution and implementation arrangements. It should be noted that programme delivery in 1998-1999 improved by 38.8 per cent over the previous biennium. The implementation of the new financial system (ProFi) is largely motivated by the need for better programme and project financial planning. Managing the funds entrusted to UNDCP will be more efficient once the system is in place, as it will allow a real-time assessment of the financial status of projects for income (earmarked and general-purpose) and expenditure. Furthermore, the decentralization of responsibilities to the field level and the streamlining of administrative procedures had resulted in improvements in project planning, approval and delivery.

Comments of the Board

24. The Board notes that its recommendation will be addressed by the guidelines on programme and project presentation. The Board also notes the significant improvement in programme delivery in 1998-1999.

Recommendation in paragraph 60

25. UNDCP should review its needs for additional support from external organizations with expertise in drug-related issues, identify the institutions that are best placed to meet its requirements and develop relevant agreements with them.

Measures taken by the Administration

26. The extent to which UNDCP can work with cooperating institutions should be governed by the capacity it has for exploiting them. Given the present constraints in staff and other resources, UNDCP believes it is better to confine the network to those institutions with which it can actually collaborate. The expertise and the support of external organizations is continuously used wherever feasible. In connection with the publication of "Drug Nexus in Africa", there was extensive collaboration with national expert teams, particularly the University of London School of Oriental and African Studies as well as a number of departments and institutions in Africa. Similar expertise was also mustered for the preparation and launching of the global study on illegal drug markets, which was eventually handed over to the United Nations Interregional Crime and Justice Research Institute. As recommended by the Board, emphasis will need to be placed on developing specific plans of joint work with institutions best placed to meet the Programme's requirements.

Comments of the Board

27. The Board notes that UNDCP has developed specific plans of joint work with certain institutions during 1998-1999 and recognizes the constraints in staff and other resources that UNDCP faces. The Board trusts that in 2000-2001 UNDCP will continue this important process of identifying the institutions that are best placed to meet its requirements and develop relevant agreements with them.

Recommendation in paragraph 66

28. UNDCP should:

- (a) Classify individual consultants according to a smaller number of key disciplines that would be helpful for the staff expected to use the roster;
- (b) Promote and support the use of the roster by ensuring that it is regularly maintained and updated;
- (c) Undertake periodic analyses of those areas of specialization most in demand to help identify shortfalls and initiate action to address them in advance of possible project assignments.

Measures taken by the Administration

29. UNDCP concurs with the Board's recommendations. A limited number of targeted, useful consultant categories will be used. Candidates are now routinely screened before being placed on the roster. In order to further rationalize the roster, the central roster has been merged with the personnel roster maintained by the United Nations Office at Vienna. This would be complemented by decentralized offices with specific rosters linked to the central roster through the Intranet. Rationalization of the roster is targeted for 2000. The Chief of the Programme Support Service is responsible for coordinating implementation of this recommendation.

Comments of the Board

30. The Board notes the Programme's plans to further develop and rationalize the consultant roster and urges the organization to ensure that those initiatives are fully implemented as planned in 2000-2001.

Recommendation in paragraph 69

31. UNDCP needs to improve the transparency of its evaluations of consultant performance and should:

- (a) Introduce a standard evaluation form to document performance assessments for all consultants, covering the extent to which they met deadlines, budgets and objectives;
- (b) Ensure that evaluations are carried out consistently and in a timely manner at the end of consultants' assignments.

Measures taken by the Administration

32. UNDCP will give due consideration to these recommendations in order to continually improve the transparency of its evaluation of consultant performance. A decentralized roster on the Intranet, as mentioned previously, could be considered to make essential improvements without adding additional forms. In connection with activities undertaken to improve the roster, the Intranet system under consideration would facilitate easy integration of more detailed, standardized assessments of the performance of consultants into the central database. UNDCP considers that the system will also improve the frequency and timeliness of reporting on consultant performance.

Comments of the Board

33. The Board notes the Programme's plans to develop and rationalize the consultant roster. However, it is disappointed to note that little real progress has been made to improve the evaluation of consultants employed in 1998-1999.

Recommendation in paragraph 70

34. UNDCP should record the results of evaluations on the central roster to ensure that they are accessible to UNDCP staff.

Measures taken by the Administration

35. UNDCP takes note of this recommendation. As suggested above, such information could more easily be maintained by concerned substantive offices on a decentralized roster on the Intranet. We will follow up to see how this can best be achieved. The Intranet system under consideration would ensure the quick and reliable transfer of information from decentralized rosters maintained by substantive offices to the central roster and easy access to information by UNDCP staff. Rationalization of the roster is targeted for the course of 2000. The Chief of the Programme Support Service is responsible for coordinating implementation of this recommendation.

Comments of the Board

36. The Board notes that its recommendation will not be fully implemented until the biennium 2000-2001.

Recommendation in paragraph 77

37. UNDCP should ensure that, in future, Internal Audit and the United Nations Controller are promptly notified of cases of fraud and presumptive fraud.

Measures taken by the Administration

38. The recommendation is noted for timely compliance in the future. Cases of fraud, presumptive fraud and write-offs of any UNDCP money or assets and the follow-up actions taken have been duly reported in a timely manner. The Chief of the Programme Support Service is responsible for coordinating implementation of this recommendation.

Comments of the Board

39. The Board welcomes the action taken to improve the procedures for ensuring timely reporting of cases of fraud and presumptive fraud.

Notes

^a *Official Records of the General Assembly, Fifty-third Session, Supplement No. 5I* (A/53/5/Add.9), chap. II.

Chapter III

Audit opinion and certification of the financial statements

Audit opinion

We have audited the accompanying financial statements, comprising statements I to III, schedules 1 to 6 and the supporting notes of the United Nations International Drug Control Programme for the financial period ended 31 December 1999. The financial statements are the responsibility of the Executive Director. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, and as considered by the auditor to be necessary in the circumstances, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Executive Director, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the audit opinion.

Except for the effect of any adjustments that may be necessary upon receipt of outstanding audited expenditure statements relating to nationally executed projects, in our opinion these financial statements present fairly, in all respects, the financial position as at 31 December 1999 and the results of operations and cash flows for the period then ended in accordance with the Programme's stated accounting policies as set out in note 2 to the financial statements, which were applied on a basis consistent with that of the preceding financial period.

Further, in our opinion, the transactions of the Programme that we have tested as part of our audit have in all significant respects been in accordance with the Financial Regulations and legislative authority.

In accordance with article XII of the Financial Regulations, we have also issued a long-form report on our audit of the Programme's financial statements.

(Signed) Sir John **Bourn**
Comptroller and Auditor General
of the United Kingdom of Great Britain
and Northern Ireland

(Signed) Osei Tutu **Prempeh**
Auditor-General of Ghana

(Signed) Celso D. **Gangan**
Chairman, Philippine Commission on Audit

30 June 2000

Certification of the financial statements

10 May 2000

I certify that the appended financial statements of the Fund of the United Nations International Drug Control Programme, numbered I to III, the notes and the supporting schedules are correct based on our records and certified reports from other executing agencies.

(Signed) **Pino Arlacchi**
Executive Director

United Nations International Drug Control Programme

Chapter IV

Financial statements for the biennium ended 31 December 1999

Annex

Notes to the financial statements

Note 1

Statement of aims

The United Nations International Drug Control Programme (UNDCP) aims to ensure coherent and effective action by the international community against drug abuse and illicit drug trafficking. It supports the development of international norms and standards, ensures harmonized action by the United Nations system, facilitates the exchange of information, dialogue and cooperation among Governments at the subregional, regional and global levels and provides technical advice and assistance to Governments in support of a balanced approach targeting both illicit supply and demand.

Note 2

Accounting policies

The following are the significant accounting policies of the Fund of the United Nations International Drug Control Programme:

(a) Rules and procedures

The accounts of the Fund are maintained in accordance with the Financial Regulations of the United Nations and its own Financial Rules and in conformity with the United Nations system common accounting standards, as recognized by the General Assembly in its resolution 48/216 C of 23 December 1993 and subsequent revisions.

(b) Accounting convention

The accounts are prepared on a historical cost basis, modified to the extent that the cost of all property acquired is charged as an expense in the year of purchase.

The financial period is a biennium consisting of two consecutive calendar years.

(c) Contingent liabilities

Provision for repatriation grant entitlements is calculated on the basis of 8 per cent of net base pay for all personnel funded from the Fund of UNDCP (note 15). In addition to these specific provisions, it is considered prudent to set aside under the operational reserve estimated costs likely to arise from the contingency of all personnel covered by the Fund having to separate from service at the same time (note 16).

(d) Unliquidated obligations

Unliquidated obligations are expenditures based on firm obligations entered into but not disbursed during the financial period. Unliquidated obligations for the

current period in respect of all technical cooperation activities remain valid for 12 months following the end of the period to which they relate.

(e) Special-purpose contributions

Special-purpose contributions are recorded as income when received. For special-purpose contributions received in advance, income is deferred to future periods, as otherwise their exceptional size and nature would materially distort operational results and fund balances.

(f) General-purpose contributions

General-purpose contributions are recorded on the basis of written pledges. Pledges are recorded against a written commitment by a prospective donor to pay a monetary contribution at a specified time or times. Unpaid pledges are cancelled when a written request for cancellation is received. In addition, unpaid pledges older than five years are cancelled when no written confirmation is received in response to reminders.

(g) Miscellaneous income

Refunds of expenditures charged to prior financial periods, net gains on exchange and proceeds from the sale of surplus property are credited to miscellaneous income.

(h) Interest income

Interest income is based only on amounts received and accrued from cash, term deposits and investments relating to the financial period. Interest due from cash, term deposits and investments made in the financial period but not maturing until future periods is recorded as accounts receivable.

(i) General-purpose and special-purpose funds

General-purpose funds arise from income that is not earmarked for a specific purpose or project. They are used to fund the approved biennial support budget as well as those programme activities not funded by special-purpose funds. Special-purpose funds arise from income that is earmarked for specific programmes, projects or purposes within broader geographic and thematic sectors.

(j) Cash and term deposits

Funds on deposit in interest-bearing bank accounts, time deposits and call accounts that are immediately available or will be maturing within 12 months of the period end date are shown in note 10 separately from term deposits maturing after 12 months of the period end date. All term deposits are placed in line with the United Nations investment policies and guidelines.

(k) Investments

In line with United Nations investment policies and guidelines, temporary surpluses are placed in securities such as AAA-rated bonds or notes based on cash-flow requirements and taking into account investment bids received at the time of placement. Details of these investments are disclosed in note 11.

(l) Translation of currencies

The financial statements of the Fund are presented in United States dollars which is the currency best suited to its operations. As per United Nations accounting standards, transactions in currencies other than United States dollars are recorded in United States dollars by applying the United Nations operational rate of exchange at the time of the transaction. The policy for translating balance sheet items maintained in other currencies is also in accordance with United Nations accounting standards. For monetary items (that is, money held and assets and liabilities and any other balances to be received or paid in fixed or determinable amounts of money) and non-monetary items carried at fair value in accounts maintained in other currencies, the translation into United States dollars is done at the applicable United Nations rate of exchange in effect as at the date of the financial statements. Non-monetary items carried at historical cost in other currencies are translated using the United Nations operational rate of exchange at the date of the transaction. On the closing of the accounts at the end of each financial period, if the balance of the exchange accounts reflects a net loss on exchange, it is debited to the budgetary account. If there is a net gain, it is credited to miscellaneous income.

(m) Programme support costs

In accordance with United Nations practice and as authorized by its governing body, the Commission on Narcotic Drugs, UNDCP charges a programme support rate of up to 13 per cent for programme/project execution. In case the programme or project is shared between UNDCP and an associated agency, programme support charges are shared by the two organizations, with the combined amount not exceeding 13 per cent. For nationally executed programmes and projects, a maximum of 5 per cent is charged for programme support. Programme support costs paid in the biennium to agencies under this arrangement are charged to programme expenditure in the financial statements, as they constitute an outflow of funds to UNDCP. Support costs retained by UNDCP under this arrangement are not charged to programme expenditure since they have been incurred under the biennial support budget. Full details of the amounts retained by UNDCP are disclosed by funding source in schedule 4 to the financial statements. The amount retained out of programme activities funded by special-purpose income, however, is shown as funding part of the support budget, being the effective recovery of those costs through the programme support arrangement. This amounts to \$5,101,081 for the biennium 1998-1999 (\$3,685,810 for 1996-1997).

(n) Refunds to donors

In accordance with the terms and conditions stipulated in funding agreements, donors are refunded amounts exceeding the requirements of specific projects that have been completed.

**Note 3
Regular budget expenditure**

The total expenditure of \$136,518,137 shown in statement I does not include the following amounts for 1998-1999 financed from the regular budget of the United Nations (in United States dollars):

	1998-1999	1996-1997
Staff and other personnel costs	11 959 951	13 593 692
Travel on official business	1 045 175	955 185
Contractual services	817 330	491 288
General operating expenses	261 853	204 767
Acquisitions	254 048	176 306
Fellowships, grants, other	86 009	-
Total	14 424 366	15 421 238

Note 4

Public donations

Public donations received in 1998-1999 amounted to the following (in United States dollars):

	1998-1999	1996-1997
Drug Abuse Prevention Centre, Japan	731 287	1 000 000
Society of Japanese Pharmacopoeia	34 040	228 170
United Nations Fund for International Partnerships	150 000	-
Fonds de lutte contre le trafic des stupéfiants	-	189 805
Aga Khan Development Network	50 000	30 500
Sponsors of the International Day against Drug Abuse, Brazil	-	102 177
Sponsors of the First National Drug Abuse Prevention Campaign, Brazil	18 495	201 922
United Nations Office for the Coordination of Humanitarian Assistance to Afghanistan	70 000	-
Social Service Industry (SESI), Brazil	859 402	-
Total	1 913 224	1 777 043

Note 5

Interest income

Total interest earned in the biennium 1998-1999 amounted to \$9,071,982, compared with \$8,714,617 in 1996-1997. Special-purpose and general-purpose funds are not invested separately. Until 1995 the total interest income from investments was apportioned between general-purpose and special-purpose funds in accordance with the ratio of their respective average fund balance. However, the amount of interest apportioned to the special-purpose fund needs to be assigned more precisely to the individual trust funds comprising the fund balance. In addition, not every trust fund agreement specifies a requirement to accrue interest or to specially account for it. From 1996 onwards, therefore, where donor funding arrangements specifically require accruing interest or where donors have otherwise

indicated the desire for an accounting of accumulated interest, the relevant special-purpose trust fund has been credited interest over the period of its use and on the balance outstanding at the end of 1999. On this basis, in 1998-1999, interest income of \$2,505,735 was assigned to special-purpose trust funds as per specific donor requirements. The balance of \$6,566,247 in interest earned for 1998-1999 is assigned to the general-purpose fund.

Note 6

Miscellaneous income

Total miscellaneous income in 1998-1999 amounted to (in United States dollars):

	<i>1998-1999</i>	<i>1996-1997</i>
Airline refunds	43 811	-
Sale proceeds from:		
Drug identification kits	93 121	53 112
Equipment	-	8 000
T-shirts	924	-
World drug reports	496	-
Reimbursement for installation of national database system	3 000	-
United Nations Day Tambola	3 400	-
Proceeds from drug prevention day	837	-
Total	145 589	61 112

Note 7

Inter-fund adjustments

Adjustments between funds included (in United States dollars):

	<i>General-purpose</i>	<i>Special-purpose</i>
Unspent special-purpose funds reallocated by the donor to general-purpose funds	66 286	(66 286)

Note 8

Provision for allocations

The provision of fund balances for unspent project budget allocations covering 1998-1999 activities has been adjusted by \$682,500 to reduce the provision from \$854,800 to match these unspent allocations, amounting to \$172,300 at the end of 1999, as shown in note 15. Total expenditures for 1998-1999 against these allocations have so far not been reported by executing agencies, and therefore a provision is maintained in the accounts.

Note 9

Fund balances

Fund balances represent the unexpended resources of the programme as at 31 December 1999. Net changes in these balances during 1998-1999 and future commitments against them are summarized below (in United States dollars):

	<i>General-purpose</i>	<i>Special-purpose</i>	<i>Total</i>
Fund balance 1 January 1998 committed under the 1998-1999 programme budget ^a	17 9	28 785 726	46 730 626
Balance 1 January 1998 available for future programme activities	13 7	-	13 745 762
Total fund balance, 1 January 1998	31 6	28 785 726	60 476 388
Net changes in 1998-1999 (statement I)	(10 8	17 619 684	6 795 654
Total fund balance, 31 December 1999	20 8	46 405 410	67 272 042
Ongoing project commitments	19 0	46 405 410	65 424 277
Balance at 31 December 1999 available for future programme activities	1 8	-	1 847 765

^a Initial 1998-1999 budget (see E/CN.7/1997/14).

Note 10

Cash and term deposits

Cash included (in United States dollars):

	<i>At 31 December 1999</i>	<i>At 31 December 1997</i>
Imprest	-	88 703
Convertible currency deposits	-	117 560
Interest-bearing bank deposits maturing within 12 months	64 098 622	76 663 818
Interest-bearing bank deposits maturing between 12 and 24 months	10 000 000	-
Non-convertible currency deposits	-	3 440
Total	74 098 622	76 873 521

Note 11

Investments

	<i>At 31 December 1999</i>	<i>At 31 December 1997</i>
Discounted notes maturing within 12 months, at purchase cost	19 750 442	-

The face value of these notes on maturity would be \$20,560,000. Interest of \$173,219 accruing up to 31 December 1999 has been credited to income in 1998-1999.

Note 12

Other accounts receivable

Accounts receivable included (in United States dollars):

	<i>At 31 December 1999</i>	<i>At 31 December 1997</i>
Education grant advances	354 458	271 841
Travel advances	90 622	91 292
Salary advances	94 500	141 236
Other receivables and deferred charges	403 071	173 645
Total	942 651	678 014

Note 13

Deferred income

Deferred income consists of contributions received in advance for future periods and included (in United States dollars):

	<i>At 31 December 1999</i>	<i>At 31 December 1997</i>
Brunei Darussalam	-	50 000
Denmark	-	3 462 931
Italy	-	8 279 406
Mexico	-	300 000
Sweden	-	3 418 843
Total	-	15 511 180

As per the accounting policy set out in note 2 (e), past income received in advance was of such an exceptional size and nature that, in order not to distort previous operational results and fund balances, income of \$15,511,180 was deferred from 1996-1997 to 1998-1999. In 1998-1999, with the completion of many projects funded from this deferred income and owing to increased programme implementation, the remaining balance of this deferred income is not considered material enough to further defer it to 2000-2001. Accordingly, any small unspent balances of previously deferred income plus unspent income of 1998-1999 are

reflected in the fund balances as at 31 December 1999, which show a net increase of \$6,795,654 (see statement I).

Note 14

Unliquidated obligations

Unliquidated obligations comprised the following (in United States dollars):

	<i>At 31 December 1999</i>	<i>At 31 December 1997</i>
Programme budget	14 087 273	5 236 874
Biennial support budget	1 190 550	1 055 074
Total	15 277 823	6 291 948

Note 15

Other accounts payable

Accounts payable included (in United States dollars):

	<i>At 31 December 1999</i>	<i>At 31 December 1997</i>
Repatriation grant accruals (note 2 (c))	505 274	368 065
Provision for allocations (note 8)	172 300	854 800
Experts payroll and other field expenses	1 293 031	1 416 436
Appendix D compensation accruals	26 846	-
Unapplied deposits	63 807	-
Miscellaneous	178 126	55 395
Total	2 239 384	2 694 696

Note 16

Operational reserve

Until 1995 an operating reserve of 15 per cent of annual expenditures (adjusted for programme support costs) was maintained, amounting to \$9,486,700 (general-purpose: \$3,446,200; special-purpose: \$6,040,500) as at 31 December 1995. Upon the recommendation of the Advisory Committee on Administrative and Budgetary Questions, this arrangement was reviewed in 1996 and in the light of actual reserve requirements, the Commission on Narcotic Drugs, as the Programme's governing body, approved the creation instead of a consolidated reserve of \$12,000,000 (\$11,500,000 from the general-purpose fund balance and \$500,000 from the programme support reserve). The operational reserve level has been maintained at \$12,000,000 during 1998-1999, with no movement in the reserve.

The operational reserve is estimated to cover the following contingencies (in United States dollars):

	<i>Headquarters</i>	<i>Country operations</i>	<i>Total</i>
Staff separation cost estimates as per the accounting policy on contingent liabilities (note 2 (c))	5	3	9
Less: Repatriation grant accruals already provided for (note 15)	(505)	-	(505)
Subtotal	4	3	8
Unforeseen shortfalls, uneven cash flows, unplanned costs and other final contingencies			3
Total			12

Note 17

Non-expendable inventory

In accordance with the accounting policy disclosed in note 2 (b), non-expendable equipment held by the Programme is not shown as an asset in the statement of assets and liabilities. As per inventory records, the purchase cost of these items at year-end was (in United States dollars):

	<i>1999</i>	<i>1997</i>
Headquarters	2 820 153	3 175 684
Country offices	1 548 714	1 205 716
Total	4 368 867	4 381 400

Note 18

Disclosure as to participation in the United Nations Joint Staff Pension Fund

The Programme is a participant in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits. The Pension Fund is a funded defined-benefit plan. The financial obligation of the organization to the United Nations Joint Staff Pension Fund consists of its mandated contribution at the rate established by the General Assembly together with its share of any actuarial deficiency payments that might become payable pursuant to article 36 of the Regulations of the United Nations Joint Staff Pension Fund.