



**United Nations**

# **Financial report and audited financial statements**

**for the biennium ended 31 December 2003  
and**

## **Report of the Board of Auditors**

**Volume I  
United Nations**

**General Assembly  
Official Records  
Fifty-ninth Session  
Supplement No. 5 (A/59/5)**

**General Assembly**  
Official Records  
Fifty-ninth Session  
Supplement No. 5 (A/59/5)

# **Financial reports and audited financial statements**

**for the biennium ended 31 December 2003 and**

## **Report of the Board of Auditors**

**Volume I**  
**United Nations**



United Nations • New York, 2004



*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.

## Contents

<i>Chapter</i>	<i>Page</i>
Abbreviations . . . . .	vii
Letters of transmittal . . . . .	ix
I. Financial report for the biennium ended 31 December 2003 . . . . .	1
A. Introduction . . . . .	1
B. Overview . . . . .	1
C. United Nations General Fund, Working Capital Fund and Special Account . . . . .	3
D. Technical cooperation activities . . . . .	7
E. General trust fund activities . . . . .	7
F. Other special funds . . . . .	8
Annex Supplementary information . . . . .	10
II. Report of the Board of Auditors . . . . .	11
Summary . . . . .	11
A. Introduction . . . . .	13
1. Previous recommendations not fully implemented . . . . .	14
2. Main recommendations . . . . .	15
B. Financial issues . . . . .	17
1. Financial overview . . . . .	17
2. United Nations system accounting standards . . . . .	21
3. Presentation and disclosure of financial statements . . . . .	21
4. Liabilities for annual leave, end-of-service and post-retirement benefits . . . . .	24
5. Trust funds . . . . .	25
6. United Nations Fund for International Partnerships . . . . .	26
7. Write-off of losses of cash, receivables and property . . . . .	29
8. Ex gratia payments . . . . .	30
C. Management issues . . . . .	30
1. Information and communication technology . . . . .	30
2. Budget recosting methodology . . . . .	45

3.	Programme management and results-based budgeting . . . . .	50
4.	Monitoring of nationally executed projects . . . . .	53
5.	Treasure and investment management . . . . .	54
6.	Procurement and contract management . . . . .	56
7.	Inter-agency services . . . . .	60
8.	Human resources management . . . . .	61
9.	Consultants and individual contractors . . . . .	65
10.	Office of Internal Oversight Services . . . . .	67
11.	Office of Legal Affairs . . . . .	68
12.	Special political missions . . . . .	71
13.	Research and/or training institutes and agencies . . . . .	72
14.	Other agencies . . . . .	77
15.	Fraud and presumptive fraud . . . . .	80
D.	Acknowledgement . . . . .	85
Annexes		
I.	United Nations offices organizations audited during the biennium 2002-2003 . . . . .	86
II.	Inactive trust funds as at 31 December 2003 . . . . .	88
III.	Summary of the status of implementation of recommendations for the biennium 1998-1999 (with “under implementation” status as at 31 December 2001) . . . . .	91
IV.	Summary of the status of implementation of recommendations for the biennium 2000-2001 . . . . .	92
III.	Audit opinion . . . . .	93
IV.	Certification of the financial statements . . . . .	94
V.	Financial statements for the biennium ended 31 December 2003 . . . . .	95
	Statement I. United Nations all funds summary: income and expenditure and changes in reserves and fund balances for the biennium 2002-2003 ending 31 December 2003 . . . . .	96
	Statement II. United Nations all funds summary: assets, liabilities and reserves and fund balances as at 31 December 2003 . . . . .	97
	Statement III. United Nations all funds summary: cash flows for the biennium 2002-2003 ending 31 December 2003 . . . . .	98
	Statement IV. United Nations General Fund: appropriations for the biennium 2002-2003 ending 31 December 2003 . . . . .	99
	Statement V. United Nations General Fund and related funds: income and expenditure and changes in reserves and fund balances for the biennium 2002-2003 ending 31 December 2003 and assets, liabilities and reserves and fund balances as at 31 December 2003 . . . . .	102

Schedule 5.1. United Nations General Fund: revenue-producing activities: income and expenditure for the biennium 2002-2003 ending 31 December 2003 . . . . .	104
Schedule 5.2. United Nations General Fund: miscellaneous income for the biennium 2002-2003 ending 31 December 2003 . . . . .	105
Statement VI. Technical cooperation activities: income and expenditure and changes in reserves and fund balances for the biennium 2002-2003 ending 31 December 2003 and assets, liabilities and reserves and fund balances as at 31 December 2003 . . . . .	106
Statement VII. United Nations general trust funds: income and expenditure and changes in reserves and fund balances for the biennium 2002-2003 ending 31 December 2003 and assets, liabilities and reserves and fund balances as at 31 December 2003 . . . . .	108
Schedule 7.1. United Nations general trust funds: income, expenditure, reserves and fund balances for the biennium 2002-2003 ending 31 December 2003 . . . . .	110
Statement VIII. United Nations Tax Equalization Fund: income and expenditure and changes in reserves and fund balances for the biennium 2002-2003 ending 31 December 2003 and assets, liabilities and reserves and fund balances as at 31 December 2003 . . . . .	117
Statement IX. United Nations capital assets and construction in progress: income and expenditure and changes in reserves and fund balances for the biennium 2002-2003 ending 31 December 2003 and assets, liabilities and reserves and fund balances as at 31 December 2003 . . . . .	119
Schedule 9.1. United Nations construction in progress: expenditures for the biennium 2002-2003 ending 31 December 2003. . . . .	121
Statement X. Other special funds: income and expenditure and changes in reserves and fund balances for the biennium 2002-2003 ending 31 December 2003 and assets, liabilities and reserves and fund balances as at 31 December 2003 . . . . .	122
Schedule 10.1. United Nations funds held in trust: income and expenditure and changes in reserves and fund balances for the biennium 2002-2003 ending 31 December 2003 and assets, liabilities and reserves and fund balances as at 31 December 2003. . . . .	124
Schedule 10.2. Special accounts for programme support costs: income and expenditure and changes in reserves and fund balances for the biennium 2002-2003 ending 31 December 2003 and assets, liabilities and reserves and fund balances as at 31 December 2003 . . . . .	126
Schedule 10.3. Common support services: income and expenditure and changes in reserves and fund balances for the biennium 2002-2003 ending 31 December 2003 and assets, liabilities and reserves and fund balances as at 31 December 2003 . . . . .	128
Schedule 10.4. United Nations jointly financed activities: income and expenditure and changes in reserves and fund balances for the biennium 2002-2003 ending 31 December 2003 . . . . .	130
Schedule 10.5. Other funds: income and expenditure and changes in reserves and fund balances for the biennium 2002-2003 ending 31 December 2003 and assets, liabilities and reserves and fund balances as at 31 December 2003. . . . .	131

---

Notes to the financial statements .....	133
Appendix A	
United Nations Fund for International Partnerships: advances receivable as at 31 December 2003 .....	154
Appendix B	
United Nations Central Emergency Revolving Fund: advances receivable as at 31 December 2002 .....	155

---

## Abbreviations

BONUCA	United Nations Peace-building Support Office in the Central African Republic
ECA	Economic Commission for Africa
ECE	Economic Commission for Europe
ECLAC	Economic Commission for Latin America and the Caribbean
ESCAP	Economic and Social Commission for Asia and the Pacific
ESCWA	Economic and Social Commission for Western Asia
FAO	Food and Agriculture Organization of the United Nations
IAEA	International Atomic Energy Agency
ICJ	International Court of Justice
ICSC	International Civil Service Commission
ILO	International Labour Organization
IMDIS	Integrated Monitoring and Documentation Information System
IMIS	Integrated Management Information System
INSTRAW	International Research and Training Institute for the Advancement of Women
ITC	International Trade Centre UNCTAD/WTO
JIU	Joint Inspection Unit
MINUCI	United Nations Mission in Côte d'Ivoire
MINUGUA	United Nations Verification Mission in Guatemala
MINURCA	United Nations Mission in the Central African Republic
OHCHR	Office of the United Nations High Commissioner for Human Rights
ONUC	United Nations Operation in the Congo
UNAMA	United Nations Assistance Mission in Afghanistan
UNAMET	United Nations Mission in East Timor
UNAMI	United Nations Assistance Mission for Iraq
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme

---

UNEF	United Nations Emergency Force
UNEP	United Nations Environment Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFIP	United Nations Funds for International Partnership
UNFPA	United Nations Population Fund
UNHCR	Office of the United Nations High Commissioner for Refugees
UNICEF	United Nations Children’s Fund
UNICRI	United Nations Interregional Crime and Justice Research Institute
UNIDIR	United Nations Institute for Disarmament Research
UNIDO	United Nations Industrial Development Organization
UNIFEM	United Nations Development Fund for Women
UNITAR	United Nations Institute for Training and Research
UNJSPF	United Nations Joint Staff Pension Fund
UNMA	United Nations Mission in Angola
UNMISSET	United Nations Mission of Support in East Timor
UNMOGIP	United Nations Military Observer Group in India and Pakistan
UNOGBIS	United Nations Peace-building Support Office in Guinea-Bissau
UNRISD	United Nations Research Institute for Social Development
UNSECOORD	United Nations Security Coordinator
UNSMIA	United Nations Special Mission in Afghanistan
UNSSC	United Nations System Staff College
UNTAET	United Nations Transitional Administration in East Timor
UNTOP	United Nations Tajikistan Office of Peace-building
UNTSO	United Nations Truce Supervision Organization
WFP	World Food Programme
WHO	World Health Organization
WTO	World Trade Organization

---

## Letters of transmittal

29 March 2004

In accordance with financial regulation 6.5, I have the honour to submit the accounts of the United Nations for the biennium 2002-2003, which I hereby approve. The financial statements have been completed and certified as correct by the Controller.

Copies of these financial statements are also being transmitted to the Advisory Committee on Administrative and Budgetary Questions.

*(Signed)* Kofi A. **Annan**

Mr. Shauket A. Fakie  
Chairman  
United Nations Board of Auditors  
New York

---

9 July 2004

I have the honour to transmit to you the financial statements of the United Nations for the biennium 2002-2003 ended 31 December 2003, which were submitted by the Secretary-General. These statements have been examined by 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, including an audit opinion thereon.

*(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

---

## **Chapter I**

### **Financial report for the biennium ended 31 December 2003**

#### **A. Introduction**

1. The Secretary-General has the honour to submit his financial report on the accounts of the United Nations for the biennium 2002-2003 ended 31 December 2003. The financial results reported relate to activities of the United Nations other than those of peacekeeping operations, United Nations Iraq escrow accounts, the United Nations Compensation Commission, the International Criminal Tribunal for the Former Yugoslavia and the International Criminal Tribunal for Rwanda, which are reported separately.

2. The financial statements have been streamlined, as recommended by the Advisory Committee on Administrative and Budgetary Questions and endorsed by the General Assembly in resolution 57/278 A of 20 December 2002. The accounts, consisting of 10 statements supported by schedules and notes, provide financial information relating to the United Nations General Fund and related funds, technical cooperation activities, general trust funds and other special funds. Financial statements for each trust fund have not been included in the published accounts; instead, a consolidated financial position is presented. A supplementary volume containing all trust fund statements will be provided to the Advisory Committee and the Board of Auditors.

3. The present financial report is designed to be read in conjunction with the financial statements, but can also be considered alone. It presents an overview of the consolidated results and an analysis of the financial statements by major category, highlighting important trends and significant changes. The annex to the report provides technical information, as well as information required by the Financial Regulations and Rules to be reported to the General Assembly.

4. The financial report, the audited financial statements and the report of the Board of Auditors, along with the associated report of the Advisory Committee on Administrative and Budgetary Questions, will be submitted to the General Assembly at its fifty-ninth session.

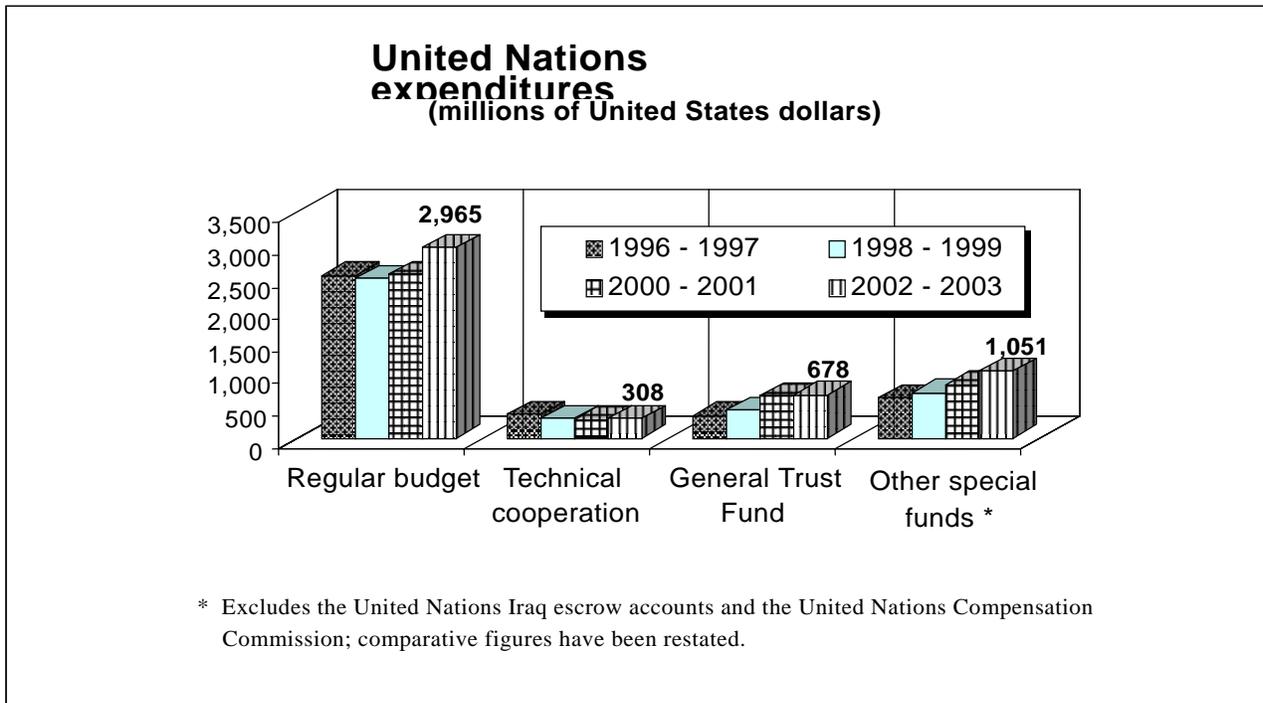
#### **B. Overview**

5. Statements I, II and III of the accounts summarize the consolidated results of United Nations activities other than the peacekeeping activities, the United Nations Iraq escrow accounts, the United Nations Compensation Commission, the International Criminal Tribunal for the Former Yugoslavia and the International Criminal Tribunal for Rwanda. Statement I presents income by major category and a total of expenditures incurred during the biennium 2002-2003. Statement II shows a summary of assets, liabilities and reserves and fund balances as at 31 December 2003. Statement III summarizes the Organization's net cash flows for the period.

6. The expenditures for the biennium 2002-2003 show an increase of 15.8 per cent for the United Nations regular budget compared with 2000-2001. This largely relates to an increase in special political missions, the strengthening of security and a weakening of the United States dollar. There was also an increase of 4.6 per cent

for technical cooperation activities and an increase of 2.2 per cent for general trust funds in 2002-2003 compared with 2000-2001. Expenditures for other special funds increased by 26.3 per cent, the majority of which is attributable to higher expenditures for jointly financed activities (schedule 10.4), the Tax Equalization Fund (statement VIII) and Common Support Services (schedule 10.3). Figure I.1 provides a graphic comparison of the overall expenditures for the past four bienniums.

Figure I.1



7. Table I.1 shows the expenditures for the four categories of United Nations activity as a percentage of total expenditures for the past four bienniums.

Table I.1  
**Expenditures by category and biennium (percentage)**

<i>Category of expenditures</i>	<i>Biennium</i>			
	<i>1996-1997</i>	<i>1998-1999</i>	<i>2000-2001</i>	<i>2002-2003</i>
Regular budget	65.4	63.4	58.9	59.3
Technical cooperation	9.4	7.6	6.7	6.2
General Trust Funds	9.2	10.9	15.3	13.5
Other special funds	16.0	18.1	19.1	21.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

### **C. United Nations General Fund, Working Capital Fund and Special Account**

8. The United Nations General Fund contains all regular budget income and expenditure, as well as the assets, liabilities and reserves and fund balances of the Organization other than those specifically identified with other funds. Statement IV shows the status of regular budget appropriations. Statement V includes income and expenditure of the General Fund and related funds (including the Working Capital Fund and Special Account) along with their assets, liabilities and reserves and fund balances as at 31 December 2003.

9. The appropriation for the regular budget for the biennium 2002-2003 totalled \$2,967.7 million. Actual expenditures totalled \$2,964.6 million, representing an increase of 15.8 per cent compared with the total expenditures of \$2,560.9 million for the biennium 2000-2001. Tables I.2 and I.3 show expenditures for the regular budget for the past two bienniums by major activity and object of expenditure, respectively.

Table I.2  
**Percentage of total expenditure by major activity**

<i>Major activity</i>	<i>Biennium</i>	
	<i>2000-2001</i>	<i>2002-2003</i>
Overall policy-making direction and coordination	19.2	18.3
Political affairs	9.6	12.1
Economic, social and humanitarian affairs	27.7	26.7
International justice and law	2.2	2.1
Public information	5.5	5.1
Common support services	19.6	18.5
Staff assessment cost	13.1	13.0
Capital and special expenditures	3.1	4.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

Table I.3  
**Percentage of total expenditure by object of expenditure**

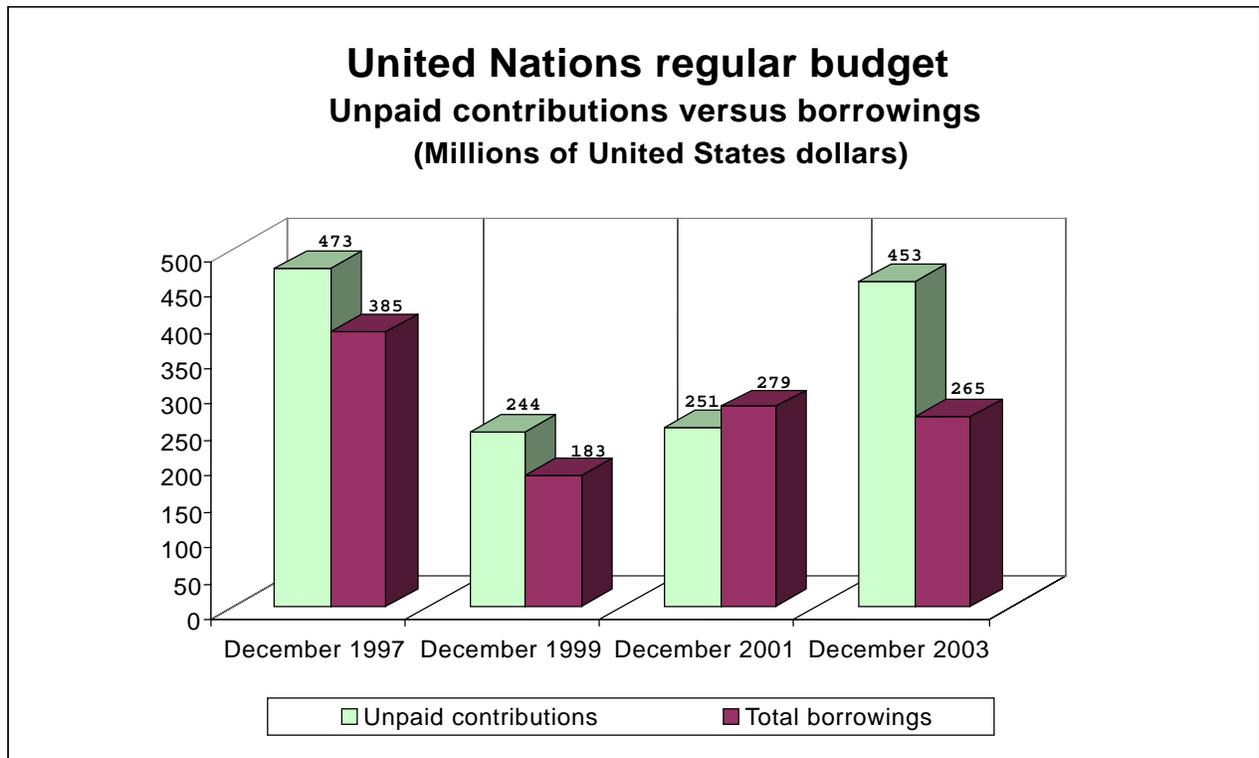
<i>Object of expenditure</i>	<i>Biennium</i>	
	<i>2000-2001</i>	<i>2002-2003</i>
Salaries and other personnel costs	78.6	77.6
Travel	2.3	2.1
Contractual services	2.9	2.7
Operating expenses	8.3	8.1
Acquisitions	3.2	3.8
All other expenses	4.7	5.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

10. Schedule 5.2 contains the details of miscellaneous income, which amounted to \$36 million for the biennium 2002-2003 and which was \$1.1 million, or 3.0 per cent higher than the amount budgeted. In comparison with the biennium 2000-2001, total miscellaneous income fell by 15.1 per cent, largely as a result of the declines in interest income and other miscellaneous income.

11. As at 31 December 2003, unpaid assessed contributions to the regular budget totalled \$453.1 million, representing an increase of \$202.2 million (80.6 per cent) compared to the situation as at 31 December 2001.

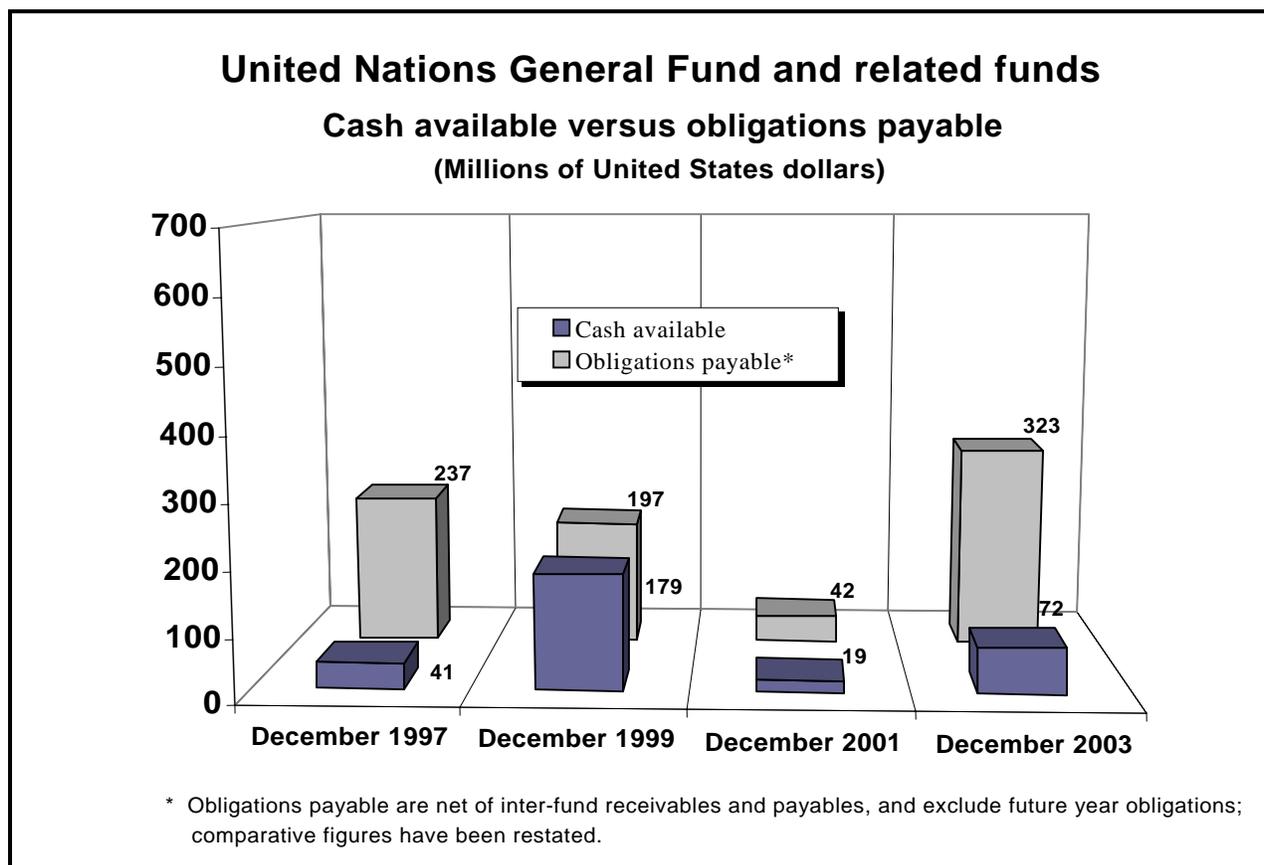
12. The failure of Member States to pay their assessed contributions in full and on time has resulted in recurring cash shortages, leading to the need for the regular budget to borrow from other sources in order to partly meet its obligations. The primary sources for borrowings continued to be the United Nations Special Account and Working Capital Fund, supplemented from time to time by temporary borrowings from peacekeeping operations. As at the end of the current biennium, the loans from peacekeeping had been repaid. The relationship between unpaid contributions and borrowings is illustrated in figure I.2.

Figure I.2



13. The higher level of unpaid assessments also negatively impacted the Organization's liquidity. Figure I.3 illustrates the level of the Organization's obligations, consisting of payments due to various providers of goods and services, and the extent to which these obligations exceeded the amounts of available cash as at the end of the previous four bienniums.

Figure I.3

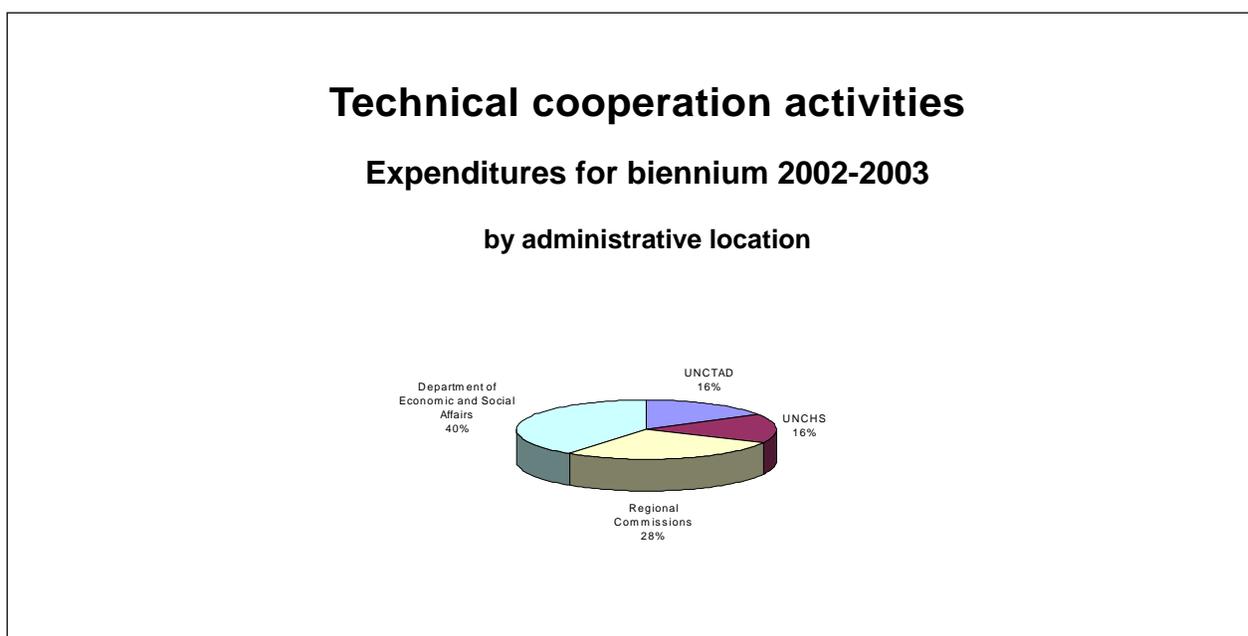


14. As at 31 December 2003, the General Fund's reserves and fund balances amounted to \$7.1 million and comprised an authorized retained surplus of \$68.3 million and a cumulative deficit of \$61.2 million. The deficit position resulted from a shortfall in income over expenditure of \$72.8 million, which was partly offset by savings on or cancellation of prior periods' obligations of \$18.6 million. The deficit was covered by an assessment in 2004 of \$76.9 million pertaining to the final appropriation for the biennium 2002-2003 which was approved by the General Assembly in resolution 58/267 A of 23 December 2003.

## D. Technical cooperation activities

15. Statement VI reflects the results of United Nations activities in the field of technical cooperation. Total expenditures for technical cooperation activities were \$308.3 million (including \$43.9 million provided from the United Nations regular budget), representing an increase of \$13.5 million compared with the biennium 2000-2001. Figure I.4 shows technical cooperation expenditures by administrative location.

Figure I.4



## E. General trust fund activities

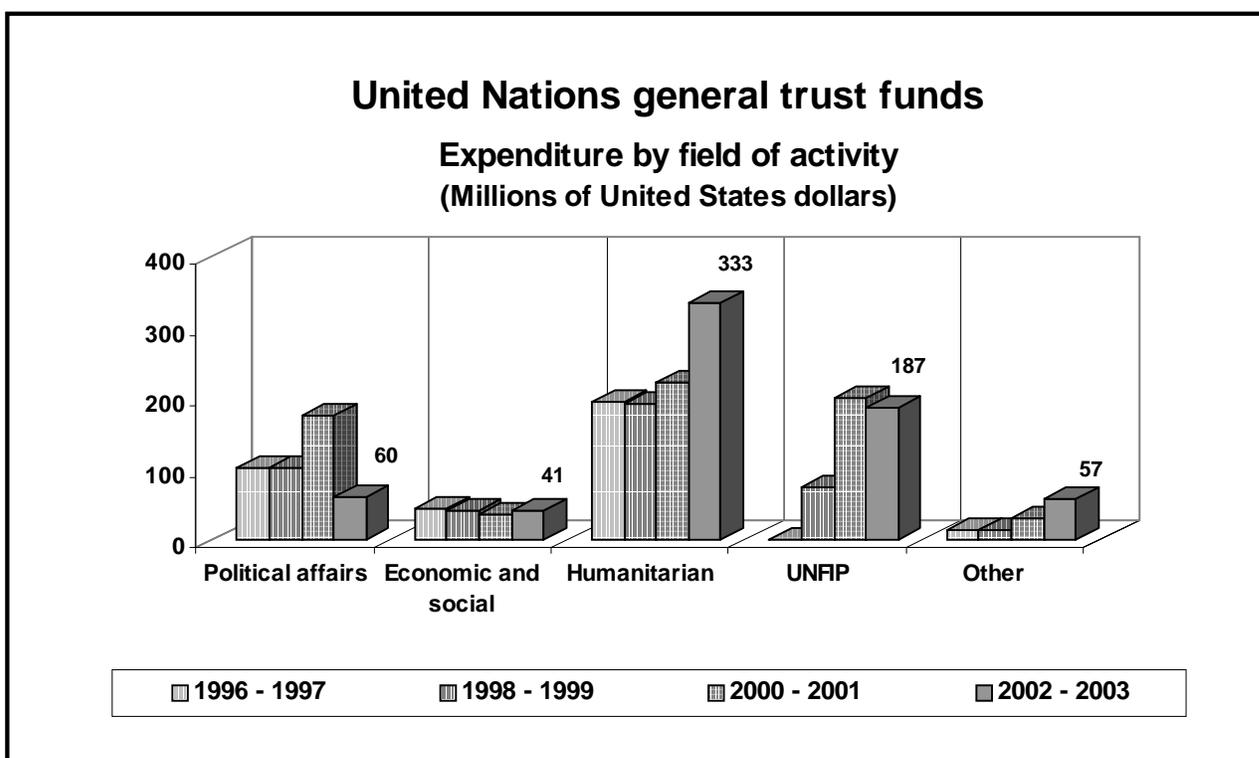
16. A consolidated summary of the 189 general trust funds is included in Statement VII. In the biennium 2002-2003, 12 general trust funds were established and 13 funds were closed. Various trust funds have been established to support or supplement the substantive work programme of the Organization or to contribute to humanitarian or relief assistance activities. Other extrabudgetary activities, namely, the voluntary funds of the Office of the United Nations High Commissioner for Refugees, the United Nations Relief and Works Agency for Palestine Refugees in the Near East, the Fund of the United Nations Environment Programme, the Habitat and Human Settlements Foundation, the United Nations University, the United Nations Institute for Training and Research, the International Trade Centre UNCTAD/WTO and the United Nations International Drug Control Programme are reported to the General Assembly separately and are not included in the accounts of the United Nations.

17. Total expenditures of \$678.1 million for all general trust funds were 2.2 per cent higher than the comparable total of \$663.7 million for the biennium 2000-2001.

Total income decreased by 20.2 per cent to \$780.5 million for the biennium 2002-2003, primarily as a result of a decrease in voluntary contributions.

18. Six large funds accounted for 71.2 per cent of total expenditures for all general trust funds, namely, the United Nations Fund for International Partnerships (\$187.1 million), the Trust Fund for Disaster Relief Assistance (\$117.9 million), the Voluntary Trust Fund for Assistance in Mine Clearance (\$55.9 million), the trust fund established to support the activities of the Centre for Human Rights (\$50.2 million), the Trust Fund for Human Security (\$40.5 million) and the trust fund for strengthening the Office of the Emergency Relief Coordinator (\$30.9 million). Summary data on all trust funds are contained in Schedule 7.1. Figure I.5 illustrates trust fund expenditures by field of activity for the previous four bienniums.

Figure I.5



### F. Other special funds

19. Statements VIII to X provide information on funds established by the United Nations for various special purposes. A description of each of these funds or group of funds and how they function is included in the notes to the financial statements.

20. Schedule 10.2 shows the activities in the programme support costs accounts, with the exception of the support account for peacekeeping operations, which is reported in the United Nations financial statements for peacekeeping operations. Programme support costs are monies earned by the United Nations for the provision of administrative support to technical cooperation activities, trust fund activities and

administrative structures such as UNDP and UNICEF. Programme support costs are charged to fund activities, so that the United Nations regular budget does not bear undue direct or indirect costs of extrabudgetary activities.

21. Overall income for non-peacekeeping-related programme support totalled \$164.9 million for the biennium 2002-2003, representing a 10.3 per cent increase over the previous biennium's total of \$149.5 million. Expenditures from the non-peacekeeping support accounts totalled \$138.5 million, representing a 13.1 per cent increase from the 2000-2001 figure of \$122.5 million.

## Annex

### Supplementary information

1. The present annex provides an explanation of the double-counting contained in the financial statements along with information that the Secretary-General is required to report.

#### Double-counting in the financial statements

2. The United Nations financial statements for individual funds contain elements of double-counting of income of \$579.9 million, expenditure of \$595.4 million and transfers to other funds of \$15.5 million. These amounts have been eliminated, as shown in statement I. Similarly, the United Nations financial statements for individual funds contain elements of double-counting of inter-fund indebtedness totalling \$579.7 million. These amounts have also been eliminated from the assets and liabilities figures shown in statement II.

#### Write-off of losses of cash and receivables

3. In accordance with financial rule 106.8, write-offs totalling \$1,612,510 were approved for the biennium 2002-2003. A breakdown of the write-offs is shown in the following table:

<i>Fund/activity</i>	<i>Biennium</i>	
	<i>2000-2001</i>	<i>2002-2003</i>
	<i>(United States dollars)</i>	
United Nations General Fund	482 129	288 107
Revenue-producing activities	-	516 663
Technical cooperation activities	10 698	31 312
General trust funds	167 602	581 336
Other special accounts	610	195 092
<b>Total</b>	<b>661 039</b>	<b>1 612 510</b>

#### Write-off of losses of property

4. In accordance with financial rule 106.9, property losses amounting to \$1,336,462 were written off during the biennium 2002-2003. The losses are based on the original cost of the properties, and include write-offs arising from shortfalls, thefts, damages and accidents. The write-offs bring the recorded balances of properties to the same levels as those shown in the property records for the actual quantities on hand. A summary statement showing the inventory values of non-expendable property write-offs was provided to the Board of Auditors in accordance with financial rule 106.9.

#### Ex gratia payments

5. In accordance with financial rule 105.12, ex gratia payments amounting to \$11,356 were made during the biennium 2002-2003.

## Chapter II

### Report of the Board of Auditors

#### *Summary*

The Board of Auditors has reviewed the operations of the United Nations at its Headquarters in New York and at the United Nations offices away from Headquarters in Addis Ababa, Bangkok, Beirut, Geneva, The Hague, Nairobi, Santiago, Santo Domingo, Turin and Vienna. The Board has also audited the financial statements of the United Nations for the biennium ended 31 December 2003.

The Board's main findings are as follows:

(a) Arrears in assessed contributions of \$453 million for the General Fund remained unpaid as at 31 December 2003. This was 81 per cent more than the arrears of \$251 million recorded as at 31 December 2001;

(b) The Tax Equalization Fund's income of \$618 million exceeded expenditure of \$565 million, and its reserves and fund balances increased by \$61 million (400 per cent) to \$76 million, as at 31 December 2003;

(c) For capital assets and construction-in-progress funds, the income of \$69 million exceeded total expenditure of \$16 million;

(d) There was a difference of \$22.43 million between the accounting books of the United Nations Headquarters and the United Nations Development Programme on "other accounts payable" representing "payables to funding source". The Board, however, was unable to examine the items composing the difference because the reconciliation reports, which would have disclosed the individual reconciling items, were not available;

(e) The estimated liabilities for end-of-service and termination benefits disclosed in note 12 to the financial statements amounted to \$1.7 billion as at 31 December 2003. The United Nations has not provided for liabilities for after-service health insurance costs or for other types of end-of-service payments;

(f) Sixty-three trust funds of the United Nations, with combined reserves and fund balances of \$54.1 million as at 31 December 2003, did not show any expenditure for the biennium 2002-2003 except for transactions pertaining to the investment and related accounts, as compared with 61 trust funds in the biennium 2000-2001;

(g) Of 259 financial utilization reports expected by the United Nations Fund for International Partnerships from its implementing partners, 57 (22 per cent) were not recorded as at 31 December 2003 owing to delays in their submission;

(h) The newly created Information and Communication Technology (ICT) Network has adopted initiatives for the implementation of a United Nations system extranet, including a database on the electronic assets (e-assets) available within the United Nations system, as well as for the adoption of common approaches to information security, procurement and knowledge-sharing. A United Nations projects review committee to evaluate proposals for major ICT projects and investments was also created in November 2003. There was, however, little proof of a significant impact in implementation terms by mid-2004;

(i) There was until recently little or no functional reporting relationship between United Nations Headquarters and the information technology services of offices away from Headquarters. Progress was made in 2004, however, while the major entities have published information and communication strategies, there do not appear to have been many explicit efforts to seek commonalities and synergies in the development and implementation of these strategies among the United Nations, its funds and its programmes;

(j) The United Nations has no agreed model of what to include under the cost of ICT. The United Nations Secretariat was to finalize, by July 2004, a guide that would pave the way towards such developments as comparing ICT costs internally, if not to provide a comprehensive view of the total cost of ICT;

(k) Responsibility for computer systems was decentralized to a substantial degree and there was a lack of information architectures in some entities. This might lead to significant costs and complexity and to the risk of not having a total view of the information technology assets and, as a consequence, of uncoordinated developments;

(l) The Office of Internal Oversight Services did not have enough auditors who specialized in ICT and its views regarding the adequacy of controls were not obtained prior to the acquisition of critical information technology services;

(m) The Board considered the existing recosting methodology as generally acceptable;

(n) The programme budget for the biennium 2002-2003 was the first comprehensive results-based budget. The Administration recognized that it would take several bienniums for the methodology to be used consistently and reliably;

(o) The Treasury did not use cash flow forecasting to provide reasonable estimates of future cash positions that would impact the investment strategy;

(p) The United Nations Office at Geneva managed an investment portfolio of \$375 million as at 31 December 2003 with no formal investment policies and procedures;

(q) Memorandums of understanding were not always implemented for the provision of inter-agency services;

(r) Staff training priorities and management were generally in conformity with international best practice; however, training policies, guidelines, planning and evaluation were sometimes incomplete, while reporting could be improved;

(s) Instructions on the hiring and remuneration of consultants and individual contractors, and evaluation of their performance, were inconsistently complied with;

(t) The Board found in five political missions a number of deficiencies in asset management and control;

(u) Owing to the lack of a comprehensive anti-fraud plan, a large part of the United Nations system of offices, funds and programmes had little or no effective framework policy and mandates in this area;

(v) A comprehensive organizational integrity initiative was managed by the Office of Internal Oversight Services.

The Board's main recommendations are set out in paragraph 15 below.

## A. Introduction

1. The Board of Auditors has audited the financial statements and reviewed the operations of the United Nations for the period from 1 January 2002 to 31 December 2003, in accordance with General Assembly resolution 74 (I) of 7 December 1946. The audit was conducted in conformity with article VII of the Financial Regulations and Rules of the United Nations and the annex thereto, the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency, and the International Standards on Auditing. Those standards require that the Board plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatements.

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 biennium ended 31 December 2003 had been incurred for the purposes approved by the General Assembly, whether income and expenditures were properly classified and recorded in accordance with the Financial Regulations and Rules, and whether the financial statements of the United Nations presented fairly its financial position as at 31 December 2003 and the results of its operations for the period then ended. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered it necessary to form an opinion on the financial statements.

3. In addition to the audit of the accounts and financial transactions, the Board carried out reviews under United Nations financial regulation 7.5. The reviews primarily focused on the efficiency of financial procedures, internal financial controls and, in general, the administration and management of the United Nations.

4. The audit was carried out at United Nations Headquarters and at the United Nations offices away from Headquarters shown in annex 1.

5. 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 governance structures, principles and accountability. The Administration informed the Board that the request would be discussed by the High-Level Committee on Management.

6. The present report addresses the request made by the General Assembly, in its resolution 58/270 of 23 December 2003, that the Board examine, in consultation with the Secretary-General, the recosting methodology adopted by the United Nations in the preparation of programme budgets, and report thereon to the Assembly at its fifty-ninth session, including proposing the most appropriate mechanism for managing the currency aspects of the recosting methodology (see sect. C.2 below).

7. The Board submitted to the General Assembly, at its fifty-eighth session, a progress report which described the scope of the audit of the Board on the capital master plan (see A/58/321). The Assembly, by resolution 58/272 of 23 December 2003, took note of that report. The Board has also submitted to the Assembly at its fifty-ninth session a report on its first audit of the financial accounts and

transactions of the capital master plan project for the biennium 2002-2003.<sup>1</sup> The financial statements of the project are included in the United Nations financial statements (statement IX and schedule 9.1) and the results of their audit are incorporated in the present report.

8. The Board continued its practice of reporting the results of specific audits through management letters containing detailed findings and recommendations, addressed to the Administration. This practice has allowed for an ongoing dialogue with the Administration.

9. 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 and conclusions were discussed with the Administration, whose views have been appropriately reflected in the report.

10. A summary of the Board's main recommendations is reported in paragraph 15 below, and its detailed findings and recommendations in paragraphs 17 to 349.

## **1. Previous recommendations not fully implemented**

### *Biennium ended 31 December 1999*

11. In accordance with General Assembly resolution 48/216 B of 23 December 1993, the Board reviewed the measures taken by the Administration to implement the recommendations made in its report for the biennium ended 31 December 1999.<sup>2</sup> Details of the action taken and the comments of the Board are included in the present report and have been summarized in annex III to the present chapter.

### *Biennium ended 31 December 2001*

12. Also in accordance with Assembly resolution 48/216 B, the Board reviewed the measures taken by the Administration to implement the recommendations made in its report for the biennium ended 31 December 2001.<sup>3</sup> Ten of the 67 recommendations for the biennium 2000-2001 pertained to the United Nations Compensation Commission, which is covered by a separate report of the Board for the biennium 2002-2003. Of a total of 57 recommendations, 14 (25 per cent) were implemented, 39 (68 per cent) were under implementation, and 4 (7 per cent) were not implemented. Details of the action taken and the comments of the Board are included in the report and have been summarized in annex IV to the present chapter.

13. The Board has highlighted one recommendation that has not been fully implemented. In its report for the biennium 1994-1995, the Board recommended early resolution of the issue relating to the \$44 million due from the ad hoc account for the United Nations Operation in the Congo (\$36 million) and the special account for the United Nations Emergency Force (\$8 million) in view of the age of the balances and amortization of the principal amount of the United Nations bonds.<sup>4</sup> The Board further highlighted the recommendation in its reports for the bienniums 1996-1997, 1998-1999 and 2000-2001.

---

<sup>1</sup> See A/59/161.

<sup>2</sup> See *Official Records of the General Assembly, Fifty-fifth Session, Supplement No. 5 (A/55/5)*, vol. I, chap. II.

<sup>3</sup> *Ibid.*, *Fifty-seventh Session, Supplement No. 5* and corrigendum (A/57/5), vol. I, chap. II.

<sup>4</sup> *Ibid.*, *Fifty-first Session, Supplement No. 5 (A/51/5)*, vol. I, chap. II, para. 51.

14. The Board has reiterated, in paragraphs 52, 62, 67, 144, 208 and 290 of the present report, previous recommendations that have not yet been implemented. The Board invites the Administration to assign specific responsibility for, and establish an achievable time frame within which to implement, those recommendations that have not yet been fully implemented.

## **2. Main recommendations**

### **15. The Board recommends that:**

(a) **The Office of Programme Planning, Budget and Accounts, in conjunction with the United Nations Development Programme, reconcile the discrepancy of \$22.43 million and make the necessary adjustments in the accounts to reflect the accurate balance of payables due to funding source in the financial statements (para. 36);**

(b) **The United Nations review the funding mechanism for end-of-service and post-retirement benefits liabilities (para. 47);**

(c) **The Administration take action to review those trust funds whose purposes have long been attained in order to identify and close those that are inactive and no longer required (para. 52);**

(d) **The United Nations Fund for International Partnerships continue to collaborate with its implementing partners on the submission of financial utilization reports in a timely manner (para. 62);**

(e) **The Administration seek further coordination among the various information and communication technology boards/steering committees in order to strengthen the governance of information and communication technology on an organization-wide basis (para. 77), and ensure that comprehensive and consistent, ideally uniform policies are finalized, promulgated and distributed organization-wide (para. 79);**

(f) **The Administration finalize, and share with its funds and programmes, the planned common format for information and communication technology strategy documents, covering the main issues, key mission objectives, the contribution of each project to these objectives, with a quantitative evaluation of costs and benefits, a strengths, weaknesses, opportunities and threats analysis, a risk analysis and a discussion of the factors that would determine success or failure (para. 86);**

(g) **The United Nations adopt and implement a uniform methodology for determining the total cost of information and communication technology with a view to improving the decision-making process on such issues as outsourcing and cost recovery (para. 89);**

(h) **The United Nations review the delegations of authority, methodology and monitoring for the management of computerized data and information (para. 95);**

(i) **The Administration establish, as planned, a formal portfolio of information technology assets in line with best information and communication technology industry practices in order to provide a complete view of the**

**information and communication technology initiatives, projects and facilities across all United Nations organizational units (para. 97);**

**(j) The Administration provide for appropriate expertise to review and monitor information and communication technology functions (para. 126);**

**(k) The Administration resubmit to the General Assembly its proposal for the establishment of a reserve to cover appropriately additional expenditures related to such factors as exchange rate variations and inflation (para. 175);**

**(l) The Administration (i) continue exploring enhancements in implementing the results-based budgeting methodology, and (ii) consider, based on the cost-benefit analysis, utilizing the capability of both the Integrated Management Information System and Integrated Monitoring and Documentation Information System to link, where appropriate, the financial and technical aspects of the programmes and to provide timely information on the utilization of resources in achieving the desired results (para. 185);**

**(m) Treasury consider the costs and benefits of adopting a comprehensive cash-flow forecasting system, with a view to further enhancing its portfolio performance (para. 204);**

**(n) The United Nations (i) review its treasury operations at offices away from Headquarters, and (ii) promptly establish formal guidelines, procedures and investment committees in liaison with the concerned funds and programmes (para. 211);**

**(o) The Administration ensure that concerned entities sign and implement memorandums of understanding on inter-agency services which set out clearly each party's responsibility and accountability (para. 241);**

**(p) The Administration, under the guidance of the Office of Human Resources Management and with a significant role assigned to the United Nations System Staff College (i) report on training activities and costs, (ii) review management information systems in order to monitor training in a reliable manner, (iii) consider sharing a set of similar core indicators across the United Nations common system in order to facilitate benchmarking in terms of deliverables and costs, (iv) review whether the present level of funding for training and the results are consistent with the priority placed on staff development, (v) define or update and disseminate clear training policies and guidelines where this has not been achieved, in line with the organizational learning framework endorsed by the Human Resources Network in July 2003, (vi) develop rosters of training providers at the appropriate levels (headquarter, regional, country), to be shared among organizations, (vii) develop more formally inter-agency sharing of training knowledge and materials, and (viii) improve the evaluation of the results achieved through training so as to ascertain its impact on the efficiency and effectiveness of operations (para. 254);**

**(q) The Administration continually assess and monitor strict adherence to the administrative instructions on hiring, remunerating and evaluating the performance of consultants and individual contractors (para. 256);**

(r) **The Administration continue to introduce improvements in the asset management system (para. 284);**

(s) **The Administration (i) implement a comprehensive and well-communicated corruption and fraud prevention plan in the United Nations system, (ii) establish a corruption and fraud prevention committee that would serve as an effective framework and coordination point for a United Nations system corruption and fraud prevention mechanism, (iii) conduct ethics, corruption and fraud-awareness training sessions and workshops among managers, international and local employees and other stakeholders, (iv) develop appropriate resolution mechanisms for reported and detected incidents and allegations of corruption and fraud, and (v) review the investigation processes at Offices away from Headquarters (para. 349).**

16. The Board's other recommendations appear in paragraphs 39, 43, 45, 54, 56, 70, 93, 99, 102, 112, 116, 120, 131, 135, 137, 139, 142, 148, 151, 154, 188, 193, 196, 198, 200, 214, 216, 218, 222, 224, 229, 233, 236, 238, 263, 267, 280, 287, 292, 298, 306, 311, 315, 318, 321, 324, 326, 330, 332 and 334.

## **B. Financial issues**

### **1. Financial overview**

17. The Board performed an analysis of the United Nations financial position as at 31 December 2003. The results of the analysis for the biennium 2002-2003 are discussed below.

#### **All funds summary**

18. The all funds summary contains financial results of six groups of related funds: the General Fund and related funds comprising the Working Capital Fund and Special Account; technical cooperation activities; general trust funds; tax equalization fund; capital assets and construction in progress; and other special funds. For the biennium ended 31 December 2003, total income of \$4.68 billion exceeded total expenditure of \$4.41 billion by \$271 million. Compared with \$4.32 billion for the biennium 2000-2001, total income increased by \$355 million (8 per cent), largely due to the increase of \$363 million in the total income of the General Fund, Working Capital Fund and Special Account. The increase in total income was less than the \$535 million (14 per cent) increase in expenditure. Total assets increased by \$50 million (2 per cent), which could be attributed to the increase in total cash and term deposits, investments and the cash pool of \$180 million (15 per cent), largely of the General Fund, Working Capital Fund and Special Account, the technical cooperation funds and other special funds.

19. From \$943 million as at 31 December 2001, total liabilities decreased by \$129 million (14 per cent). Reserves and fund balances increased by \$179 million (9 per cent), from \$2.106 billion as at 31 December 2001 to \$2.286 billion as at 31 December 2003. The key financial figures of the United Nations funds for the bienniums 2000-2001 and 2002-2003 are set out in table II.1.

Table II.1  
**Key financial figures of United Nations funds for the bienniums 2000-2001 and 2002-2003<sup>a</sup>**

(Millions of United States dollars)

	<i>General Fund and related funds</i>		<i>Technical cooperation activities</i>		<i>General trust funds</i>		<i>Tax Equalization Fund</i>		<i>Capital assets and construction in progress</i>		<i>Other special funds</i>	
	2000-2001	2002-2003	2000-2001	2002-2003	2000-2001	2002-2003	2000-2001	2002-2003	2000-2001	2002-2003	2000-2001	2002-2003
Total income	2 543	2 906	327	344	978	780	525	618	9	69	415	541
Total expenditures	2 561	2 965	295	308	664	678	506	564	7	16	319	471
Total assets	1 355	1 334	244	278	878	806	92	136	461	537	519	588
Total liabilities	998	1 018	124	127	193	137	77	60	6	13	43	39
Reserves and fund balances	357	316	119	151	685	669	15	76	455	524	475	549
Cumulative surplus	140	98	-	-	593	543	15	76	17	86	365	431
<i>Major accounts</i>												
Assessed contributions	2 415	2 857	-	-	-	-	-	-	-	26	23	-
Voluntary contributions	-	-	154	196	849	657	-	-	-	-	-	6
Allocations from other funds	-	-	41	44	-	-	-	-	8	43	28	68
Staff assessment	-	-	-	-	-	-	525	618	-	-	-	-
Jointly financed activities	-	-	-	-	-	-	-	-	-	-	75	138
Income for services rendered	8	7	-	-	-	-	-	-	-	-	146	167
Cash and term deposits, investments and cash pool	19	72	112	167	676	633	-	-	16	27	355	459
Assessed contributions receivable	251	453	-	-	-	-	-	-	-	7	6	6
Unliquidated obligations	102	138	65	63	131	96	58	60	6	9	14	18

<sup>a</sup>2000-2001 comparative figures have been restated to conform to current presentation.

### **General Fund and related funds, including Working Capital Fund and Special Account**

20. Income increased from \$2.54 billion for the biennium 2000-2001 to \$2.91 billion in the biennium 2002-2003, or by \$363 million (14 per cent), mainly due to the increase in assessed contributions. However, expenditures also increased by \$404 million (16 per cent), from \$2.56 billion in the biennium 2000-2001 to \$2.96 billion in the biennium 2002-2003, resulting in a shortfall in income of \$59 million. Total assets of \$1.33 billion decreased by \$21 million (2 per cent), from \$1.36 billion as at 31 December 2001. The decline in total assets was attributable largely to decreases in inter-fund balances receivable (\$274 million) and other accounts receivable (\$18 million). The combined liabilities (\$1.02 billion) of the General Fund, Working Capital Fund and Special Account as at 31 December 2003 were \$20 million (2 per cent) more than the \$1 billion recorded as at 31 December 2001. The reserves and fund balances decreased from \$357 million as at 31 December 2001 to \$316 million (11 per cent) as at 31 December 2003.

21. The Board noted that arrears in assessed contributions of \$453 million for the General Fund remained unpaid as at 31 December 2003. This was 81 per cent more than the arrears of \$251 million recorded as at 31 December 2001. The total unpaid assessed contributions represented some 16 per cent of the total assessed contributions of \$2.86 billion and 44 per cent of the total assets of \$1.02 billion as at

31 December 2003. The assessed contributions outstanding as at 31 December 2003 (\$453 million) excluded the \$16.6 million in unpaid assessed contributions that have been retained as a special account in the financial statements, pursuant to General Assembly resolution 3049 C (XXVII) of 19 December 1972.

22. The Board's review of the ageing report on unpaid assessed contributions revealed that, of the \$453 million total, \$45 million (10 per cent) was aged over 24 months, \$41 million (9 per cent) was aged 13 to 24 months, and \$367 million (81 per cent) was outstanding for less than 12 months. The Board noted that the assessed contributions outstanding included the amount of \$11 million (2 per cent) from a country that had ceased to be a Member State on 1 November 2000. The Administration stated in the notes to the financial statements that no action had been taken in the accounts as there had been no specific General Assembly resolution adopted on this matter.

23. As in previous bienniums, apart from depending on the Working Capital Fund and the Special Account to meet shortfalls in income for the regular budget, the General Fund had to borrow from peacekeeping funds. During the biennium 2002-2003, the General Fund borrowed and settled a total of \$80 million from funds of four closed peacekeeping missions. On the other hand, the General Fund had inter-fund receivables of \$39 million from peacekeeping funds as at 31 December 2003. At the end of the biennium, the outstanding obligations of the General Fund to the Working Capital Fund and Special Account amounted to \$101 million and \$164 million, respectively. In addition, the unliquidated obligations of the General Fund and related funds, amounting to \$138 million, compared favourably with the figure of \$102 million as at 31 December 2001. The General Fund showed a cumulative deficit of \$61 million as at 31 December 2003. However, the deficit was covered by an assessment in 2004 of \$77 million pertaining to the final budget appropriations for the biennium 2002-2003, which was approved by the General Assembly in resolution 58/267 A of 23 December 2003.

#### **Technical cooperation funds**

24. The financial statements of the technical cooperation activities showed that income and expenditure increased by \$17 million and \$13 million, respectively, both at the rate of 5 per cent. The increase in income was mainly attributed to the increase in voluntary contributions of \$42 million (27 per cent). The excess of income over the expenditure of \$36 million for the biennium 2002-2003 was \$4 million (13 per cent) higher than the \$32 million in expenditure for the biennium 2000-2001. Total assets increased by \$34 million (14 per cent), from \$244 million as at 31 December 2001 to \$278 million as at 31 December 2003, due to the increase in cash and term deposits, investments and cash pool of \$55 million (49 per cent). Also, liabilities increased slightly by \$3 million (2 per cent), mainly due to the increase in other accounts payable of \$3.2 million. Reserves and fund balances increased by \$31 million (26 per cent), from \$119 million as at 31 December 2001 to \$151 million as at 31 December 2003.

#### **General trust funds**

25. The financial statements of the general trust funds showed an excess of income over expenditures of \$102 million for the biennium 2002-2003, compared with \$315 million for the biennium 2000-2001. Decreases of \$193 million (23 per cent) in

voluntary contributions and of \$26 million (33 per cent) in interest income contributed to the decrease in income amounting to \$198 million (30 per cent), from \$978 million for the biennium 2000-2001 to \$780 million for the biennium 2002-2003. Total assets of \$806 million decreased by \$72 million (8 per cent) from the \$878 million recorded as at 31 December 2001. The decrease in total assets was due to the decline in cash and term deposits, investments and the cash pool of \$43 million and to advances to implementing partners of \$39 million. Unliquidated obligations decreased by \$35 million (27 per cent), from \$131 million to \$96 million, and, coupled with the decrease in inter-fund balances payable of \$16 million (37 per cent) and other accounts payable of \$6 million (49 per cent), thereby decreased total liabilities from \$193 million as at 31 December 2001 to \$137 million as at 31 December 2003. As at 31 December 2003, reserves and fund balances declined by \$16 million (2 per cent), compared with \$685 million as at 31 December 2001.

#### **Tax Equalization Fund**

26. For the Tax Equalization Fund, total income of \$618 million exceeded total expenditure of \$565 million by \$53 million for the biennium 2002-2003. Total income, sourced from staff assessments, increased by \$93 million (18 per cent) in comparison with the previous biennium, which was higher than the increase in expenditure of \$58 million (11 per cent). Total assets increased by \$44 million (48 per cent), from \$92 million as at 31 December 2001 to \$136 million as at 31 December 2003, mainly due to the \$73 million increase in staff assessment from the General Fund. Total liabilities of \$77 million in 2001 decreased by \$17 million (22 per cent) in 2003, primarily reflecting the decrease in the \$19 million of inter-fund amount under "Due to United Nations Working Capital Fund". Reserves and fund balances increased by \$61 million (400 per cent), from \$15 million as at 31 December 2001 to \$76 million as at 31 December 2003.

#### **Capital assets and construction in progress**

27. For capital assets and construction in progress funds, total income of \$69 million exceeded total expenditure of \$16 million by \$53 million for the biennium 2002-2003. The increase was brought about by income from assessed contributions pertaining to the capital master plan of \$26 million in 2003 and the transfer of funds amounting to \$43 million from Section 31 (Construction, alteration, improvement and major maintenance) of the regular budget for strengthening of security. Expenditure correspondingly increased by \$9 million (130 per cent), from \$7 million in 2001 to \$16 million in 2003. Total assets increased by \$76 million (17 per cent), from \$461 million as at 31 December 2001 to \$537 million as at 31 December 2003 due to the increase in inter-fund balances receivable of \$42 million and in construction in progress of \$16 million. Cash and term deposits and the cash pool increased by \$11 million (70 per cent). Total liabilities increased by \$7 million (114 per cent), from \$6 million as at 31 December 2001 to \$13 million at 31 December 2003. This was mainly attributable to the increases in unliquidated obligations of \$3.6 million, inter-fund balances payable of \$1.7 million, and other accounts payable of \$1.5 million. The \$524 million in reserves and fund balances as at 31 December 2003 was \$69 million (15 per cent) more than the balance of \$455 million as at 31 December 2001.

**Other special funds**

28. For other special funds, total income for the biennium 2002-2003 registered at \$541 million compared with \$415 million in biennium 2000-2001, an increase of \$126 million (30 per cent). Income exceeded total expenditure of \$471 million by \$70 million (15 per cent). The increase in total income was matched by the increase in total expenditure of \$152 million (48 per cent), from \$319 million for the biennium 2000-2001 to \$471 million for the biennium 2002-2003. Total assets increased by \$69 million (13 per cent), from \$519 million as at 31 December 2001 to \$588 million as at 31 December 2003, while total liabilities of \$43 million decreased by \$5 million (10 per cent). By 31 December 2003, reserves and fund balances totalled \$549 million, an increase of \$74 million (16 per cent) from \$475 million as at 31 December 2001.

**2. United Nations system accounting standards**

29. The Board assessed the extent to which the financial statements of the United Nations for the biennium ended 31 December 2003 conformed to the United Nations system accounting standards. The review indicated that the financial statements were consistent with the standards.

**3. Presentation and disclosure of financial statements**

30. In accordance with paragraph 12 of General Assembly resolution 55/220 A of 23 December 2000, the Board of Auditors, in conjunction with the Secretary-General and the executive heads of the funds and programmes of the United Nations, continued to evaluate the structure and content of the United Nations financial statements for the biennium 2002-2003 on the basis of the Financial Regulations and Rules of the United Nations, the United Nations system accounting standards and best practice in regard to financial reporting. The Board also reviewed the financial statement disclosures encompassing items presented in each financial statement and in the notes thereto. The Board was pleased to note the continuous effort of the Administration to institute improvements in the presentation of the United Nations financial statements. For the biennium 2002-2003, the Office of Programme Planning, Budget and Accounts simplified the financial statements and reduced them to only 10 statements, 9 schedules, 12 notes and two annexes, compared with 26 statements, 14 schedules, 27 notes and two annexes for the biennium 2000-2001.

**Funds for projects of the United Nations Development Programme**

31. Section 11 of the United Nations system accounting standards provides that financial statements should have the qualitative characteristics required to make the information provided useful to readers. The four principal qualitative characteristics are understandability, relevance, reliability (accuracy, neutrality and completeness), and comparability over time. The Board commends the Administration for reflecting the accounts of United Nations Development Programme (UNDP) projects, where the United Nations acts as cooperating agency, in the body of the financial statements (statement VI) rather than as disclosed previously in the notes to the financial statements for the biennium ended 31 December 2001.

**Statement of cash flows**

32. In line with the United Nations system accounting standards, revision V, the Administration prepared the statement of cash flows (statement III) using the format shown in appendix IV to the standards. Consistent with the format prescribed in the standards, the Administration presented cash flows from both investing and financing activities under one section, "Cash flows from investing and financing activities". The Board, however, was of the view that, in line with International Accounting Standard 7, cash flows from investing and financing activities should be presented under two separate sections, "Cash flows from investing activities" and "Cash flows from financing activities". The Board, in April 2003, recommended that the Administration consider presenting cash flows from investing and financing activities in two separate sections in the statement of cash flows.

33. Pursuant to the interim audit carried out by the Board in December 2003, the Task Force on Accounting Standards, established under the auspices of CEB, reviewed the recommended format of the statement of cash flows in appendix IV to the United Nations system accounting standards and suggested a new format with three categories: cash flow from operations, investing and financing. The Administration informed the Board that the High-Level Committee on Management had already approved the use of the new format of statement of cash flows, effective as from the biennium 2004-2005.

**Payables to funding source**

34. As at 31 December 2003, the balance of payables due to funding source reflected in the financial statements for technical cooperation activities (statement VI) was \$22.93 million, or 18 per cent of total liabilities of \$126.78 million. The Board's review of the corresponding statement of accounts prepared by the Accounts Division of the Office of Programme Planning, Budget and Accounts as at 31 December 2003 disclosed a difference of \$35.23 million between the books of United Nations Headquarters and those of UNDP. As indicated by the Accounts Division to the Controller of UNDP in a letter dated 14 April 2004, the discrepancy appeared to be an accumulation of reconciling items over a number of years. In the same letter, the Accounts Division expressed the view that there was a need to investigate the discrepancy by undertaking a detailed analysis in order to reconcile the difference.

35. The Board is concerned that it was unable to examine the items comprising the difference because the reconciliation reports were not yet available as at the audit date in April 2004. The Administration informed the Board in June 2004 that one reconciling item was the remittance of \$12.80 million, made by the United Nations to UNDP towards the end of 2003 but recorded by UNDP in 2004, leaving a residual difference of \$22.43 million as at 31 December 2003, and that it was making concerted efforts, in conjunction with UNDP, to resolve the issue.

**36. The Board recommends that the Office of Programme Planning, Budget and Accounts, in conjunction with the United Nations Development Programme, reconcile the discrepancy of \$22.43 million and make the necessary adjustments in the accounts to reflect the accurate balance of payables due to funding source in the financial statements.**

**Long outstanding receivables**

37. The schedule of ageing of accounts receivable showed that \$19.07 million (32 per cent) of total receivables of \$60.47 million were uncollected for over one year. Of the total receivables, \$0.17 million (0.3 per cent) represented receivables recorded from 1996 to 2001 for travel advances and salary overpayments.

38. As stated in administrative instruction ST/AI/2000/11, overpayments made to staff members shall be recovered by means of deductions from salaries under staff rule 103.18. Paragraph 11.2 of administrative instruction ST/AI/2000/20 provides that travel advances should be recovered through payroll deduction if a staff member fails to submit a travel reimbursement claim, together with the supporting documentation, within two calendar weeks after completion of travel. However, the Board noted long outstanding travel advances at the United Nations Office at Geneva (\$0.017 million) and at ECLAC (\$0.01 million). In the case of ECLAC, the amount due was from four staff members who were separated or retired from service and eight consultants who no longer had contracts with ECLAC at the time of audit in April 2004. The Director of the Accounts Division of the Office of Programme Planning, Budget and Accounts, in paragraph 8 of a memorandum dated 17 November 2003, required the United Nations offices concerned to adhere to the prescribed procedures in order to ensure the recovery of accounts receivable from personnel with unsettled travel advances prior to their departure from the respective offices.

**39. The Administration agreed with the Board's recommendation that it (a) enforce compliance with the directives on the recovery of travel advances of staff members, and (b) enhance existing processes for the payment of salary in order to prevent overpayments.**

**Unliquidated obligations: technical cooperation**

40. The Board, in its interim audits during the biennium 2002-2003, noted the existence of prior years' unliquidated obligations in the financial statements for technical cooperation activities. The Administration subsequently took action to review prior unliquidated obligations and cancelled those that were no longer valid.

41. The Board was pleased to note the reduction of prior years' unliquidated obligations of technical cooperation projects shown in statement VI by \$8.99 million (63 per cent), from \$14.23 million as at 31 December 2002 to \$5.24 million as at 31 December 2003. The Board encourages the Administration to continue to review unliquidated obligations so as to ensure that invalid obligations are cancelled.

**Other accounts payable**

42. Under normal circumstances, accounts payable should show a credit balance. The Board, however, noted that some accounts payable showed debit balances. The Board is concerned that the existence of these debit (abnormal) balances, which may represent overpayments or erroneous recording, had deflated the balance of other accounts payable as at 31 December 2003. The Administration commented that, owing to the high volume of transactions, debit balances under payable accounts occurred in some cases.

**43. The Administration agreed with the Board's recommendation that it review accounts payable with abnormal balances so as to ensure that they are promptly adjusted in the books or recovered if they represent overpayments.**

**Expendable and non-expendable property**

44. Note 11 to the financial statements as at 31 December 2003 disclosed total non-expendable property of \$243.4 million. The Board noted the following discrepancies:

(a) At the United Nations Office at Vienna, the inventory database listed all items signed out to individual staff members who were held accountable for them, but no physical inventory had been undertaken or was planned. Similarly, physical inventories were not systematically conducted at the United Nations Office at Geneva during the biennium. The United Nations Conference on Trade and Development (UNCTAD) conducted the inventory back to the previous biennium, and no physical inventories were conducted in the Division of Administration, the Division of Conference Services or the Information Service. When items were not found during an inventory, no action was taken;

(b) At ECLAC, non-expendable property as at 31 December 2003 was understated by \$1.357 million, representing special items (valued at less than \$1,500 each) not included in the inventory report of non-expendable property at biennium-end, which was contrary to ST/AI/374 dated 16 January 1992, the measures set out by the Secretary-General in his 1996 report on the inventory control system<sup>5</sup> and the closing instructions dated 17 November 2003 of the Director, Accounts Division, Office of Programme Planning, Budget and Accounts;

(c) The inventory report of the Office of Programme Planning, Budget and Accounts disclosed 66 items of non-expendable property with a disposition status of "still in use" but with zero values. Also, the inventory of non-expendable property of UNSSC did not indicate the value of a number of items.

**45. The Administration agreed with the Board's recommendations that the Office of Programme Planning, Budget and Accounts, in conjunction with offices away from Headquarters (a) ensure the submission of correct and complete inventory reports in a timely manner, and (b) analyse the non-expendable property still in use but with zero value and, where appropriate, indicate the values based on original records of acquisition or, when such records are not available, based on reasonable estimates.**

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

46. The estimated liabilities for after-service health insurance, accrued annual leave and termination benefits are indicated in note 12 to the financial statements and amounted to \$1.7 billion as at 31 December 2003 as shown in table II.2. As disclosed in note 12 (a), the United Nations has not specifically recognized liabilities for after-service health insurance costs or the liabilities for other types of end-of-service payments.

---

<sup>5</sup> A/C.5/50/51.

Table II.2  
**Liabilities for annual leave, end-of-service benefits and post-retirement benefits**  
(in billions of United States dollars)

<i>Description</i>	<i>2000-2001</i>	<i>2002-2003</i>
After-service health insurance net accrued liability	1.500	1.500
Accrued annual leave	0.060	0.105
Other termination benefits	0.055	0.095
<b>Total</b>	<b>1.615</b>	<b>1.700</b>

**47. The Board recommends that the United Nations review the funding mechanism for end-of-service and post-retirement benefit liabilities.**

## 5. Trust funds

48. In its previous report, the Board reiterated its previous recommendation that the Administration take action to review trust funds whose purposes had long been attained in order to identify and close those that were inactive and no longer required.<sup>6</sup>

49. In April 2004, the Board noted that, of the 17 inactive trust funds with total reserves and fund balances of \$11.90 million reported in the Board's previous report,<sup>7</sup> only 4 had been closed during the biennium 2002-2003.

50. The delay in the closure of trust funds whose purposes had long been attained, discussed by the Board in its reports for the previous bienniums, continued into the biennium 2002-2003. The Board noted that 63 trust funds, with combined reserves and fund balances of \$54.1 million as at 31 December 2003, did not show any expenditures for the biennium 2002-2003 except for transactions pertaining to the investment and related accounts, as compared with 61 in the biennium 2000-2001 (see annex II to the present report).

51. During the biennium 2002-2003, the Economic and Social Commission for Asia and the Pacific (ESCAP) closed 272 of 339 completed or inactive projects. Of the remaining 67, 49 (73 per cent) with fund balances amounting to \$0.47 million had not been closed in the accounts as at 31 December 2003, in contradiction of section 7.11 of the ESCAP extrabudgetary manual. The non-closure of the project accounts delayed the reprogramming of fund balances from completed to new projects. ESCAP commented that it is unavoidable to have a certain level of projects that remain to be closed at any given time.

**52. The Board reiterates its previous recommendation that the Administration take action to review those trust funds whose purposes have long been attained in order to identify and close those that are inactive and no longer required.**

<sup>6</sup> *Official Records of the General Assembly, Fifty-seventh Session, Supplement No. 5 and corrigendum (A/57/5)*, vol. I, chap. II, para. 35.

<sup>7</sup> *Ibid.*, para. 31 and table II.2.

53. Another case reviewed by the Board was that of inactive projects of the Office for the Coordination of Humanitarian Affairs within its Trust Fund for Disaster Relief Assistance. The balance of the trust fund included an amount of \$1.75 million in cash corresponding to projects that have been inactive since January 2002. Of this amount, \$0.44 million related to projects that had been inactive since January 2000. For the same trust fund, three other projects had deficit balances of \$0.23 million. Following the audit, the Office started a review of inactive projects.

**54. The Office for the Coordination of Humanitarian Affairs agreed with the Board's recommendation that it identify inactive project balances and transfer them to active projects, after consultation with respective donors.**

55. The Board's review of the procedures on trust fund management in some substantive offices and regional commissions disclosed the following:

(a) At ESCAP, of 35 completed technical cooperation projects with a total budget of \$6.53 million, there were no terminal reports for 8 (23 per cent), with total budget of \$1.04 million. Of 25 ongoing projects, there were no progress reports for 4 (16 per cent), with a total budget of \$1.30 million. Similarly, the Department for Disarmament Affairs did not prepare substantive progress reports on 2 of 11 trust funds for 2003 and on one trust fund for 2002. At the Department of Political Affairs, the late submission by concerned substantive offices of progress reports on one trust fund delayed the preparation of the consolidated report. This hampered the evaluation of the project and ultimately caused a delay in the release of the allotment for the project;

(b) At ECLAC, expenditures of 17 (12 per cent) of the 137 technical cooperation projects exceeded allotments by \$0.16 million. While overexpenditures of 14 projects were less than \$5,000, overexpenditures in 3 projects ranged from \$30,000 to \$85,000.

**56. The Board recommends that the Administration ensure that (a) substantive offices submit progress reports for ongoing projects and terminal reports for completed projects in a timely manner, and (b) the Economic Commission for Latin America and the Caribbean maintain project expenditures within the authorized allotments.**

## **6. United Nations Fund for International Partnerships**

### **Background**

57. The total amount pledged for the implementation of projects by the United Nations Fund for International Partnerships (UNFIP) was \$1 billion over a period of 10 years, subsequently extended to 15 years. During the period from the establishment of the fund on 1 March 1998 to 31 December 2003, the United Nations Foundation, on the recommendation of the UNFIP Advisory Board, approved 308 grants of a total amount of \$570 million. Of this amount, \$563 million (99 per cent) was allocated for 292 projects with activities in over 121 countries, involving 35 United Nations organizations. The cumulative amount of co-financing from other funding partners amounted to \$187.6 million, or 33.3 per cent of total approved allocations. UNFIP received \$424 million in cash contributions during the period from its establishment in March 1998 to 31 December 2003 to meet its annual requirements. Based on submitted financial utilization reports, implementing

partners have so far reported the utilization of \$380 million during the period from March 1998 through 31 December 2003.

### **Submission of financial utilization reports**

58. In its previous report, the Board recommended that UNFIP encourage all implementing partners to submit quarterly utilization reports using the suggested format.<sup>8</sup> Section III of the revised UNFIP financial manual provides that, for ongoing projects, implementing partners be required to submit unaudited financial utilization reports covering a six-month period (semestral) replacing the quarterly utilization reports, certified or audited annual financial statements and report expenditure continuously until all obligations are cancelled or liquidated. In accordance with the agreement reached at a meeting of focal points of UNF, implementing partners and UNFIP, held on 24 July 2002, six-month utilization reports are due every 15 August for the cumulative period ending 30 June, and 15 February for the cumulative period ending 31 December.

59. The financial utilization reports are one of the mechanisms of UNFIP for monitoring and reporting receipt and application of project funds by implementing partners. These reports provide detailed information on project budgets, expenditures and uncommitted balances of budgets by project component and budget line from the inception of the project through to the end of the financial period, and for the six-month period covered by the report. The Office of Programme Planning, Budget and Accounts also uses these reports as a basis for recording project disbursements from the advances given to implementing partners. Another monitoring and reporting mechanism considers the certified or audited annual financial statements which refer to a project's (a) statement of assets, liabilities and fund balance, showing cumulative amounts as at 31 December, and (b) statement of income and expenditure, showing total amounts for the year ended 31 December. Implementing partners have the option to indicate their expenditures in summary form in the statement of income and expenditure, provided it is supplemented with the project expenditures in the financial (six-monthly, formerly quarterly) utilization report format.

60. The Board reviewed compliance with the above-mentioned reporting schedule for the cumulative period ended 31 December 2003, based on the UNFIP list of financial utilization reports as at 1 April 2004, and noted that, of 259 expected financial utilization reports for the second half of 2003, 90 reports (35 per cent) were received within the deadline of 15 February 2004, 145 (56 per cent) were received after the deadline, and 24 (9 per cent) had not been received by April 2004. UNFIP informed the Board that it had received 202 (78 per cent) of 259 reports by 24 February 2004 and that the Office of Programme Planning, Budget and Accounts had processed them up to 25 February 2004 for inclusion in the accounts as at 31 December 2003. The Office reported that, of 210 projects for which expenditure reports were expected, it had processed 136 (65 per cent) prior to closure of the accounts. The Board also noted that six implementing partners had submitted the certified financial statements and reports as at 31 December 2003 but not the required financial utilization reports. UNFIP agreed with the Board's observation, but noted that the absence of the second six-monthly utilization reports was compensated for by the submission of the annual certified financial statements.

---

<sup>8</sup> Ibid., para. 91.

61. The Board is concerned that the non-recording of 57 (22 per cent) of the expected 259 financial utilization reports affects the accuracy and completeness of the financial information, in particular the account representing advances made to implementing partners, which may be overstated by the amounts corresponding to the unreported disbursements. UNFIP informed the Board that it had made every effort to process reports that it had received within a reasonable time after the deadline. Also, the Board was of the view that the certified annual reports did not contain the detailed financial information available in the financial utilization reports and therefore might not address the full generation of relevant and complete financial information for monitoring of projects and for the compilation, analysis and planning of future activities. In that regard, UNFIP informed the Board that it had requested implementing partners to submit revised financial utilization reports whenever the project expenditure in the annual financial statements was different from the expenditure reported in year-end financial utilization reports.

**62. The Board reiterates its recommendation that the United Nations Fund for International Partnerships continue to collaborate with its implementing partners with regard to the timely submission of financial utilization reports.**

63. UNFIP informed the Board that, in coordination with UNF, it would discuss the reporting systems at the next focal point meeting with implementing partners, and that it intended to explore further action, including a sunset clause, so as to ensure expeditious action.

#### **Final financial reports**

64. In its previous report, the Board recommended that UNFIP issue a new policy on the audit certificate requirements, taking into consideration the audit opinion by the Board of Auditors on the accounts of United Nations funds and programmes that implement UNFIP projects.<sup>9</sup> Following the meeting of focal points on 24 July 2002, UNFIP adopted a new policy that requires implementing partners to submit audited financial statements for completed projects on the last day of the ninth month after the close of the financial period. For projects not audited by the Board, the requirement remained that their submission be made within 12 months after the completion date of the project.

65. UNFIP reported a total of 157 projects with an aggregate budget of \$198 million as completed as at 31 December 2003. Of these completed projects, the final/certified financial reports of 56 (36 per cent) were due for submission as at 31 December 2003, comprising 48 projects (86 per cent) under the audit jurisdiction of the Board of Auditors and 8 projects (14 per cent) under the scope of other external auditors. As at 31 December 2003, 38 (79 per cent) of the 48 projects audited by the Board had submitted final certified reports, an increase in the compliance rate of 22 per cent above the 57 per cent rate in 2002. However, 12 completed projects under the audit jurisdiction of the Board, with unspent funds of \$2 million, remained open in the books of UNFIP as at 31 December 2003. Of the eight completed projects under the audit jurisdiction of other entities, only five (63 per cent) had submitted audited reports as at 31 December 2003, a decrease in the compliance rate of 15 per cent compared to the 78 per cent compliance rate in

---

<sup>9</sup> Ibid., para. 95.

2002. Further, two of the eight completed projects, with unspent balances of \$0.13 million, also remained open in the UNFIP books as at 31 December 2003.

66. The Board is concerned that the non-submission of final certified reports resulted in the non-closure of accounts of completed projects and deprived UNFIP from utilizing the unspent funds for other projects.

**67. The United Nations Fund for International Partnerships agreed with the Board's reiterated recommendation that it enforce compliance with the reporting policy on the submission of final certified and audited financial reports so as to ensure prompt closure of all operationally and financially completed projects in the books. UNFIP also agreed with the Board's recommendation that implementing partners promptly return all unspent funds of completed projects.**

#### **Final narrative reports**

68. In its previous report, the Board recommended that UNFIP: (a) assess whether the granting of alternative dates for the submission of final reports addresses the low submission rate; and (b) take measures to ensure the timely assessment and accurate reporting of projects.<sup>10</sup> Section III of the revised UNFIP handbook on budget and finance requires implementing partners to submit final narrative reports within 90 days after the conclusion or termination of the project. The final narrative report serves as an essential tool in evaluating the outcome and impact of specific projects and programmes, and aids in the identification of prospective projects and programmes aligned with the mandate of the organization.

69. The Board evaluated compliance with the reporting requirements and noted that, of the 157 completed projects as at 31 December 2003, 114 (73 per cent) final narrative reports were expected as at 31 December 2003. Ninety-eight of the reports (86 per cent) were submitted. Late or non-submission of the required final narrative report may affect the future funding decisions of UNFIP and UNF for similar or related projects.

**70. The United Nations Fund for International Partnerships agreed with the Board's recommendation that, in conjunction with its implementing partners, UNFIP address the causes of delays or non-submission of narrative reports on completed projects so as to ensure the availability of such reports in a timely manner.**

### **7. Write-off of losses of cash, receivables and property**

71. In line with financial regulation 6.4 and financial rules 106.8 (a) and 106.9 (a), the Administration provided the Board with details of cash, receivables and other assets written off during the biennium ended 31 December 2003. The total of assets of \$2.95 million written off is lower by \$30.89 million (91 per cent) than the \$33.84 million written off during the biennium 2000-2001. Total cash written off decreased by \$0.036 million (92 per cent), from \$0.039 million for the biennium 2000-2001 to \$0.003 million for the biennium 2002-2003. This amount pertained to petty cash of UNOG. From \$0.62 million for the biennium 2000-2001, accounts receivable written off increased to \$1.61 million for the biennium 2002-2003, or an increase of

<sup>10</sup> Ibid., para. 99.

\$0.99 million (159 per cent). The value of property written off decreased by \$31.84 million (96 per cent), from \$33.18 million for the biennium ended 31 December 2001 to \$1.34 million for the biennium ended 31 December 2003. The details of the assets written off for the biennium 2002-2003 are shown in table II.3. These write-offs of losses comprise those arising from accidents, theft, damage or destruction, and do not include factors such as obsolescence and wear and tear, as in previous reports on write-off of losses.

Table II.3  
**Assets written off during the biennium 2002-2003**

(United States dollars)

<i>Organization</i>	<i>Cash</i>	<i>Receivables</i>	<i>Property</i>	<i>Total</i>
United Nations Headquarters	-	1 428 320	-	1 428 320
United Nations Office at Geneva	2 498	70 236	50 389	123 123
United Nations Office at Vienna	-	35 886	207 183	243 069
Economic Commission for Africa	-	50 088	-	50 088
Economic Commission for Latin America and the Caribbean	-	-	4 316	4 316
Economic and Social Commission for Asia and the Pacific	-	2 097	5 126	7 223
Economic and Social Commission for Western Asia	-	12 666	-	12 666
International Court of Justice	-	3 973	-	3 973
United Nations Guard Contingent in Iraq	-	-	841 334	841 334
United Nations information centres	-	1 890	51 276	53 166
United Nations Verification Mission in Guatemala	-	-	77 652	77 652
United Nations Military Observer Group in India and Pakistan	-	-	2 275	2 275
United Nations Special Mission to Afghanistan	-	449	-	449
United Nations Truce Supervision Organization	-	-	59 275	59 275
United Nations Tajikistan Office of Peace-building	-	-	10 077	10 077
United Nations Assistance Mission in Afghanistan	-	-	27 559	27 559
United Nations Mission in East Timor	-	4 407	-	4 407
<b>Total</b>	<b>2 498</b>	<b>1 610 012</b>	<b>1 336 462</b>	<b>2 948 972</b>

## 8. Ex gratia payments

72. The Administration reported eight ex gratia payments, amounting to \$11,356, to locally recruited staff members of the Office for the Coordination of Humanitarian Assistance in Afghanistan, charged to general and related funds during the biennium 2002-2003 in accordance with United Nations financial regulation 5.11 and financial rule 105.12.

## C. Management issues

### 1. Information and communication technology

73. In its previous report, the Board recommended that the United Nations Secretariat, in conjunction with all concerned United Nations entities, undertake a

coordinated ICT effort with respect to such components as ICT management, security, continuity and disaster plans.<sup>11</sup> To assess the situation two years later, the Board reviewed the documents on ICT strategies across the United Nations and some of its funds and programmes. The financial statements of the United Nations showed \$26.5 million in ICT expenditures. The Administration and the Board agree that this amount is only an approximation and does not include indirect costs.

### **Coordination**

74. The ICT Network was created recently as part of CEB. It is the most recent body to be tasked with developing the coordination of ICT activities across 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, no longer exist. The past 20 years were marked by a significant lack of continuity in the institutional coordination of major investments in large information systems at the most critical time. One longer-established coordination group, the Inter-agency Telecommunications Advisory Group which deals with telecommunications facilities in the field, inter-operability and umbrella contracts, has remained active.

75. To its credit, the ICT Network has adopted initiatives towards the implementation of a United Nations extranet, search engine and database of some of the electronic assets available within the United Nations system, and towards the adoption of common approaches in regard to information security, procurement and knowledge-sharing. A United Nations projects review committee to evaluate proposals for major ICT projects and investments was created in November 2003. There was, however, little proof of a significant impact insofar as implementation by early 2004. The Office of Central Support Services informed the Board that the committee had been holding meetings to review and approve the ICT initiatives of various departments of the United Nations Secretariat.

76. There was until recently little or no functional reporting relationship between the Information Technology Services Division of the Office of Central Support Services at the United Nations Secretariat and the information technology services managers of other entities, including those of offices away from Headquarters, notably Geneva and Vienna. The ICT managers of United Nations Headquarters and offices away from Headquarters are, however, all members of the ICT Board established in 2001. The ICT Board has been meeting regularly, and the first documented meeting of all offices away from Headquarters was held in February 2004, with the ICT managers from the Economic Commission for Africa (ECA), the Economic Commission for Europe (ECE), ECLAC, ESCAP, the Economic and Social Commission for Western Asia (ESCWA), the United Nations Office at Geneva, the United Nations Office at Nairobi, and the United Nations Office at Vienna. In May 2004, the Information Technology Service Division and the information technology and network chiefs of all offices away from Headquarters held a second meeting. The Office of Central Support Services indicated that the level of ICT coordination had been increasing steadily in such fields as enterprise network, global security, access control, business continuity and disaster recovery, and a common methodology for justifying ICT initiatives.

---

<sup>11</sup> Ibid., para. 177.

**77. The Board recommends that the Administration seek further coordination among the various information and communication technology boards and steering committees in order to strengthen the governance of information and communication technology on an Organization-wide basis.**

78. In recent years, all the United Nations major entities have developed and published ICT strategies in relative isolation from each other and from United Nations Headquarters. While all of these strategies have been posted on the web site of the High-Level Committee on Management, it appears that there have been no explicit efforts to seek commonalities and synergies in the development and implementation of these strategies.

**79. The Board recommends that the Administration ensure that comprehensive, consistent and ideally uniform policies be finalized, promulgated and distributed throughout the Organization.**

80. While the initiatives taken are commendable, they should be further strengthened, as illustrated below in regard to enterprise resource planning systems and information security policies.

81. The Joint Inspection Unit (JIU), in its report entitled "Managing information in the United Nations system organizations: management information systems",<sup>12</sup> extensively discussed the topic of enterprise resource planning systems. While the United Nations has continued to update the Integrated Management Information System (IMIS), JIU indicated that multiple solutions of ICT have 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 the IMIS at Headquarters. However, other field-based organizations reporting to the General Assembly, notably the Office of the United Nations High Commissioner for Refugees (UNHCR), the United Nations Children's Fund (UNICEF) and UNDP, have each developed their own systems, largely during the biennium 2002-2003, stating that their requirements are substantially different from those of headquarters-based organizations. The consequences have 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.

82. Information security policies specify what constitutes an appropriate use of an 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. The United Nations Secretariat has developed a set of information security policies which, by May 2004, was awaiting final clearance.

---

<sup>12</sup> See A/58/82.

## Strategies

83. Most offices away from Headquarters did not document a formal ICT strategy. For those that have such a strategy, presentation formats varied, and not all included estimated costs or benefits. This creates the risk that ICT expenditures would not be focused on adding value to the office and therefore would not support the achievement of mission objectives. The absence of a formal risk analysis may result in the office being unable to deliver results with the resources available to them (i.e., time, funding and human resources).

84. The United Nations entities reviewed made few explicit statements addressing the alignment of ICT projects with their core missions. The qualitative and quantitative role given to ICT in support of the core mission is a strategic decision for every entity. If this decision is not made explicitly, there is a risk of diverting resources towards less productive investments. The emergence of the formal evaluation practices mentioned in paragraph 86 below would be a welcome step in this direction.

85. By July 2004, the United Nations Secretariat was finalizing a Secretary-General's bulletin on the use of ICT resources and data. The guidelines would be applicable to the entire Secretariat and offices away from Headquarters. The United Nations Secretariat reported that it had also recently adopted a standard methodology, the high-level business case, for justifying and approving ICT initiatives, which would address the evaluation of costs and benefits, a strengths, weaknesses, opportunities and threats analysis and returns on investment. Each department and office of the United Nations Secretariat would be responsible for ensuring the substantive alignment of its ICT initiatives in accordance with the new procedures for approving ICT initiatives.

**86. The Board recommends that the Administration finalize, and share with its funds and programmes, the planned common format for information and communication technology strategy documents, covering the main issues, key mission objectives, the contribution of each project to these objectives, with a quantitative evaluation of costs and benefits, a strengths, weaknesses, opportunities and threats analysis, a risk analysis and a discussion of the factors that would determine success or failure.**

## Reporting and evaluation

87. Several ICT managers have indicated that the information provided to them by IMIS did not provide clear reporting on their expenditures since the system is based on recording items against objects of expenditure without the capability to trace costs by function. The United Nations has no agreed model of what to include under the item "cost of ICT" (e.g., if a webmaster in a functional department is part of the cost or not). The ICT Network has recognized this as a problem but has yet to provide a solution. In the absence of such a definition, the United Nations Secretariat does not have a comprehensive view of 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 the percentage of ICT expenditure on supporting the core activities of the organizations against the percentage allocated to ICT systems and facilities of a general support nature. It has also impaired the ability of the Secretariat to assess whether or not the outsourcing of such activities might be cost-effective.

88. The Secretariat and offices away from Headquarters are service providers to several entities. For example, the United Nations Office at Geneva provides network services to all staff in Geneva but it charges users for services to extrabudgetary staff members as it does for finance, human resources and common support services. These charges are not based on full cost recovery.

**89. The Board recommends that the United Nations adopt and implement a uniform methodology for determining the total cost of information and communication technology with a view to improving the decision-making process on such issues as outsourcing and cost recovery.**

#### **Evaluation and post-implementation benefit audits**

90. The Organization could rely on the above-mentioned high-level business case, announced as a formal method for the evaluation of information and communication technology initiatives from the beginning of their life cycle. The newly established projects review committee is to conduct such reviews prior to any implementation that involves significant ICT initiatives.

91. Post-implementation audits have not been recently documented. Once a project had been completed, there was no process through which to confirm that the financial benefits used to justify the investment were actually obtained, or the kind of additional benefits 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.

92. The Office of Central Support Services informed the Board in July 2004 that additional components needed to track ICT initiatives throughout their entire life cycle, including benefits realization, were being planned for implementation.

**93. The Board encourages the Administration to develop a consistent method for the evaluation, before and after implementation, of its information and communication technology expenditure.**

#### **Information and applications management**

94. It was noted that ICT activities appeared to be organizationally focused and the subject of strategies and policies did not apply to the same degree as it did to information management (i.e., of the contents data and documents). Responsibility for computer systems (applications) was decentralized to a substantial degree. There was a lack of information architectures, for example, at UNCTAD and ECE. This might inhibit the aggregation of information across entities, because they were using disparate systems or, when technically possible, might lead to significant cost and complexity, and then only when the semantic definitions of data are consistent and it is only the formatting that differs.

**95. The Board recommends that the United Nations review the delegations of authority, methodology and monitoring for the management of computerized data and information.**

96. The United Nations Secretariat, with the newly established e-Assets database, ECE and OHCHR have indicated that they maintained inventories or portfolios of information assets — applications, documentation pertaining to such applications and documented plans for the future evolution (enhancement, replacement,

abandonment) of those applications — while others, such as the International Court of Justice (ICJ), the United Nations Interregional Crime and Justice Research Institute (UNICRI), the Office for the Coordination of Humanitarian Affairs, UNCTAD and UNSSC did not. This increases the risk of not having a total view of current information technology assets and, as a consequence, uncoordinated initiatives to develop systems and facilities. However, the Administration informed the Board in July 2004 that the e-Assets system was to be expanded as a repository of information on the ICT assets of the United Nations Secretariat and all agencies of the United Nations system.

**97. The Board recommends that the Administration establish, as planned, a formal portfolio of information technology assets in line with best information and communication technology industry practices in order to provide a complete view of the information and communication technology initiatives, projects and facilities across all United Nations organizational units.**

#### **Skills to exploit information and communication technology**

98. While major efforts were accomplished for the general training of staff members using computers, there was a lack of training specifically on how to develop and implement an ICT strategy. No organization reported training of their staff on ICT strategy matters. This contributes to the risk of having no or incompletely developed strategies, which could lead to inadequate decisions in project priorities and an excessive reliance on consultants to develop strategies for which they would not be accountable.

**99. The Board recommends that the Administration ascertain that training programmes on the development and implementation of an information and communication strategy are available and coordinated.**

#### **Standards and operational practices**

100. Two formal standards applicable to ICT execution matters have been in use for many years. These are ISO 9001 for total quality management, which the United Nations has been recently considering for this field, and ISO 17799, a code of practice for the management of information security. The United Nations Secretariat plans to implement the latter during the biennium 2004-2005. 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. The Office of Central Support Services informed the Board in July 2004 that the United Nations had recently introduced the COBIT methodology into its management framework and processes and implemented the COBIT Adviser software package to facilitate and support this initiative.

101. Several ICT divisions have formal sets of operational best practice for ICT: for example, the Information Technology Infrastructure Library adopted only by the Department of Peacekeeping Operations. The ICT Network indicated work in progress to compile examples of best practice and disseminate them, however, no target date for its completion was provided. The Administration did not document “lessons learned” exercises.

**102. The Board recommends that the Administration continue to take appropriate steps to adopt common standards and best practices, including documenting “lessons learned” exercises.**

#### **Integrated Management Information System**

103. The Integrated Management Information System is a tool for the management of human and financial resources. It is at the core of the administrative structure and workflows, and supports personnel, finance, payroll, procurement, travel and related administrative functions. In addition, there are a number of systems that are interfaced and bridged with IMIS, enabling the capture of data that come from other legacy systems. The system has been installed at the eight major duty stations: New York, Addis Ababa, Bangkok, Beirut, Geneva, Nairobi, Santiago and Vienna.

104. During the biennium 2002-2003, the Board continued its two-phased audit of IMIS in order to determine the degree of reliance that could be placed on IMIS and other systems interfacing with it, and to monitor the status of the implementation of the Board's recommendations for the previous biennium. The Board conducted its audit at United Nations Headquarters, the United Nations Office at Geneva, the United Nations Office at Nairobi, ESCAP and ECLAC. The conclusions derived from these general and application controls audits were used as a guide in performing the final audit of the accounts of the United Nations for the biennium 2002-2003.

105. The results of the review gave the Board an adequate basis upon which to form an opinion on the overall effectiveness of the general and application controls surrounding IMIS. While the Board identified areas for improvement in the finance module (particularly as concerns the travel submodule) and human resources module, the Board considers the manual compensating controls acceptable to the extent that they support the integrity and reliability of the financial statements taken as a whole.

106. Although the Board noted a number of areas for improvement at United Nations Headquarters, the United Nations Office at Nairobi, ESCAP and ECLAC, it is of the opinion that the general controls surrounding IMIS are satisfactory. The Board is also of the opinion that the application controls included in IMIS version 4.3.01 and the related database from which the financial statements are generated are satisfactory.

107. The Board's audit of the general controls in IMIS covered selected control objectives on planning and organizational processes, acquisition and implementation procedures, controls over delivery and support processes, and monitoring controls.

108. The Board's specific findings on general computer controls were as follows:

(a) Except at United Nations Headquarters, the United Nations Office at Nairobi and ECA, there were no defined processes or policies dealing with risk management;

(b) Human resource desk procedures were not updated;

(c) Agreements with third party service providers did not provide for such items as audit access rights, service improvement commitments, a confidentiality clause and adequacy of service provider's personnel policies and procedures;

(d) There was no policy regarding regular visits to the off-site service provider;

(e) The user manual on off-site back-up services had not been updated since 1998;

(f) Internal oversight could be improved.

### **Planning and organization**

109. In its previous report, the Board recommended that the Administration develop and implement a structured, Organization-wide risk-assessment process that, inter alia: (a) clearly defined roles and responsibilities for risk management and accountability; (b) established a policy defining risk limits and risk tolerance; and (c) maintained organized risk information fed by incident reporting.<sup>13</sup> In November 2002, the Administration appointed an ICT security coordinator and established an ICT security unit, which is responsible, inter alia, for the establishment of an in-house risk-assessment capability to service the United Nations.

110. In its follow-up audit in November 2003, the Board noted that the methodology for assessing the risks for security and business continuity was embodied in the ICT security policy and the emergency preparedness policy and planning framework. This framework was under development, although a high-level business case template had been compiled and would be used by the Project Review Committee to assess risks for the Organization. The Board recognizes the efforts of the Administration in starting the development of risk-management processes but notes, however, that the risk-assessment methodology embodied in the two policy frameworks is pending approval.

111. In April 2004, the Administration informed the Board that it had developed and implemented a structured Organization-wide risk-assessment capability which would cover policy, process and standards. In July 2004, it further informed the Board that it had recently completed a risk assessment of ICT systems and management procedures at ECLAC and that, by the end of 2004, risk assessments at its Information Technology Services Division and all offices away from Headquarters would be completed. A draft ICT security and business continuity policy had evolved and ISO 17799 auditors would assess the policy for alignment to the standard. The Office of Central Support Services was also working on a global business continuity and disaster recovery plan.

**112. The Board encourages the Administration to finalize its implementation of an Organization-wide framework for the assessment of risk in all offices.**

### **Acquisition and implementation**

113. In its previous report, the Board recommended that the Administration document, within existing resources, complete procedures for updating and maintaining system, user, training and operational manuals when new releases, versions or modifications were implemented.<sup>14</sup> The Administration informed the Board that the owners of the system were responsible for the preparation and maintenance of their own desk procedures. In April 2004, the documentation of the

<sup>13</sup> Ibid., para. 113.

<sup>14</sup> Ibid., para. 118.

procedures was completed and IMIS changes were better reflected in the online help text. The Office of Human Resources Management was also revising all human resource desk procedures. This documentation would also include the web interface enhancements by the third quarter of 2004.

114. In the same report, the Board recommended that the Administration implement performance, and capacity-monitoring procedures and develop a comprehensive IMIS disaster recovery plan.<sup>15</sup> In April 2004, the Administration informed the Board that it had implemented a disaster recovery plan using remote mirroring to a second data centre and comprehensive performance and server availability. However, it postponed the automated disaster tolerant solution for IMIS availability in view of the converging requirements of applications other than IMIS that needed to implement similar strategies, since considering IMIS alone would not have been cost-effective.

### **Delivery and support**

115. The Board's review of agreements with third parties concerning information system services purchased by United Nations Headquarters disclosed that they did not contain, inter alia: (a) a provision on audit access rights; (b) controls on the activities performed by the service provider as if they were performed by the service user itself; (c) service improvement commitments; (d) a confidentiality clause; (e) an explicit statement that the service provider was obligated to meet all legal requirements applying to its activities and comply with acts and regulations pertaining to the functions that it should undertake on behalf of the service user itself; and (f) a provision concerning the adequacy of service providers' personnel policies and procedures. Further, the Board noted that there was no formal risk assessment done prior to engaging the services of third parties. An activity to use a high-level risk-assessment process was ongoing, but it has not yet been applied to the service-level agreements that the Board examined. For contract renewals, assessment of past performance, except for personnel consultants, was not documented; there was no specific role defined to conduct an assessment of performance; vendor selection was based on informal assessment processes; and no justification was provided for renewing contracts for more than five years, as required in the Procurement Manual.

**116. The Board recommends that the Administration (a) ensure that service-level agreements clearly define the roles and responsibilities of third party service providers and continually satisfy the business requirements, (b) undertake a formal risk-assessment process prior to engaging third party service providers, (c) regularly assess the performance of service providers vis-à-vis the targets and commitments specified in the service-level agreements, and (d) ensure compliance with the provisions of the Procurement Manual in re-engaging service providers.**

117. The United Nations maintains an agreement with a service provider for the storage and safekeeping of its back-up media. The Board noted that there was no policy regarding regular visits to the off-site service provider in order to ensure that the provider had ensured the security of back-up storage media and had regularly tested back-up tapes. In May 2002, the personnel of the Information Technology

---

<sup>15</sup> Ibid., para. 122.

Services Division of the Office of Central Support Services visited the off-site service provider to assess the facility and the services provided. By November 2003, no further visits had taken place. Requirements and procedures are covered in the user manual, which has not been updated since 1998.

118. The owner departments or offices of application software are responsible for keeping back-up copies. For departmental and enterprise servers, the Information Technology Services Division maintains full back-up copies of the application software, system software and database. For all other software, it is the departments' or offices' responsibility to perform the necessary maintenance and back-up. The Board is therefore concerned with the potential impact of a major disruption of service if the Division has no copy of all application software and manuals for departmental servers.

119. The Administration informed the Board that it was drafting an ICT security, business continuity and emergency preparedness policy which would assign responsibility and accountability to departments for: business continuity and disaster recovery plans; system/asset contingency plans; service-level agreements; testing and working instructions; standards and procedures; and guidelines.

**120. The Board recommends that the Administration (a) promptly issue a comprehensive policy on information and communication technology security, business contingency, and emergency preparedness, and (b) update the corresponding user manual for back-up services.**

### **Oversight**

121. Oversight, which is one of the ICT processes under COBIT, is undertaken not only by the unit involved in ICT planning, organization, acquisition, investment, delivery and support, but also by independent assurance parties, such as those responsible for external and internal oversight.

122. The Board noted that there were no Organization-wide policies and procedures for planning, managing, monitoring and reporting of internal control of information technology, or of how these were to be frequently reviewed; that internal control evaluations of information technology systems were not performed on a regular basis prior to their production and delivery; and that the input of the Internal Audit Division of the Office of Internal Oversight Services regarding the adequacy of controls were not obtained prior to the acquisition, development and implementation of critical new information technology services. Moreover, the Internal Audit Division was represented on the ICT board only as one of the information technology application users and not in its oversight capacity.

123. During the biennium 2002-2003, the Office of Internal Oversight Services conducted only three information and communication technology audits, mostly of the nature of post-implementation review.

124. The Board is concerned that the inadequate number of ICT auditors within the United Nations will create a risk that ICT critical information technologies, applications and processes may not be regularly audited and monitored.

125. The Office of Internal Oversight Services commented that the monitoring of information technology functions is performed as resources permit, in line with the Internal Audit Division's risk-based audit plan. However, owing to the broad scope

of the Division's work and its limited information technology resources, such monitoring activities tend to be limited.

**126. The Board recommends that the Administration provide for appropriate expertise to review and monitor information and communication technology functions.**

**(a) Integrated Management Information System application controls**

127. For the finance module, the Board reviewed, inter alia, the submodules pertaining to accounting operations, treasury and receipts, expenditures and payables, and consolidation of accounts of offices away from Headquarters. The Board also conducted a follow-up review of the interface of IMIS with the new version of the Budget Information System, the Reality procurement system, and the IMIS cheque-printing system.

128. Test of controls conducted disclosed no access rights violation. However, the Board noted the following discrepancies with respect to application controls:

(a) Travel advances were processed without reference to approved travel requests, and manual processes intervene in the computation of the daily subsistence allowance, thereby creating a risk of inaccuracies and an inconsistent application of rules;

(b) The system processed revenue and expenditure transactions through the journal voucher user session, even if the object codes were not specified;

(c) The reporting of financial data may not be accurate and reliable because the system allowed processing and posting of revenues and expenditures pertaining to fiscal years outside the current biennium;

(d) The system continued to allow the creation of duplicate profiles in the database;

(e) The system did not have automated controls to reject implausible entries or to post a warning in such cases.

**(b) Finance module**

*Travel user session*

129. The pertinent information needed and the routine for the computation of the subsistence allowance were already embedded in the travel request user session but the computed allowable daily subsistence allowance could be ignored in the travel advance user session. The user could enter any amount beyond the authorized amount as computed. Manual controls intervened to ensure the correct processing of travel payments. By manually processing that which could have been computerized, the risk of inaccuracies and an inconsistent application of rules increases.

130. Moreover, the due date for a travel advance to be recovered through payroll deduction is currently defaulted to the date of payment of travel advances. However, any authorized user could change the default date when entering data on the payment date, and the system does not validate the due date entered by the user. In this case, recovery through payroll deduction may not be done in a timely manner.

131. The Board recommends that the Administration consider instituting improvements in the current functionalities of the travel user session by, inter alia, (a) linking and integrating the travel request to the travel advance, (b) ensuring that travel advances are paid only upon approval of the travel request and travel advance and that any exceptions or overrides are logged, and (c) automating the computation of travel entitlements, and include a routine that would automatically establish the deadline for the submission of the travel reimbursement claim and the recovery of the travel advance through payroll deduction, in accordance with the requirements of administrative instruction ST/AI/2000/20.

132. The Administration informed the Board that it intends to implement changes in the functionality of the travel user session by the end of 2004 that would (a) integrate travel advances, where authorized, through a travel request document, and (b) automate recovery schedules. However, owing to the process of settling advances executed with other agencies, it is not possible to restrict the creation or approval of travel advances to those that have travel requests. Through the e-payslip functionality, the Administration has implemented measures to inform staff members automatically of forthcoming recoveries. On the other hand, the United Nations Office at Nairobi was of the view that the administrative instruction to recover advances in the event that the traveller did not present a claim within two weeks of return from travel was in practice unenforceable. It informed the Board that it would recommend a recovery period up to the first day of the month following 60 days from the date of the advance, with high-level clearance for any amendment or rescheduling.

*Cheques generated through the Integrated Management Information System cheque-printing system*

133. In its previous report, the Board recommended that the Administration include validation controls and procedures in the IMIS cheque-printing system to ensure that the system did not generate a cheque for approved disbursements for which a cheque had already been issued manually.<sup>16</sup> The Administration agreed to that recommendation and indicated that it intended to implement the enhanced procedure in 2004.

*Journal voucher user session*

134. The journal voucher user session does not ensure completeness of data entry information, such as fiscal year, fund, object class and object codes, before processing revenue and expense transactions. Both the Office of Programme Planning, Budget and Accounts and the Information Technology Services Division of the Office of Central Support Services agreed to review the functionality of the module. The United Nations Office at Nairobi commented that the journal voucher in IMIS was much overused for temporary solutions to overcome programming problems and system errors. It considered that IMIS should have a two-level journal voucher: at a low level of authority, all elements of the journal voucher would include the full budget account classifications; at a high level, enforced either by the security level or approval by two approving officers, the journal voucher should

---

<sup>16</sup> Ibid., para. 138.

allow correction of errors and therefore should have incomplete budget account classifications.

**135. The Administration agreed with the Board's recommendation that it consider enhancing the journal voucher session when the automation of the closure process is completed and placed in production.**

136. During the general journal voucher user session, processing and posting of revenues and expenditures pertaining to fiscal years outside the current biennium are allowed. The Administration indicated that it intended to implement comprehensive posting rules in the future.

**137. The Board encourages the Administration to implement a fully comprehensive set of posting rules.**

(c) **Personnel module**

*Leave credits for short-term appointments*

138. The Board noted that there were no clear IMIS guidelines on processing leave benefits to staff members on short-term appointments. Consequently, it was necessary to monitor manually the leave balance of these staff members.

**139. The Administration agreed with the Board's recommendation that it adopt the Integrated Management Information System procedures on the processing of leave benefits to staff members on short-term appointments.**

140. The United Nations Office at Nairobi informed the Board that, with effect from July 2004, it would implement an electronic system (e-leave) that would monitor the leave benefits of its staff, including those on short-term appointments.

*Education grant*

141. The Board noted that IMIS could allow the payment of an education grant for the beginning of a new year even without evidence of attendance in the preceding year. A staff member, therefore, could obtain advances without having justified his or her actual expenses. The same procedures existed in IMIS. The Administration explained that it recovers any excess payment of education grant from the staff member. The Administration adopted this procedure in view of the delays between the submission of costs, proof and processing in IMIS, which create potential disturbance for eligible staff members. It suggested that an appropriate warning could be provided in IMIS when a user attempts to process an education grant application without having closed the previous education grant. The Administration has added this feature to the list of outstanding enhancements, but no resources have as yet been allocated.

**142. The Board recommends that the Administration consider a feature in the Integrated Management Information System that allows only duly authorized officials of the Office of Human Resources Management to process an education grant while the previous year's education grant has not yet been closed.**

143. In its previous report, the Board recommended that the Administration: (a) consider the cost-effectiveness of adding a control mechanism to IMIS to block the entry of a General Service to Professional category promotion if the data

indicating that the staff member had passed the examination had not been validated; (b) extend full control over duplicates to all key data entries instead of limiting it to the initial entry (para. 151); (c) consider the cost-effectiveness of implementing additional automated controls and reject implausible entries or post a warning in such cases (para. 153); and (d) implement additional login access controls (para. 157).<sup>17</sup>

**144. The Board reiterates its recommendations that the Administration implement additional automated controls, such as (a) blocking the entry of a General Service to Professional category promotion if the data indicating that the staff member has passed the examination has not been validated, (b) extending full control over duplicates to all key data entries instead of limiting it to the initial entry, (c) rejecting implausible entries or post a warning in such cases, and (d) displaying on the monitor information on the most recent successful login upon validation of a valid access.**

145. The Administration stated that it has taken steps to develop an ICT security strategy, including: (a) creation of an ICT security unit in November 2002; (b) drafting of an ICT security, business continuity and emergency preparedness policy; (c) undertaking an ICT security risk assessment at the information technology services division of the OCSS, at ECA and at the United Nations Office at Nairobi; (d) implementing an ISO 17799 compliance project, which was currently in progress; (e) publishing an information security awareness newsletter and establishing an Intranet-based portal for security awareness; (f) implementing a secure communications network project; and (g) providing incident response and investigation support.

**(d) Consolidation of reports and preparation of financial statements**

146. One of the benefits derived from computerization is the generation of reports at any time of more importance is that reports generated from computerized processing have increased reliability if manual intervention is not allowed in their generation. The IMIS reporting facility application allows the generation of a trial balance for each fund since there are many funds per type, as shown in table II.4 below.

Table II.4  
**Funds in the Integrated Management Information System**

<i>Fund type</i>	<i>Fund description</i>	<i>Number of funds</i>
1	General	1
2	Peacekeeping	40
3	General trust	250
4	Technical cooperation	More than 100
5	Held in trust	14
6	Other special funds	4

<sup>17</sup> Ibid., paras. 149, 151, 153 and 157, respectively.

147. Trial balances that are generated through the IMIS reporting facility application are manually combined to produce the financial statements instead of being automated. The Administration has been in the process of automating the consolidation activity and the IMIS reporting facility application report on general trust funds was put in production to facilitate the preparation of the financial statements.

**148. The Administration agreed with the Board's recommendation that it ensure that the Information Technology Services Division of the Office of Central Support Services and the Office of Programme Planning, Budget and Accounts continuously pursue the automation of the consolidation process in order to ensure the integrity and reliability of financial information and to maximize the benefits derived from the technology available.**

**(e) Payroll migration at the United Nations Office at Geneva**

149. The Board reviewed the migration of payroll from the former mainframe systems to the R4 release of IMIS, implemented at the United Nations Office at Geneva on 1 January 2002. The Office's IMIS team consists of four units. The database/hardware unit wrongly understood that the data/software unit had put in place controls for checking the reliability tables modification and vice versa, with the result that no controls had been put in place. The Office corrected the situation after the Board's audit.

150. Estimates were not made of person/days required for the project; the use of human resources was not monitored. The United Nations Office at Geneva explained that, although in principle the internal resources involved were dedicated full-time to the project, the staff members were in fact also maintaining existing production environments; as a result, it was difficult to show actual resource allocation. This did not allow for detecting gaps between resource estimates and actual use in a timely manner and taking action accordingly, or for analysing the reasons for departures from the plan and for improving the quality of the project management process. The Office planned to undertake extensive project management training in order to improve the skills in this area, and for monitoring resource usage and deadlines more closely.

**151. The United Nations Office at Geneva agreed with the Board's recommendation that it introduce, in its project management, tools for estimating the internal and external human resources required, and to monitor their use during all stages of a project, with a view to analysing the reasons for departures from a plan and improving the quality of the project management process.**

152. For one particular type of software, the United Nations Office at Geneva did not have licence and was not aware that licences were acquired centrally by United Nations Headquarters for all duty stations. After the Board's audit, the Office reported that it had automated the inventory of software and hardware. United Nations Headquarters was to review the corresponding licence agreements.

153. The United Nations Office at Geneva could not document the migration test framework. Some test results were available, but the Office had no summary of all of the tests done and related results. Pursuant to the Board's audit, the Office announced that it would work towards establishing a formal test plan. The Office

also did not have a proper process for the receipt of user queries with subsequent actions to be taken, and reporting to management. It had no tool to manage an appropriate help desk on this application but, after the Board's audit, it indicated that it planned to develop such a tool.

**154. The United Nations Office at Geneva agreed with the Board's recommendation that it (a) establish and document the test framework and results for all information and communication technology projects, and (b) acquire a help desk tool as planned.**

## **2. Budget recosting methodology**

155. In paragraph 11 of its resolution 58/270 of 23 December 2003, on questions relating to the proposed programme budget for the biennium 2004-2005, the General Assembly requested the Board of Auditors, in consultation with the Secretary-General, to examine the recosting methodology and to report thereon to the Assembly at its fifty-ninth session, including proposing the most appropriate mechanism for managing the currency aspects of the recosting methodology.

156. Recosting is the revision to budgeted estimates on the basis of adjustments to costing parameters. Adjustments would take into account currency fluctuations, inflation, changes in staff costs and vacancies. The United Nations uses standard costs in recosting, generally created or revised as the biennial budget evolves and goes through four recosting ranges:

(a) The first and second ranges relate to the drafting stage of the proposed budget;

(b) The third range concerns the revision of the appropriation at the end of the first year of a biennium;

(c) The fourth range concerns the revision at the end of the second year for the second performance report, which evolves into the final appropriation for the biennium. The Board has based its analysis on a third range simulation for the year 2002.

157. Any increase or decrease in adjustments increases or decreases the appropriations and assessments.

158. Table II.5 shows the breakdown of the total projected changes of \$215 million at the third range of recosting for the biennium 2002-2003 embodied in the first performance report on the programme budget.<sup>18</sup>

---

<sup>18</sup> A/57/616.

Table II.5  
**Breakdown of projected changes at the third range of recosting for the biennium 2002-2003**

<i>Changes</i>	<i>Amount (millions of United States dollars)</i>
Unforeseen and extraordinary expenses	13
Decisions of policy-making organs, including special political missions	89
Changes in exchange rates	34
Changes in inflation assumptions	28
Adjustments to standard salary costs	4
Vacancies	20
Recommendations of the International Civil Service Commission on net remuneration	27
<b>Total</b>	<b>215</b>

159. The above-mentioned unforeseen and extraordinary expenses, changes brought about by decisions of policy-making organs and recommendations of the International Civil Service Commission (ICSC) were new expenditures, or savings not directly based on costing parameters. The Board reviewed the changes in vacancies, currency fluctuations and inflation as they affect the budget recosting methodology currently in place.

#### **Budget appropriation increase or decrease due to changes in vacancy rates**

160. The Secretary-General periodically proposed vacancy rates and the General Assembly revised them taking into account, inter alia, statistics provided by the Programme Planning and Budget Division of the Office of Programme Planning, Budget and Accounts. Major considerations in determining vacancy rates were the category types (i.e., Professional and General Service) and the post status (i.e., continuing or new post). There were two vacancy rates involved in computing post incumbency budget estimates: budgeted vacancy rates and actual vacancy rates. The budgeted vacancy rate was prorated, based on post status and number of posts (e.g., continuing post rate multiplied by the number of posts plus the new post rate multiplied by the number of posts divided by the total number of posts). This was the composite rate initially used to compute budget estimates.

161. The Programme Planning and Budget Division compiled posts by category level, budget section, responsibility centre and duty station. It also compiled actual vacancy data as reported by departments and offices, on the basis of incumbency data from IMIS, or from other systems in offices where IMIS is not utilized. The actual vacancy rate was the percentage of the vacant posts in relation to the authorized post, computed for established and temporary posts. The budgeted vacancy rates were adjusted to the average of all monthly actual rates from January to the latest available month prior to the date of recosting.

162. The Board considers the budget recosting methodology that is currently in place to be reasonable.

*Currency fluctuations*

163. For currency fluctuations, the Programme Planning and Budget Division used the United Nations operational rate of exchange provided by Treasury. The methodology was either the average rate or the spot rate, whichever allowed lower estimates. The average rate is the average of the monthly actual rates with the latest available rate applied for the remaining months of the year, while the spot rate is the rate of the latest available month. Both rates were computed per duty station.

164. In the initial appropriations, the Programme Planning and Budget Division used the average or spot rate favourable to the United States dollar for both years of the biennium. In the first performance report that led to the revised appropriations, the average rate was used in the first year of the biennium, while the average or spot rate that yielded lower estimates was used in the second. In the final appropriation, the realized rate was used with the latest available rate applied to the remaining months.

165. Based on its study of the foreign exchange rates for 2002 used in the first performance report on the programme budget for the biennium 2002-2003, the Board formulated options that may be used in computing budget changes arising from currency movements, as shown in table II.6.

Table II.6  
**Comparative analysis of recosting methodologies for currency movements**

*Methodology*

Existing	Lower of average or spot	Lower of actual rates from January to the latest available month (November 2002 for the biennium 2002-2003) with the latest rate applied to remaining month, in this case December, divided by twelve, or spot rate
----------	--------------------------	---

*Board's comparative methods*

(a)	Average	Actual rates from January to the latest available month (November 2002 for the biennium 2002-2003) with the latest rate applied to remaining month, in this case December, divided by twelve plus the spot or latest available rate, divided by two
(b)	Actual spot average	Average of available months added to spot rate divided by two
(c)	Lowest	Lowest rate from January to the latest available month applied to the last remaining month divided by twelve
(d)	Highest	Highest rate from January to the latest available month applied to the last remaining month divided by twelve
(e)	Spot/latest	Spot rate or rate of the latest available month

166. The Board reviewed the changes due to foreign currency fluctuations for the sample section 30, Special expenses, in the first performance report and identified the formula for computing programme changes per budget section, which was to multiply the total of the prior estimate and currency increase by the difference

between the proposed exchange rate and the currency rate in effect. After testing the formula using the existing recosting methodology in place in the first performance report, the Board performed the procedures once more, using the different options. The lowest and highest rate options yielded approximately the same results as that of the rate being used in the existing methodology.

167. In addition, the Board performed the “what if” functionality of the Budget Information System, using the system’s analysis module that shows the effect on the budget appropriations of modifying costing parameters, including the rate of exchange. Using the initial appropriation for the programme budget for the biennium 2004-2005 as the basis for its iterations, the Board tested the different options on selected duty stations, namely, Vienna, Geneva and Nairobi. For Vienna, the highest and actual spot rate yielded the same results as that of the existing methodology. For Geneva, the highest and average rates yielded the same results as that of the existing methodology. For Nairobi, the highest rate produced the same results.

168. In both tests for currency effect on budget estimates, that is, per budget section and per duty station, the changes in budget estimates using the existing methodology was consistently midpoint between the options that yielded the lowest and highest results. The Board, therefore, considers the existing methodology as generally acceptable.

#### *Inflation*

169. Inflation affected budgeted expenditures except for grants and contributions, new premises, fellowships, honorariums and representation allowances. The inflation rate was based on that of a leading weekly publication. The Programme Planning and Budget Division provided ICSC with the inflation rate to be used as a basis for calculating the post adjustment multipliers of Professional staff and the Office of Human Resources Management for projecting general services salary increases. The Division gathered these parameters from ICSC and the Office, and adjusted the budget for post costs and the inflation rate from the same source to calculate the non-post costs. The exceptions to the application of the generic inflation rate for non-post costs were after-service insurance and general insurance.

170. A comparative study of the effect of inflation in the programme budgets for the bienniums 1998-1999, 2000-2001 and 2002-2003 disclosed different movements, as shown in table II.7.

Table II.7  
**Effect of inflation in the programme budgets for the bienniums 1998-1999,  
 2000-2001 and 2002-2003**

(Thousands of United States dollars)

Biennium	Increase/ (decrease) due to changes in inflation rates	Increase/ decrease from previous biennium	Percentage to total changes	Total increase/ (decrease) in budget estimates	Percentage to proposed appropriation	Appropriation proposed by Programme Planning and Budget Division
1998-1999	(13 700)		15.26	(89 802)	0.55	2 488 302
2000-2001	11 063	24 763	(87.17)	(12 690)	0.43	2 560 928
2002-2003	35 765	24 702	12.87	277 933	1.21	2 953 862

171. Changes in inflation rates are due to circumstances beyond the control of the Secretary-General or the General Assembly. Also, there is no way by which an accurate projection can be made as regards the effect of inflation on the programme budget. Thus, the Board considered the recosting methodology affecting inflation adopted by the Administration to be appropriate in the circumstances.

172. Additional expenditures arising from changes in vacancies (recosted every first year of the biennium), currency fluctuations and inflation were inevitable. In order to maintain the overall level of the programme budget, these expenditures should be accommodated. Currently, these expenditures are not covered by either the contingency fund or a specific section in the programme budget but are appropriated and assessed every year.

173. To absorb additional expenditures without having to go through multiple assessments to Member States, the concept of establishing a reserve may be introduced.

#### *Operational reserve*

174. As previously recommended by the Secretary-General,<sup>19</sup> a reserve fund, on an imprest basis and as a separate section in the programme budget, could be established at the time of the adoption of the initial appropriations, with the level of the reserve computed on the basis of experience in the previous biennium and, necessarily, assessed. During the biennium, any additional requirements due to currency fluctuations, inflation and other cost adjustments, including those determined prior to the approval of the proposed programme budget and the initial appropriations, would be absorbed by the reserve. When such additional requirements are authorized, they would be appropriated under all the sections of the budget so affected and the appropriations for the section relating to the reserve would be reduced accordingly. If such changes result in reduced budget level, the reduction would likewise be reflected, at the appropriation stage, in sections so affected, and the appropriations for the section relating to the reserve would be increased accordingly up to the level originally established at the beginning of the biennium. Once the reserve has been replenished, further reductions would be credited to Member States.

<sup>19</sup> A/42/225.

**175. The Board recommends that the Administration resubmit to the General Assembly its proposal for the establishment of a reserve to cover appropriately additional expenditures related to such factors as exchange rate variations and inflation.**

### **3. Programme management and results-based budgeting**

#### *Financial versus technical implementation*

176. The Advisory Committee on Administrative and Budgetary Questions encouraged United Nations organizations to continue to develop and improve performance measurement standards.<sup>20</sup> In particular, it was concerned that reported expenditures might not correlate appropriately with the level of the implementation of programmes.

177. For the United Nations, the Administration considered the programme budget for the biennium 2002-2003 as the first comprehensive results-based budget that was fully in accordance with the results-based budgeting concepts, namely: (a) the articulation, prior to implementation of the programme, of 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 programme performance based on the key results achieved by the Organization, reporting achievements against each expected accomplishment pertaining to each subprogramme.

178. The Administration reported 33,131 quantifiable outputs. For the biennium 2002-2003, 22,706 outputs were completed as planned, and 564 reformulated outputs were completed. All of the outputs added by the legislative bodies and the Secretariat were realized. Further, 643 outputs 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. The average implementation rate for the biennium 2002-2003 was 84 per cent, representing the percentage of completion to all mandated outputs, that is, those initially programmed, those carried over from a previous biennium and those added by legislation. Of 27 budget sections with quantifiable outputs, 16 registered implementation rates of 90 per cent or higher; 8 accomplished between 80 per cent and 90 per cent of mandated outputs; while 3 registered implementation rates of lower than 80 per cent owing to the substantial number of outputs terminated, in particular for two departments which had little opportunity to anticipate or control such terminations.

179. Regarding the volume of resources used to achieve the outputs, all budget sections utilized between 95 per cent and 100 per cent of appropriations. The three sections that produced outputs below the average utilized between 98 and 100 per cent of their respective appropriations. Overall, 99.89 per cent of total appropriations was utilized for the biennium 2002-2003, whereas the average implementation rate for the biennium registered only at 84 per cent, based on the

---

<sup>20</sup> A/55/487, para. 14.

report of the Secretary-General on the programme performance of the United Nations for the biennium 2002-2003.<sup>21</sup>

180. The link between financial accomplishments (budget compared with expenditures) and physical and technical accomplishments (in relation to targets with actual accomplishments) provides managers and oversight bodies with the information that enables them to measure the performance of departments and offices with regard to programme implementation. This is in consonance with the concept of results-based budgeting adopted by the General Assembly in its resolution 55/231 of 23 December 2000.

181. While the existing Integrated Monitoring and Documentation Information System (IMDIS) and IMIS serve as tools for monitoring, respectively, programme and budget performance, both systems run independently and address different reporting requirements despite dealing with the same programme or project.

182. The Department of Economic and Social Affairs stated that it intended to make the next version of IMDIS capable of addressing the issues of the linkage more effectively. As a pilot activity, the financial data in respect of budget section 35, Development Account, were already available in IMDIS as a result of the creation of an automated interface with IMIS. This would be used as a prototype for the enhancement of IMDIS, planned for the biennium 2004-2005, whereby user departments and offices would be able to access IMIS-generated financial data in IMDIS. This would create a linkage of programmatic and financial data for comprehensive analyses and reporting throughout the planning, programming budgeting, monitoring and evaluation cycle.

183. The Board shares the concern of the Administration that the percentage rates related to the implementation of outputs should not be arbitrarily compared to the percentage rates of financial resources utilized, and that raw comparisons of such percentage rates do not provide meaningful information.

184. The Administration was of the view that while systems could theoretically address some or all of the above issues, it would not be feasible to focus on output costing and output counting while moving towards a results-oriented approach, and that the substantial additional recording costs would be prohibitive, both in terms of resources and time.

**185. The Board encourages the Administration to (a) continue exploring enhancements in implementing the results-based budgeting methodology, and (b) consider, based on the cost-benefit analysis, utilizing the capability of both the Integrated Management Information System and the Integrated Monitoring and Documentation Information System to link, where appropriate, the financial and technical aspects of the programmes and to provide timely information on the utilization of resources in achieving the desired results.**

186. The Administration informed the Board that it was analysing the requirements for the integration of programmatic and financial information in IMDIS, in consultation with partners and stakeholders in the Secretariat.

---

<sup>21</sup> A/59/69.

187. To implement results-based budgeting effectively, the Administration conducted workshops for individual departments at all duty stations that focused on establishing indicators of achievement prior to departmental submissions of proposed budgets and on reviewing the indicators of achievement related to their subprogrammes. However, some departments and offices either did not specify the performance indicators and expected accomplishments in their programme budget or some project documents, or expressed them in general terms or statements that would not allow the evaluation of the impact of the programmes on quantifiable, measurable terms (Department of Economic and Social Affairs, Department for General Assembly and Conference Management) and at ESCAP, prior to November 2002, Regional Coordination and Centre for Research and Development of Coarse Grains, Pulses, Roots and Tuber Crops in the Humid Tropics of Asia and the Pacific and Statistical Institute for Asia and the Pacific. In the case of the Department of Public Information, while its programme budget contained the required elements of the results-based budgeting methodology, it expressed the elements in general terms.

**188. The Administration agreed with the Board's recommendation that it continue to develop and conduct training programmes that would address issues involved in the implementation of results-based budgeting.**

189. The Department of Economic and Social Affairs informed the Board that, by early 2005, it would utilize the logical framework, which would ensure that the expected accomplishments and performance indicators are stated at the outset of the technical cooperation projects, and that it had initiated training to that effect.

190. The Board's review of the programme management of some substantive offices at the United Nations Headquarters, offices away from Headquarters and regional commissions for the biennium 2002-2003 disclosed specific areas that needed improvement so as to ensure efficient and effective use of resources in implementing programmes and projects discussed in the subsequent paragraphs.

191. The identifiable actual outputs of the Department for General Assembly and Conference Management for translation and interpretation services were below the programmed workload by 7 per cent and 9 per cent, respectively. The Department considered that the following factors had affected the decline in output and productivity: (a) efforts to strictly enforce page limits as part of its reform programme; (b) the introduction and spread of e-flow and e-processing, including the expanded use by translators of keyboarding and of computer-based terminology and reference aids, which might actually lower productivity but would enhance the quality and consistency of the final product; (c) its new procedures for calculating credit for work done; (d) late cancellation of scheduled meetings; and (e) cancellation of regularly scheduled meetings with no possibility of reallocating services.

192. The programmed workload not completed included the accumulated backlog of undistributed summary records pertaining to 919 meetings held in 2001 (214), 2002 (381), and 2003 (324). The Department explained that considerable resources would be required to clear the backlog, but not all of the 4,595 individual language versions were still outstanding. In many cases, the requirement for issuance of summary records simultaneously in all languages held up one or two language versions. For example, of the 138 summary records outstanding from the fifty-seventh session of the General Assembly in 2002, the issuance of a full 60 per cent was being held up by only one language version, and another 36 per cent was held

up because two language versions were missing. The Department also explained that a solution to the backlog depended to a large extent on the will of Member States and that the problem was currently under review by the Fifth Committee and the Committee on Conferences.

**193. The Board recommends that the Administration facilitate the issuance of summary reports in a timely manner.**

194. The Department for General Assembly and Conference Management informed the Board that, after the audit in March 2004, it had stepped up outsourcing of translation of summary records through the Contractual Translation Unit and had succeeded in reducing the backlog noted by the Board. Further, it commented that the policy decision on summary records that the General Assembly is expected to take at its fifty-ninth session would provide a permanent remedy to the problem of an accumulated backlog of undistributed summary records.

195. The Department for Disarmament Affairs disbursed between 97 per cent and 99 per cent of the resources allocated for two of its subprogrammes (Multilateral negotiations on arms limitation and disarmament, and Weapons of mass destruction), but actual outputs were highly disproportionate, registering at 48.8 per cent for one subprogramme and 68 per cent for the other. The Department commented that the resources allocated to it were not commensurate with the increasing scope and complexity of its mandates and with other disarmament-related bodies, and that the current mechanism of reporting on the work months utilized by staff in implementing the programmed output did not reflect the actual level. Further, it commented that the Geneva branch was operating at the same level of resources despite additional mandates related to servicing of annual meetings, and it therefore had to reassign staff members to where they were needed, and it relied heavily on the services of interns.

**196. The Board recommends that the Administration review its system of allocating resources.**

**4. Monitoring of nationally executed projects**

197. The Department of Economic and Social Affairs implemented 87 nationally executed projects, with a total budget of \$38.3 million for the biennium 2002-2003. The Board's review of 18 samples (25 per cent) of the 73 financially active projects disclosed that 8 had no work plans, 11 were without review plans, 16 did not specify performance indicators, 5 did not have monitoring and evaluation reports and 3 did not have financial and inventory reports. The Board is concerned that the Department may not be able to monitor effectively the implementation of the projects owing to the absence of project documents.

**198. The Administration agreed with the Board's recommendation that it ensure that project folders contain all relevant documents in order to facilitate review and monitoring of the implementation of nationally executed projects.**

199. In September 2003, the Board noted that three projects of the Department of Economic and Social Affairs, which had been operationally closed since 1995 to 1999, remained financially open. Following the Board's audit, the Department financially closed two projects as at 31 December 2003 and, since July 2004, it has held ongoing discussions with UNDP with a view to reconciling discrepancies in the financial records of UNDP and its project delivery reports.

**200. The Department of Economic and Social Affairs agreed with the Board's recommendation that it reconcile its accounts with UNDP and hasten the closure of operationally closed but financially open projects.**

**5. Treasury and investment management**

*United Nations Headquarters*

201. The Board reviewed the reporting on funds available for investment, and monitoring funds liquidity to cover daily cash requirements. Also, it evaluated the implementation of the existing investment parameters prescribed in the Common Principles and Policies on Investment, a series of investment guidelines developed by the Financial Services Working Group, comprising, inter alia, the United Nations, UNDP, UNICEF and the World Food Programme (WFP). The United Nations implemented the Common Principles and Policies on Investment in January 2000.

202. The Board was pleased to note that there was general improvement in the recording and reporting of investment operations, which could be attributed to the enhanced coordination between the Treasury and the Accounts Division and to improved procedures and formalized investment policies.

203. The Board noted, however, that the Treasury did not use cash-flow forecasting to provide reasonable estimates of future cash positions which would impact upon the investment strategy. Treasury commented that monitoring and forecasting the Organization's cash flow was not a treasury function. The Board considers that a cash-flow forecast should be a reasonable reflection of receipts and expenditure information, and include the amount, currency and timing of such flows based on data supplied by the programme managers actually responsible for them.

**204. The Board recommends that Treasury consider the costs and benefits of adopting a comprehensive cash-flow forecasting system, with a view to further enhancing its portfolio performance.**

205. Treasury expressed its belief that cash-flow forecasts covering periods as far into the future as 3 to 12 months were inaccurate from the moment they were created and, therefore, were an unreliable management tool. Treasury, however, prepares an investment cash-flow report and one of the intended benefits of the investment pooling was to reduce the need for fund managers (i.e., persons in charge of monitoring a fund of any type in the substantive offices and offices away from Headquarters) to prepare cash-flow forecasts, since it is difficult to estimate their cash-flow requirements.

206. The Board considers that the current Treasury investment cash-flow report serves a purpose different from that of a cash-flow forecast. While both reports contain the beginning balance, cash receipts, cash disbursements and the ending cash balance, the investment cash-flow reports pertain to actual cash data which are updated daily based on actual transactions for the day, and the resulting ending cash balance is the available cash for investment purposes. The cash-flow forecast that the Board envisions does not require accurate data, but requires only reasonable estimates (known as broad estimates in the general guidelines for programme managers) of future cash positions, thus enabling the planning of a future investment strategy. The cash-flow forecasts show not only how much surplus liquidity would

be available for future investment, but also facilitate the planning of the maturity profile of investments.

*United Nations Office at Geneva*

207. The Board, in paragraph 212 of its previous report, recommended that the United Nations Office at Geneva, in close coordination with United Nations Headquarters, develop suitable tools for cash management in IMIS, and that it frequently review malfunctions and anomalies.<sup>22</sup> By April 2004, the Office was still using spreadsheets. Considering the amounts at stake (up to more than \$400 million), this informal procedure presented significant risks.

**208. The Board reiterates its recommendation that the United Nations develop suitable data-processing tools for cash management.**

209. As at 31 December 2003, the United Nations Office at Geneva managed a total investment portfolio of \$375 million. Regarding investment policies and procedures, the Office relied only on an inter-agency working paper on the Common Principles and Policies for Investments, prepared in 1999 with a view towards the establishment of common investment guidelines. The Office considered these matters beyond its authority, but had taken no action to move the matter forward. There was no investment committee to review investment policies, risks and performance. In some instances, the amount invested in an investment category or with the bank was higher than the recommended ceiling, but the only action taken was a note for the file, indicating that the situation would be settled in the ensuing month.

210. While more than 75 per cent of the investment portfolio as at 31 December 2003 was managed by the United Nations Office at Geneva for Geneva-based funds and programmes, no formal written guidelines had been approved by the latter concerning the investment policy and safeguards for their respective shares and the reporting to be provided by the Office to the respective management teams.

**211. The Board recommends that the United Nations (a) review its treasury operations at offices away from Headquarters, and (b) promptly establish formal guidelines, procedures and investment committees, in liaison with the concerned funds and programmes.**

212. The United Nations Office at Geneva managed the investments for the United Nations Staff Medical Insurance Society against Sickness and Accident (UNSMIS), a fund operated within its administrative services. The Executive Committee of UNSMIS had adopted precise guidelines that were implemented by Treasury at the United Nations Office at Geneva. The Treasury executed an order of the Executive Committee to entrust a financial firm, selected in compliance with procurement rules, with managing externally part of the portfolio. This particular investment incurred a loss of \$2,858,809 in equity, which was registered in the accounts as at 31 December 2003. Financial rule 104.16 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, shall be provided to the Board of Auditors within three months following the end of the financial period. However,

---

<sup>22</sup> *Official Records of the General Assembly, Fifty-seventh Session, Supplement No. 5 and corrigendum (A/57/5)*, vol. I, chap. II, para. 212.

neither the Under-Secretary-General for Management nor the Board of Auditors was provided with such a statement within the deadline.

213. The United Nations Office at Geneva considered that, in accordance with United Nations standard practice, reporting of gains and losses for the fund should be undertaken collectively because it would not be meaningful, or serve any useful purpose, to report losses on individual trades. From a management perspective, it is the net result of losses and gains, that is, the overall yield, that is relevant. Therefore, the practical implementation of the financial rule (as also reflected in the notes to the financial statements) is that all realized losses and net unrealized losses on short-term investments are offset against investment gains. The Office considered that no action was required. The interest income in the UNSMIS financial statements was \$258,334, while the financial statement (see schedule 10.1, note d) disclosed an investment loss of \$2,858,809.

**214. The Board recommends that the Administration implement the disclosure procedure for investment losses, as provided for in United Nations financial rule 104.16.**

## **6. Procurement and contract management**

### *Procurement planning*

215. Procurement planning is essential to facilitating an effective and efficient procurement process, including the benefits of bulk purchasing and improved cash-flow management. A well-developed procurement plan would reduce the frequency of small purchases and result in cost- and time-savings. Following the Board's interim audit in October 2002, the Procurement Division of the Office of Central Support Services monitored the submission of the procurement plans by the requisitioning offices, and reminded them that they should complete the information submitted in respect of the estimated quarter when the commodities and services were needed and the estimated value of requirements. The Procurement Division provided all concerned offices with specific guidelines, together with a comprehensive procurement plan format, emphasizing the importance and benefits of procurement planning and their responsibility insofar as the completeness and reliability of the data submitted. However, by 12 August 2003, only 24 (44 per cent) of the 54 offices required to submit the procurement plan for year 2003 had complied. In addition, only 16 (67 per cent) of the 24 acquisition plans submitted conformed to the required format.

**216. The Administration agreed with the Board's recommendation that it (a) follow up and remind all departments, divisions and offices to submit procurement plans on a timely basis in accordance with the revised format, and (b) stress the importance and benefits of procurement planning and the responsibility for the completeness and reliability of the data submitted.**

217. At ESCWA, none of the sections had submitted complete and comprehensive procurement plans to the Procurement Division. Therefore, ESCWA was unable to develop an overall consolidated procurement plan for the biennium 2002-2003.

**218. The Economic and Social Commission for Western Asia agreed with the Board's recommendation that it ensure that all sections submit procurement plans in order to facilitate the development of an overall procurement plan.**

*Requisition management*

219. The Board looked into the system that tracks the status of requisitions received by the Procurement Division of the Office of Central Support Services and how the workload was being managed and noted the following:

(a) The requisition tracking system keeps track of, and ages, outstanding assigned requisitions from the date of assignment to purchase order issuance. The system is accessed by all buyers, including team leaders and section chiefs. It produces weekly summary reports by section, team and requisitioning office, and detailed reports by buyers;

(b) The requisition assignment system produces an audit trail of the assignment and reassignment details of requisitions. After a requisition is assigned, the system automatically e-mails the buyer with instructions to acknowledge receipt of the assignment. As soon as the buyer acknowledges receipt, the system automatically assigns a status code of "received".

220. The Board was pleased with the features of both systems and was satisfied with how they operated. The systems serve as management tools in supervising and monitoring workloads and assignments and in pinpointing responsibility over requisitions received.

*Requisition amendments*

221. The Procurement Division treated requisition amendments on a case-by-case basis. These amendments could be accommodated if made early in the procurement process. Significant modifications to a requisition that have been initiated after a solicitation exercise may require the cancellation of the solicitation exercise and the initiation of a separate bidding exercise. This is time-consuming and may cause delay in the procurement process.

**222. The Administration agreed with the Board's recommendation that it define and regulate requisition amendments at the appropriate stage in the procurement process in order to promote greater efficiency.**

*Roster of suppliers*

223. In its previous audits, the Board reported that the Procurement Division of the Office of Central Support Services had not undertaken the requalification of suppliers every three years, as required in the Procurement Manual. The Board recommended that the Procurement Division update the roster of suppliers on a more frequent basis in order to ensure that relevant and reliable information on the status of registered vendors is maintained. In August 2003, the Procurement Division was in the process of selecting a consultant to review the vendor registration programme with a view to ensuring that it follows best practice. It was also performing a requalification of vendors on an ongoing basis, through the Vendors Registration Unit, whenever additional information relevant to the registration process, such as change of address, merger and acquisition of company, was received.

**224. The Board recommends that the Administration continue to implement its plan to review the vendor registration programme and initiate a systematic**

**updating of information in order to ensure that relevant and reliable information on the status of registered vendors is maintained.**

225. In January 2004, the Administration informed the Board that it had to cancel the procurement exercise for the selection of an external consultant owing to the very high cost of the quote by consulting firms to undertake the vendor registration review. However, the Procurement Division, in cooperation with the United Nations Office for Project Services and the Inter-Agency Procurement Services Office, commenced a review of the current vendor management system utilized by all organizations in the United Nations system and that of entities of a similar size and complexity in both the private and public sector in order to improve the current vendor registration programme. The Administration would share the findings with other organizations within the United Nations system with a view to developing a harmonized or common vendor programme management system based on industry best practice.

*Procurement reforms*

226. The General Assembly, in paragraph 6 of its resolution 57/279 of 20 December 2002, requested the Secretary-General to encourage the organizations of the United Nations system, consistent with their respective mandates, to take further steps to increase procurement opportunities for vendors from developing countries and countries with economies in transition. The Board recognized the Administration's considerable efforts in disseminating information relating to registration and procurement opportunities in the United Nations system to suppliers from developing countries and countries with economies in transition. The Board noted a significant increase in the number of qualified vendors from developing countries or countries with economies in transition, that is, from 287 in 2002 to 827 by August 2003 — an increase of 540 vendors, or 188.15 per cent. There was also an increase of 348.4 per cent in the number of qualified suppliers, from a total of 1,166 in 2002 to 5,228 by August 2003. However, the ratio of the number of suppliers from developing countries and countries with economies in transition compared to the total number of suppliers registered in 2003 was lower than in 2002. The Administration commented that the responsibility to apply for registration and to respond to invitations to participate in the procurement process remained with the individual supplier.

*Database of invitees and awardees*

227. The General Assembly, in paragraph 19 of its resolution 54/14 of 29 October 1999, requested the Secretary-General to submit in his next report on procurement reform detailed information on the awarding of contracts for procurement at Headquarters and in the field, to developing countries, in particular the least developed and African countries and countries with economies in transition. The Board noted that, while the Procurement Division had a database on vendors which have already been awarded contracts, it had no record of invitees and their country of origin. It cannot therefore determine the number or percentage of vendors from developing countries and countries with economies in transition to which bid solicitations or offers were made.

228. In January 2004, the Administration informed the Board that the Procurement Division had developed a reporting system that could generate information on

invitees for specific bids, responses and awareness by vendor name, country of origin etc. With regard to the issue of preferential treatment, the Administration commented that United Nations agencies had abandoned the practice since it did not promote sustainable development. However, the Administration was of the view that this was an issue beyond its mandate and one that should be decided upon by Member States.

**229. The Board recommends that the Administration (a) enhance its database on vendors in order to generate information on the invitees and awardees, and (b) report accordingly to the General Assembly.**

*Requisitions and data integrity of amendments*

230. The computerized procurement system Reality is linked to IMIS by an interface programme to exchange data every 24 hours. However, the limitation of the system's design and data structure did not allow full- and real-time data exchange between the two systems. Amendments to the original requisitions made in IMIS were updated manually in Reality. Also, receipts of goods in the receiving unit at Headquarters were recorded twice: once to generate the receiving report in Reality and once to input into IMIS. The date of the actual receipt of goods was recorded neither in Reality nor in IMIS but was manually recorded in a logbook.

231. The Board cross-checked 91 samples recorded in Reality with IMIS data and noted, inter alia, that (a) the receipt date of amendments in Reality was at a range of 0 to 8 days from the date it was made in IMIS, and (b) in 41 cases, the on-screen amount in Reality was different from the pre-encumbered amount in IMIS. The Board was concerned that the Reality system did not capture all requisition amendments entered into IMIS.

232. The Office of Central Support Services entered into an arrangement with the Department of Peacekeeping Operations to use the field procurement system Mercury, a single unified system already in place that would also meet the needs of the Procurement Division of the Office. In January 2004, the Administration informed the Board that it had requested the development of a real-time interface between IMIS and the Mercury procurement management system, which would also be able to handle amendments, and that the Department of Peacekeeping Operations was studying how to incorporate this feature into Mercury.

**233. The Board encourages the Administration to resolve the issues concerning the computerized procurement system with a view to ensuring the integrity and verifiability of all procurement data.**

*Independence and code of ethics*

234. The Board noted that the Procurement Unit at the Economic Commission for Africa did not have a code of ethics. In addition, none of the personnel involved in procurement activities had signed declarations of independence, with the exception of the members of the local Committee on Contracts.

235. To ensure that the Commission's interests are not sidelined to individual interests, it is necessary to have a code of ethics in place. This code should provide for all personnel involved in the procurement process to sign declarations of independence. In addition, personnel should ensure that their supervisors are made aware of any conflict of interest immediately.

**236. The Board recommends that the Economic Commission for Africa request the assistance of the Procurement Division in implementing a code of ethics and the signing of declarations of independence of all staff members involved in procurement.**

*Suppliers' performance*

237. Section 5.03 of the Procurement Manual requires that a supplier review committee should review the evaluations of supplier applications, recommendations for the removal of suppliers from the supplier roster, and the performance of the supplier, including quality and timely delivery of goods and services. ESCWA, however, did not create a supplier review committee. Also, there was no evidence that ESCWA monitored the performance of its supplier, contrary to section 5.14 of the Procurement Manual.

**238. The Economic and Social Commission for Western Asia agreed with the Board's recommendation that it (a) establish a supplier review committee as required by section 5.03 of the Procurement Manual, and (b) review supplier performance prior to the awarding of contracts to vendors, pursuant to section 5.14 of the Procurement Manual.**

**7. Inter-agency services**

239. The United Nations Office at Geneva provides and bills administrative and conference services to United Nations entities in Geneva, Bonn and Turin. Despite the recommendation made by the Board in its previous report,<sup>23</sup> by May 2004 there was still no memorandum of understanding signed between the Office and some of the entities it services (e.g. ECE, UNCTAD, the United Nations Environment Programme (UNEP), the United Nations Institute for Disarmament Research (UNIDIR) and the United Nations Institute for Training and Research (UNITAR)), and therefore there was no sound basis for the type and costs of services rendered. The Office subsequently reported that discussions to that effect were under way by June 2004.

240. The United Nations Office at Vienna similarly processes UNICRI finance and personnel matters. Both parties signed an agreement on human resources management in 1994 and revised the list of services in 2003, but UNICRI and the Office of Internal Oversight Services have reported that some of the 1994 provisions remained unimplemented. The Office agreed in principle to address the issue but had yet to take action by April 2004. For the interpretation services rendered to IAEA since 1991, the United Nations Office at Vienna finalized a draft agreement only in April 2004 and had yet to sign it.

**241. The Board recommends that the Administration ensure that concerned entities sign and implement memorandums of understanding on inter-agency services which set out clearly each party's responsibility and accountability.**

242. The United Nations Office at Vienna provides both administrative support and conference services to Vienna-based United Nations entities. As part of an overall restructuring of the Office and the Office on Drugs and Crime, in 2003 both financial services were merged into a common Financial Resources Management

---

<sup>23</sup> Ibid., para. 203.

Section within the Division for Management, with an integrated management of human resources. After an interim audit by the Board, the United Nations Office at Vienna took action to improve the monitoring of the recruitment process — the average time to fill vacancies was reduced to 111 days — and of staff performance.

243. The Reproduction and Distribution Unit at the United Nations Office at Vienna stores all conference documents, documents related to treaties and conventions and those related to meetings. No inventory or stock management system was in place in June 2003. The scarcity of data available and the lack of historical background did not allow for trend analysis or stock assessment. In an interim audit, the Board recommended that the Office (a) consider implementing stock control and inventory management, with the view to analysing distribution flows and adjust the quantities in stock, and (b) assess periodically the documentation stock situation, including related costs. The Office has since purchased software and equipment to perform stock control and inventory management, using bar codes, which would be implemented in the course of 2004.

## **8. Human resources management**

### **Management of staff training**

244. The Board reviewed the management of training across the departments, funds, programmes and institutes of the United Nations, as reported to the Advisory Committee on Administrative and Budgetary Questions at its request. The United Nations reported some \$30 million in direct training expenditures for the biennium 2000-2001 (peacekeeping operations not included), and \$36 million in appropriations for 2002-2003.

245. The Board focused on the economy and efficiency of administrative processes as compared to sound training management principles: reporting; policy and planning; governance, knowledge-sharing, inter-agency coordination and support; and evaluation. The pedagogical contents were not reviewed, since this would have required specialized resources beyond the scope of the review.

246. The Board found that priority and perspective conferred by senior management on training and staff development were at the time of the review generally in conformity with international best principles and practice. Training policies, guidelines and plans were frequently formulated in line with this priority; however, they were sometimes incomplete, missing or belatedly endorsed.

247. The management information system, whether computerized or not and as applied to training expenditures, did not always provide sufficient data to lead to well-informed planning decisions and monitoring. Owing to the heterogeneity and sometimes the inadequacy of statistical and accounting frameworks, criteria and methods, indicators were not always comprehensive and reliable. The lack of a comprehensive database on the training history of each staff member could lead to an inaccurate identification and assessment of training needs.

248. The United Nations Secretariat could benefit from comprehensive reporting that would include not only training activities funded under the regular budget for the biennium 2002-2003, but also those funded from extrabudgetary resources for which the Office of Human Resources Management is not always called upon to provide input. Data could not be aggregated or compared without a significant

margin of error among various sites, much less at the level of the United Nations common system. Such comparisons might enhance planning decisions.

249. Overall staff figures — indicating the total number of potential trainees — were not consistently reported owing to the diversity in contractual status, duration and reporting methods. According to the United Nations System Chief Executives Board, the total number of staff was 15,291 as at 31 December 2002, while, according to the United Nations Joint Staff Pension Fund, it was 18,711 as at the same date when contracts of more than six months and pension benefits are included. The following should therefore be noted:

(a) 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;

(b) United Nations entities seldom compared training ratios 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 biennium 2000-2001 and 0.79 per cent in 2002) were significantly below those indicated in most private sector benchmark data, although 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;

(c) Training managers and units provided instances of successful planning, knowledge-sharing and delivery at many levels. Policy-setting and planning were nevertheless often deficient. Systems to optimize the planning of limited training resources were usually in place at large United Nations sites, such as the various headquarter locations and offices away from United Nations Headquarters;

(d) Regarding governance, the United Nations appeared to be in line with the trend that is moving away from a hierarchical organization towards decentralized networks of partnerships and alliances;

(e) With the exception of UNSSC, 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<sup>24</sup> through training may therefore be handicapped, impairing the efficiency of significant human resources and expertise. The Board was pleased to note that, in July 2003, after the audit, the Human Resources Network of the High-Level Committee on Management of the Chief Executives Board for Coordination endorsed an organizational learning framework aimed at sharing and developing training practices and tools throughout the system;

(f) Despite instructions regarding staff consultation on major human resources issues, the Administration did not always include training issues in such consultations;

---

<sup>24</sup> This concept appears in a number of reports submitted by the Secretary-General to the General Assembly, most recently in the report entitled "Strengthening of the United Nations: an agenda for further change" (A/57/387 and Corr.1).

(g) 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 benchmarking of the effectiveness of training performance were in progress, but were still far from extensive. While this situation was found in many other institutions outside the United Nations, it could impair results-based budgeting and the successful attainment of goals. In respect of assessing training effectiveness in relation to individual job performance, the relationship of the performance appraisal system and the training plan of each United Nations site was not clear. Budget allocations for training follow the budget year while the cycle of the Performance Appraisal System, 1 April to 31 March, was established to promote consistency of approach, facilitate reporting and avoid the busy end-of-year period at the United Nations Secretariat. The Office of Human Resources Management explained that, despite the differences in the cycle, the training needs identified in the departmental planning process at the end of each year are subsequently recorded in the individual staff member's performance appraisal;

(h) Internal and external audits have identified occurrences of a lack of adequate reporting, planning and coordination, and a common roster of trainers, leading to the risk of cost-inefficiency. This situation may affect the cost-effectiveness of the many human resources development efforts under way and thereby the attainment of the objectives set by the General Assembly and the Administration.

250. A case in point is the status of implementation of General Assembly resolution 55/247 of 12 April 2001, on procurement reform, in which the Assembly stressed the need for adequate training of all personnel involved in the procurement process at Headquarters and in the field, and requested the Secretary-General to ensure proper training for improving the skills of personnel involved in the procurement process. In 2003, the Inter-Agency Procurement Working Group tasked a subgroup on procurement training and professional certification with assessing training needs throughout the United Nations system and proposing training delivery mechanisms, but the Administration had yet to answer the Assembly's request in a comprehensive manner. It was only after the Board's audit, in mid-2004, that the Secretariat reported that it had called upon UNSSC on this matter. Such delays and deficiencies in coordination could lead to the risk of further procurement dysfunctions across the United Nations system.

251. Another example concerns distance learning, e-learning and videoconferencing, among techniques that might be considered as appropriate for the worldwide network of the United Nations. Savings in travel costs and staff time could be achieved. While the UNSSC Board was considering this issue, the College started experimenting with the delivery of e-courses and programmes. 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 the delivery of in-mission courses in a cost-effective manner.<sup>25</sup> However, UNSSC has decided not to determine the actual share of e-learning activities in its own training programmes delivered in 2002 and 2003 or expected in 2004-2005, as it considered it too expensive and time-consuming to extract such data. Considering the costly investment required, a careful monitoring

---

<sup>25</sup> A/58/759, para. 78.

and evaluation of the cost-effectiveness of such programmes would be necessary to limit financial risks and to assess feasibility and opportunity to extend the experimentation of e-learning programmes.

252. Evaluation is also an issue of paramount importance and unequal implementation. For example, the Department of Economic and Social Affairs, the Department for General Assembly and Conference Management, the Department of Political Affairs and ECLAC had no mechanism in place to objectively evaluate the impact of the training on the performance of the trainee and the organization. The Office of Human Resources Management and a few other teams have endeavoured to develop training evaluation, based on the four levels of evaluation included in Kirkpatrick's scheme.<sup>26</sup> This approach is, however, not often used in the United Nations training services, and seldom beyond the trainees' perception level. UNSSC established and implemented a monitoring and evaluation system and, in May 2004, began to share it with other organizations.

253. The Board's conclusion is that there is room for improvement in the management and coordination of staff training so as to better align the human resources capacity of the United Nations with its mission, structure and culture. Some entities, such as the Department of Economic and Social Affairs, suggested that it would require a concerted Secretariat-wide effort led by the Office of Human Resources Management to implement an improved staff training programme.

**254. The Board recommends that the Administration, under the guidance of the Office of Human Resources Management and with a significant role assigned to the United Nations System Staff College:**

- (a) **Report on training activities and costs;**
- (b) **Review management information systems in order to monitor training in a reliable manner;**
- (c) **Consider sharing a set of similar core indicators across the United Nations common system in order to facilitate benchmarking in terms of deliverables and costs;**
- (d) **Review whether the present level of funding for training and the results are consistent with the priority placed on staff development;**
- (e) **Define or update and disseminate clear training policies and guidelines where this has not been achieved, in line with the organizational learning framework endorsed by the Human Resources Network in July 2003;**
- (f) **Develop rosters of training providers at the appropriate levels (headquarter, regional, country), to be shared among organizations;**
- (g) **Develop more formally inter-agency sharing of training knowledge and materials;**
- (h) **Improve the evaluation of the results achieved through training so as to ascertain its impact on the efficiency and effectiveness of operations.**

---

<sup>26</sup> A widely used model of evaluating training. The four levels of evaluation used are trainees' perception, learning gained, impact on job performance and business impact of training.

## 9. Consultants and individual contractors

255. In its previous report, the Board recommended that substantive offices comply with administrative instructions on hiring, remunerating and evaluating the performance of consultants and individual contractors.<sup>27</sup> The Board's review of compliance with these instructions at some substantive offices at United Nations Headquarters, offices away from Headquarters and regional commissions for the biennium 2002-2003 disclosed that some practices were inconsistent with established rules:

(a) There was no common roster of consultants as each division or department maintained its own list (Office of Human Resources Management, ECE, UNCTAD), or there was no roster at all (UNICRI). The United Nations International Research and Training Institute for the Advancement of Women (INSTRAW) was updating its database on experts;

(b) There were no selection criteria for consultants, and selection was not done in a competitive manner (Department of Political Affairs, UNICRI). The selection process, including verification of the credentials, qualifications and experience of recommended candidates, was not documented (Department of Political Affairs, ECE and UNIDIR);

(c) Consultants and contractors were allowed to commence work even without a signed or approved contract or formal acceptance of the offer (Department of Economic and Social Affairs, Department of Political Affairs, ECLAC at Santiago, UNCTAD);

(d) Consultants were hired for the same work assignment but on separate contracts (ECLAC at Santiago). Moreover, consultants and contractors were engaged on a half-time mode or part-time basis, or continually beyond the 24-month limit in a 36-month period and the 6-month limit in a 12-consecutive-month period (ECLAC at Santiago, United Nations Office at Nairobi, UNICRI, UNCTAD);

(e) Consultants were not required to submit statements of good health (Department for General Assembly and Conference Management, ECLAC at Port of Spain, United Nations Office at Nairobi, UNICRI). The Department for General Assembly and Conference Management explained that it did not require its consultants to submit statements of good health because, unlike other consultants hired in the Secretariat, its consultants provide translation services, work from home and are not required to undertake travel or report on site;

(f) Contracts of services were extended without a formal evaluation of the work performed (ECLAC at Port of Spain, UNCTAD) and the performance of consultants was not evaluated after every six months of service or at the end of the contract (ESCAP headquarters and Centre for Research and Development of Coarse Grains, Pulses, Roots and Tuber Crops in the Humid Tropics of Asia and the Pacific (CGPRT), UNON). ESCAP commented that extensions of contract were normally requested close to the expiry date of the contract, and were needed to enable some consultants to deliver their output which may have been delayed for a variety of reasons, but that it conducted a final evaluation after it had satisfactorily received the final product or service outputs. In several cases, the performance of consultants

<sup>27</sup> *Official Records of the General Assembly, Fifty-seventh Session, Supplement No. 5 and corrigendum (A/57/5)*, vol. I, chap. II, para. 288.

was not evaluated (ECE, UNICRI). Requests for an extension or amendment of existing contracts were not submitted on time (ECLAC at Santiago);

(g) Terms of reference did not indicate or specify the expected or targeted outputs (Department of Political Affairs, ECE, ICSC, Office of Human Resources Management, UNICRI, UNCTAD), quantity of outputs (Department of Political Affairs, ESCAP: CGPRT and Statistical Institute for Asia and the Pacific (SIAP), UNICRI, UNCTAD), delivery dates (Department of Political Affairs, ECE, ESCAP: CGPRT and SIAP, UNICRI, UNCTAD), performance indicators (Department of Political Affairs, ECE, ICSC, UNICRI, UNCTAD) and travel requirements (ECLAC at Santiago). In two cases, the terms of reference provided that instalment payments were payable on specific dates instead of on the basis of progress of work or on payment due dates, notwithstanding non-performance of the task or non-delivery of the output (ESCAP: CGPRT). A consultant was allowed to travel, but the activity was not included in the terms. An officer who was not a duly designated approving officer authorized travel by a consultant even though it was not included in the terms of reference (ECLAC at Port of Spain);

(h) Two experts were partially paid for partial delivery of the required reports, contrary to the provisions of the contract (ESCAP: CGPRT). Moreover, fees paid to some consultants and contractors exceeded the remuneration levels prescribed without documented justification (ESCAP headquarters);

(i) Outputs were not delivered in accordance with the contracts (Department for General Assembly and Conference Management, Department of Public Information, ESCAP: headquarters and CGPRT). The Department for General Assembly and Conference Management explained that, after it issued contracts, a number of factors, such as availability of edited text and reference material, change of priorities by the Department etc., could result in a change in the delivery date of the final product. The delay in the return of a translated text was in most cases a result of factors beyond the control of the contractor but which afforded the Department much needed flexibility to process urgent documentation;

(j) The gender distribution ratio of consultants was below the General Assembly's goal of 50:50 (Department of Political Affairs, UNICRI).

**256. While recognizing practical difficulties, the Board recommends that the Administration continually assess and monitor strict adherence to the administrative instructions on hiring, remunerating and evaluating the performance of consultants and individual contractors.**

257. Several entities have taken action to implement the Board's recommendation. For example, the Department of Economic and Social Affairs and ECLAC have reported that they have required substantive offices to provide adequate lead-time for the processing of consultancy contracts in order to ensure that they are signed prior to the commencement of work. ECLAC informed the Board that since it issued written communications to that effect, there have been no cases of experts being rehired as consultants. ESCAP informed the Board that it would continue to encourage programme managers to ensure that evaluations are done at the appropriate time.

## 10. Office of Internal Oversight Services

258. The Board reviewed the operations of the Internal Audit Division of the Office of Internal Oversight Services to determine the extent of compliance with: (a) generally accepted and practised internal audit standards and those for information technology auditing; (b) the accomplishment of plans and programmes in an efficient, effective and economical manner; and (c) the effectiveness of controls in financial operations.

259. As at 31 December 2003, the staffing of the Office consisted of 185 posts, 130 (70 per cent) in the Professional category and 55 (30 per cent) in the General Service category. Ninety-four of the posts are funded from extrabudgetary resources, including 35 resident auditor and investigator posts from individual peacekeeping missions. For the biennium 2002-2003, the Office had a total approved budget of \$37 million, consisting of \$21.4 million (58 per cent) from the regular budget and \$15.6 million (42 per cent) from extrabudgetary resources.

260. Of the four recommendations contained in the Board's previous report, two, on computing of savings and reporting of closed cases,<sup>28</sup> were substantially implemented and two, on information technology/information system audits and documentation of work performance,<sup>29</sup> were partially implemented. In June 2003, the Office of Internal Oversight Services completed its new internal audit manual, which provides guidance on all relevant aspects of its audit function.

261. International Standards on Auditing 610 and Institute of Internal Auditors Attribute Standards Nos. 1000 and 1200 provide that the internal auditors should be organizationally independent, perform the scope of their internal auditing function, and technically competent. The Internal Audit Division generally complied with the above standards, however, it has limited expertise in the area of information system audits, as discussed in paragraphs 121 to 126 above.

262. A total of 221 Internal Audit Division participants attended 19 training sessions on substantive skills during the biennium 2002-2003. Of the proposed eight information technology audit training sessions to be attended by 91 Internal Audit Division auditors, only four (50 per cent) were attended, by five auditors (5 per cent). The Office cancelled sessions on substantive skills for the personnel of its Internal Audit Division owing to the limited training funds allocated to the Division. On 20 November 2003, the Office received additional funds for information technology audit training for 2003; however, there was insufficient time to undertake the training in December 2003. The Office informed the Board that it has been continuously requesting additional training funds from the Office of Human Resources Management, and intended to use online training.

**263. The Board recommends that the Office of Internal Oversight Services (a) continue to ensure that the staff are adequately trained, and (b) continue with its plan of implementing online training. The Board also recommends that the Office ensure that it obtain the required resources to effectively perform ICT audits.**

---

<sup>28</sup> Ibid., paras. 189 and 192.

<sup>29</sup> Ibid., paras. 183 and 185.

264. The Office of Internal Oversight Services informed the Board that it had recently introduced a web-based learning page that provides research links and professional reading to its staff.

265. The Institute of Internal Auditors' Performance Standard 2400 provides that internal auditors should communicate the audit results promptly. The Internal Audit Division of the Office of Internal Oversight Services sets the planned dates of releasing the draft and final version of its reports to those audited. Of the 10 sampled draft and final reports selected by the Board based on the selection process agreed with the Internal Audit Division, only one (10 per cent) draft report and 2 (20 per cent) final reports were released within the planned dates; 7 (70 per cent) draft reports were issued 26 to 224 days beyond the planned dates; and 6 (60 per cent) final reports were issued 7 to 277 days after the planned dates. The planned and actual dates of release of two draft reports and one final report were not indicated in the work plans.

266. The Office explained that the planned dates were not followed because of, inter alia, delays in the review of the reports or in the receipt of comments on the draft reports from those audited, insufficient budgeted days compared to the actual work days needed, and the high level of outputs that strained the Internal Audit Division's report review and processing mechanisms. Also, the Division communicated its findings to those audited during the audit and at the exit conference which permitted them to take immediate corrective action prior to the release of the audit report. The Office expects that the recently introduced audit information system will improve its monitoring of status of reports and will quickly address any problem areas in reporting. It also expects that the devolution of the quality assurance function to section chiefs will speed up its report processing.

**267. The Board recommends that the Office of Internal Oversight Services address the causes of delays in reporting its audit results in order to ensure the issuance of reports in a timely manner.**

268. In its previous report, the Board recommended that the Office of Internal Oversight Services ensure that the auditors (a) properly document the review of internal controls, (b) organize the working papers with appropriate references and cross-references, (c) retain the working papers for reference and evaluation purposes, and (d) ensure that reviews by audit supervisors be indicated in the working paper files.<sup>30</sup> The Office informed the Board that it had conducted training on working paper standards for 19 auditors and that issues on the organization, review and retention of working papers have been addressed. It also informed the Board that the electronic working paper project conceptualized in 2002 was scheduled for pilot-testing in July 2004.

## **11. Office of Legal Affairs**

269. During the biennium 2002-2003, the Board's review of the Office of Legal Affairs covered the areas on settlement and arbitration, roster of potential party arbitration and outside counsel, and the publication of United Nations *Treaty Series*.

---

<sup>30</sup> Ibid., para. 185.

### Cases submitted for settlement and/or arbitration

270. The Office of Legal Affairs acted upon nine cases pertaining to arbitration and/or settlement of claims ranging from \$0.31 million to \$20 million. Of the nine cases, a single claim of \$20 million was settled at \$0.76 million. As shown in table II.8, four of these cases were settled through negotiation.

Table II.8

### Cases settled through negotiation

(United States dollars)

<i>Claimant</i>	<i>Amount of claim</i>	<i>Amount settled</i>
A <sup>a</sup>	416 900	330 000
B	1 893 510	420 000
C	1 389 315	760 000
D	345 000	5 968 <sup>b</sup>

<sup>a</sup> Final settlement was made in January 2003.

<sup>b</sup> In addition to the \$60,000 previously paid by the United Nations.

271. The Board was pleased to note that the Office had handled the arbitration cases in conformity with existing regulations and rules and that no cases had been submitted for mediation.

### Rosters of potential United Nations party arbitrators and potential outside counsel

272. The rosters of potential party arbitrators did not provide data pertaining to addresses, telephone and fax numbers, nationality and language, areas of specialization and prior involvement in United Nations arbitration. The rosters also indicated that the curriculum vitae of most individuals were not on file. The rosters for potential outside counsel were also not complete, in particular the data on the person who made the recommendation and prior involvement in United Nations arbitration.

273. In one case, in the area of shipping laws of Canada, counsels included in the shortlist were not on the roster. In another case, in the area of property rights, some of the outside counsels on the shortlist who were sent solicitation letters were not on the roster of potential outside counsels.

274. The Administration commented that, while the roster was a useful tool for identifying prospective outside counsel, the Organization did not necessarily limit itself to the firms on the roster if the circumstances of the matter so dictated or highly specialized legal expertise were required.

275. The Administration has updated its rosters, adding new potential arbitrators or deleting those that are no longer suitable. The Department of Management finalized arrangements, pursuant to which the Procurement Division of the Office of Central Support Services would maintain the roster of potential outside counsel and provide services for the retention of outside counsel. With respect to the roster, the Office of the Legal Counsel maintains and regularly reviews the roster of party-appointed arbitrators.

**Publication of United Nations *Treaty Series***

276. The United Nations *Treaty Series* is maintained by the Office of Legal Affairs and translated by the Department for General Assembly and Conference Management. The treaties are published in volumes which make up the United Nations *Treaty Series*. A volume cannot be published unless it is complete and translated into English or French, or both.

277. The Board noted a backlog from 1973 in the publication of the United Nations *Treaty Series*.

278. The Office of Legal Affairs explained that the backlog was largely due to the slow return of translations from the Department for General Assembly and Conference Management. The Board noted, however, that requests for translation to the Department were made neither sequentially nor in regular intervals, which affected the timely translation and publication of the series. Following the Board's interim audit, the Office has been submitting translation requests sequentially, since February 2003. The Administration informed the Board of the outstanding and increasing balance of untranslated treaties from April 2001, which reflected no improvement in the rate of return of translations. At the end of March 2003, the backlog of translations stood at 890. In late 2003, resources in the Department related to external printing were dedicated to reducing the backlog in the translation of the Treaty Section. The Department and the Office informed the Board that significant improvements in the rate of return were achieved in the first half of 2004 through the use of additional dedicated services, including outsourcing of translations through the Contractual Translation Unit of the Department.

279. The General Assembly, in its resolution 51/158 of 16 December 1996, noted that Internet access to United Nations treaty publications was and would be in addition to the hard-copy printed versions of such publications. In its resolution 52/153 of 15 December 1997, the Assembly encouraged State parties and international organizations or agencies, including depositaries, to provide, where available, a copy of the text of any treaty in disk or other electronic format, and to consider providing where available translations in English or French or both as may be needed, for the purpose of assisting with the timely publication of the United Nations *Treaty Series*, and encouraged the Secretary-General to continue developing a policy of providing Internet access to the United Nations *Treaty Series*.

**280. The Board encourages the Administration to continue to reduce the backlog in the publication of the United Nations *Treaty Series*, both in hard copy and on the Internet.**

281. The Administration informed the Board that all previously published treaties in hard copy, including treaties registered with the League of Nations, had been made available. The Board noted that, by 12 June 2004, the most recent volumes of the United Nations *Treaty Series* made available on the Internet were in the range of 2051 to 2187. The Administration also informed the Board that the translation backlog stood at 303 at the end of April 2004 and that the Department for General Assembly and Conference Management had begun to return many translations sequentially.

## 12. Special political missions

### Background

282. The Board of Auditors audited five missions under the DPA funded from the regular budget for the biennium 2002-2003, for which the Department of Political Affairs has responsibility: these were the United Nations Peace-building Support Office in the Central African Republic (BONUCA), the United Nations Verification Mission in Guatemala (MINUGUA), the United Nations Assistance Mission in Afghanistan (UNAMA), the United Nations Peace-building Support Office in Guinea-Bissau (UNOGBIS), and the Office of the Special Coordinator for the Middle East Peace Process. For the biennium 2002-2003, the five field missions were allotted funds from the regular budget in the total amount of \$129,658,100. Expenditures totalled \$129,727,313 (100 per cent), resulting in a negative allotment balance of \$69,213 as at 31 December 2003.

### Asset management and control system

283. The Board's review of non-expendable property in the five missions disclosed a number of deficiencies that needed to be rectified in order to ensure a sound asset management and control system, as follows:

(a) Incomplete or no reports on physical inventory-taking conducted (BONUCA, MINUGUA, UNAMA, UNOGBIS);

(b) No inventory reconciliation conducted (Office of the Special Coordinator) or no report on comparison or reconciliation of data in the field assets control system and results of physical counts (BONUCA, MINUGUA, Office of the Special Coordinator);

(c) Inventory report submitted to United Nations Headquarters was based on data in the field assets control system and was not on the physical inventory (UNAMA);

(d) Proofing sheets, physical inspection sheets and inventory reports did not contain details of individual items, such as cost and date of acquisition, purchase references, purchase order number, shipping advice number, location, status or condition of equipment and names of accountable persons (BONUCA);

(e) The field assets control system disclosed inaccurate or no data on a number of items of equipment (BONUCA, UNAMA);

(f) A number of items of non-expendable property had no barcode labels and/or serial numbers (BONUCA, UNAMA, Office of the Special Coordinator);

(g) The field assets control system included equipment that had exceeded its serviceable life but which had not been written off owing to the absence of a local property survey board (BONUCA). It also included equipment for which the write-off was delayed (MINUGUA, UNAMA). At UNOGBIS, no personnel were responsible for identifying unserviceable items of equipment and recommending them for write-off;

(h) The field assets control system disclosed a number of items of equipment issued that were not supported with issue or hand-over vouchers; thus, signatures of

the users, which were essential to fixing accountability, were not obtained (BONUCA);

(i) One staff member at BONUCA performed the functions and responsibilities of the receiving and inspection unit and property control and inventory unit, in addition to his assignment as Asset Manager of the supply section, in contravention of the principles of segregation of incompatible functions;

(j) In the field assets control system, non-expendable equipment consisted of 6,508 items valued at \$16,198,417. Of these, 1,706 (26 per cent), valued at \$5,339,346 (33 per cent) were considered as unit stocks (not utilized or issued) and remained in stock since their entry (UNAMA).

**284. While recognizing that the Administration has instituted several measures to address the above-mentioned deficiencies, the Board recommends that the Administration continue to introduce improvements in the asset management system.**

285. The Department of Peacekeeping Operations informed the Board that it had initiated a number of remedial actions to strengthen controls over non-expendable property, including the implementation of the Galileo Inventory Management System in peacekeeping missions to address the deficiencies in the field assets control system. The Department also intended to issue, by December 2004, a property management manual.

### **13. Research and/or training institutes and agencies**

#### **United Nations Interregional Crime and Justice Research Institute**

286. The United Nations Interregional Crime and Justice Research had expenditures of \$6.9 million for the biennium 2002-2003, with 13 authorized posts and a fund balance of \$11 million as at 31 December 2003. It is funded exclusively from voluntary contributions, 69 per cent of which is contributed by the host country for the biennium 2002-2003. It implemented 33 projects (32 per cent in research, 32 per cent in training, 27 per cent in information exchanges, and 8 per cent in field projects). It issued narrative and financial donor reports, with objectives and projects inputs and, in some cases, expected accomplishments. However, files and reports contained no indicators of achievement and performance, which was not compliant with the results-based budgeting approach. UNICRI was therefore not in a position to assess fully the performance of its projects, their actual accomplishments and impact, and has never carried out such an exercise.

**287. The United Nations Interregional Crime and Justice Research Institute agreed with the Board's recommendation that it assess project performance and establish guidelines and indicators accordingly,** and reported that it has, since the Board's audit, introduced substantive and financial provisions on external project evaluation in each project it developed.

288. In its previous report, the Board recommended that the Administration review the structure and authority of UNICRI and encouraged the United Nations Crime Prevention and Criminal Justice Programme and UNICRI to consult more closely in

the planning of the work programmes, to which they agreed.<sup>31</sup> The Board was concerned that this recommendation has not been implemented.

289. The Secretary-General appoints the Director of UNICRI. However, the terms of delegated authority had still not been specified as at April 2004. The United Nations Controller delegated to the Director of the United Nations Office at Vienna the authority to manage the United Nations Crime Prevention and Criminal Justice Fund, including the UNICRI sub-account.

**290. The Board reiterates its recommendation that the United Nations Secretariat issue a delegation of authority to the Director of the United Nations Interregional Crime and Justice Research Institute.**

291. The staffing of the UNICRI financial management and administration services remained a matter of concern. The post of Finance Officer was vacant from July 2001 to December 2003, and then abolished in 2004 because of the expected recruitment of a deputy director to supervise personnel and finance and be one of the Institute's two approving officers. The latter post, advertised in October 2002, was still vacant by June 2004, but UNICRI reported that the selection process was under way. The former Director left UNICRI on 31 December 2003. He had signified his intention to do so on 1 April 2003, but the vacancy was not announced until October 2003. The Secretary-General designated a successor on 2 February 2004, but the successor's entry on duty was postponed owing to factors beyond the control of the United Nations. A simultaneous vacancy of both posts of Director and Deputy Director presents a risk for proper governance, in particular in the area of financial management.

**292. The Board recommends that the Administration take appropriate measures to fill vacant posts in a timely manner.**

#### **United Nations Institute for Disarmament Research**

293. The United Nations Institute for Disarmament Research, based in Geneva, is an autonomous institution within the framework of the United Nations, and was established by the General Assembly in 1980 for the purpose of undertaking independent research on disarmament and related problems, in particular international security issues, and works in close relationship with the Department for Disarmament Affairs of the United Nations Secretariat. Its activities fall into three areas, namely, global security and disarmament, regional security and disarmament, and human security and disarmament. It carries out its programme of work through four different types of activity: research projects, meetings and conferences, a fellowship programme and the Geneva forum.

294. The Institute and its work programme are administered by a Board of Trustees, which also serves as the Secretary-General's Advisory Board on Disarmament Matters. The Secretary-General appoints the members of the Advisory Board for an initial two-year term. The Advisory Board approves and oversees the work programme of UNIDIR.

295. The Institute relies predominantly on voluntary donations from Governments and private funders to pursue its research agenda. It receives a modest subvention from the United Nations regular budget to cover a portion of its administrative costs,

---

<sup>31</sup> Ibid., para. 235.

which, for the biennium 2002-2003, was \$448,700. As at the date of audit in October 2003, UNIDIR had 12 staff members, 4 of which were regular staff of the United Nations, while 8 were under a special personal contract with salaries charged to research project funds derived from donations.

296. Evaluation reports on project accomplishments against work plans and the programme budget were not prepared on a regular basis. These reports serve as management tools in determining whether programme deliverables are on schedule, and whether costs are on schedule and within the funding limits.

297. The Administration explained that, while results were not put in writing, certain evaluation processes had been in place, with due consideration given to the limited resources of UNIDIR.

**298. The United Nations Institute for Disarmament Research agreed with the Board's recommendations that it conduct periodic evaluations of projects, and report their status for monitoring purposes.**

### **International Research and Training Institute for the Advancement of Women**

#### *Operations and financial position*

299. In its previous report, the Board reiterated its recommendations made in the bienniums ended 1997 and 1999 that the Administration exert efforts to contain the declining trend in the funding of the United Nations International Research and Training Institute for the Advancement of Women (INSTRAW).<sup>32</sup> The Institute employed strategies, such as setting up donor meetings, sending out letters and project proposals to attract donors, however, it had failed to reverse the downward trend in voluntary contributions, as shown in table II.9.

Table II.9

#### **Status of Voluntary Contributions to INSTRAW for years 1999-2003**

(United States dollars)

	1999	2000	2001	2002	2003
Paid	544 130	523 980	312 397	108 869	384 286*
Outstanding pledges	0	0	11 365	4 549	

\* As reported by INSTRAW.

300. In 2003, the Economic and Social Council amended the Statute of INSTRAW, transforming the Board of Trustees into the Executive Board, which is composed of 10 Member States. The General Assembly allocated \$500,000 to the Institute from the regular budget, and the Secretary-General appointed the Director as at 3 December 2003 after a long vacancy.

301. The General Assembly, in paragraph 2 of its resolution 58/244 of 23 December 2003, decided to continue monitoring the implementation of the measures recommended by the Working Group in its report, in close consultation with the

<sup>32</sup> Ibid., para. 269.

Secretary-General,<sup>33</sup> and, in paragraph 5, decided to continue to provide its full support to the current efforts to revitalize the Institute and in that regard, to provide funds complementary to the existing ones, if needed, to ensure that the Institute would have adequate resources to function for a period of one year.

#### *Accounts and financial reporting*

302. The Board, in its previous report, raised concerns about the need for INSTRAW to review and upgrade the system of transaction recording and reporting to that which would allow for periodic reconciliation of its accounts with those maintained at United Nations Headquarters and to enable INSTRAW to readily access updated, consolidated information on its financial operations.<sup>34</sup> Given the uncertainty of the financial position of INSTRAW, plans to upgrade the accounting system by installing IMIS were put on hold. In April 2004, INSTRAW informed the Board that the Office of Programme Planning, Budget and Accounts was forwarding INSTRAW monthly trial balances and expenditure reports reflecting consolidated expenditures, as extracted from IMIS.

303. In 2001, INSTRAW contracted an electronic training (e-training) specialist to develop a strategy, work plan of implementation e-training projects. INSTRAW informed the Board that the e-training specialist did not produce a satisfactory strategy and concrete modality for e-training owing to the limitation of the needs assessment to a few INSTRAW network members, insufficient analysis of training expertise within the United Nations and inadequate competitive analysis. The Board is concerned about the Institute's lack of specialized expertise in developing and pilot-testing e-training methodology, but noted that it plans to undertake an assessment of strategies for the inclusion of e-training activities.

#### **United Nations Research Institute for Social Development**

304. The United Nations Research Institute for Social Development (UNRISD) was established in 1963 as an autonomous United Nations activity for conducting research into problems and policies of social development. It is a general trust fund administered by the United Nations Office at Geneva, using IMIS. In the biennium 2002-2003, direct expenditures amounted to \$6.91 million and income to \$9.20 million.

305. Although UNRISD signed over 100 short-term contracts per year with consultants and academic institutions, it did not maintain a roster, which may hinder its procurement capacity. It invoked the specificity of its activities, but this did not justify the lack of such a tool. It also hired research assistants but did not always comply with administrative instruction ST/AI/1999/7 which states that no consultant shall provide services for more than 24 months in a 36-month period. UNRISD had difficulties in reconciling the short-term nature of consultancy assignments and the duration of a project cycle (2-3 years). The fact that funding came exclusively from voluntary contributions prevented UNRISD from creating specific posts. It had not discussed this issue with other research institutions, although they may have to deal with the same problems. After the Board's audit, UNRISD undertook to comply with the financial rules applicable to consultants and individual contractors.

<sup>33</sup> A/58/540.

<sup>34</sup> *Official Records of the General Assembly, Fifty-seventh Session, Supplement No. 5* and corrigendum (A/57/5), vol. I, chap. II, paras. 270-272.

**306. The Board recommends that the United Nations Research Institute for Social Development consult with United Nations management and other research institutes to find appropriate contractual solutions for multi-year assignments.**

307. The Institute engaged a few interns every year, for a few months. The guiding principles of its graduate student programme complied with the administrative instruction on the United Nations internship programme (ST/AI/2000/9), except for internship agreements, which UNRISD was not signing at the time of the Board's audit. After the Board's audit, UNRISD undertook to comply with instructions requiring the signing of internship agreements.

308. The Institute has published or made available on its web site over 420 books and research papers since 1985. Since it is funded exclusively from extrabudgetary funds, its publications are not included in the publications programme of the United Nations, although it provided to the documents management section biannual forecasts, complied with the Intranet document retrieval and information tracking system requirements and obtained job numbers for all of its publications. It did not use the services of the United Nations Office at Geneva for translating, printing and publishing its publications, other than parliamentary documents. After the Board's audit, UNRISD and the Department of Public Information at United Nations Headquarters prepared an agreement with the Sales and Marketing Section of the Division of Public Information at the United Nations Office at Geneva for the sale of its publications in United Nations bookshops. This agreement was to be signed in mid-2004 with a view to increasing the distribution of the Institute's publications.

309. The Institute did not have a formal dissemination and pricing policy or, for two years, statistics on web-site activity. It has a network of some 226 depository libraries, which receive at least one free copy of all in-house publications, but its income from publications and royalties represents only a few thousand dollars per year.

310. The Institute has developed a policy of co-publishing with 22 commercial or academic publishers, but did not have a standard agreement in that regard and did not monitor the number of copies held in stock by the co-publishers. Since the Board's audit, its co-publishers have been requested to provide annual reports on the number of copies held by them. Also, UNRISD did not have a comprehensive, computerized inventory of its own stocks, and therefore could not easily monitor the number of publications sold, distributed free of charge or in stock.

**311. The United Nations Research Institute for Social Development agreed with the Board's recommendation to formalize its publication dissemination and pricing policy, and to streamline its inventory.**

#### **United Nations System Staff College**

312. The General Assembly, in its resolution 55/278 of 12 July 2001, established UNSSC, based in Turin, Italy, effective 1 January 2002, as an institution for system-wide knowledge management, training and continuous learning for the staff of the United Nations system. UNSSC had until then been a project executed by the International Training Centre of the International Labour Organization. The Board of Governors of UNSSC is responsible for formulating general policy for its activities and considering its work and programme budget. The United Nations

Office at Geneva records all transactions in a single IMIS project account, without accounting separately for UNSSC projects. The distinct United Nations-institution status of UNSSC and the diversity of its projects would call for a more detailed accounting in IMIS, while the dual operation of two accounting systems, one on IMIS by the United Nations Office at Geneva, the other on the unconnected database of UNSSC, presents the risk of introducing discrepancies.

313. The excess of income received during the biennium (\$8.6 million) over expenditure (\$7.3 million) amounted to \$1.3 million. This excess increased the total reserves and fund balances as at 31 December 2003 to \$4.8 million (66 per cent of the reported expenditure for the biennium 2002-2003), which included \$3.6 million of unearmarked funds initially transferred from the former International Training Centre project to UNSSC.

314. The United Nations System Staff College, which operates on a cost-recovery basis, improved its evaluation of cost-effectiveness, the time-sheet recording system, its internal cost recovery rates and project budget factors, among others, and monitored, on a monthly basis, project-by-project, the level of available resources and the value and type of expenditure incurred. However, it did not update permanently such indicators as the number of trainees or training days. The output remained rather modest (4,817 participant-days of training in 2003, compared with 9,334 in 2001 under the previous status of the College, and 4,707 in 2002), but UNSSC expected a multiplier effect to result from the training of trainers, for which, however, statistics were not yet available.

**315. The Board recommends that the United Nations System Staff College (a) further improve its activity reporting system, and (b) fully utilize its income to ensure the achievement of its objectives.**

#### **14. Other agencies**

##### **United Nations Conference on Trade and Development**

316. As at 31 December 2003, the technical cooperation activities of UNCTAD consisted of 552 approved projects, of which UNDP funded 177 (32 per cent). Total expenditures for project implementation amounted to \$44.14 million for the biennium 2002-2003. Technical cooperation activities were based on the strategy adopted by the Trade and Development Board and on the multi-year work programme adopted by the Member States at the Conference, which constituted the main planning tool. The funding of the activities depended on voluntary contributions from Member States and donors.

317. Although funding sources for technical cooperation activities are by nature unpredictable and unstable, UNCTAD had only recently considered developing a multi-year funding strategy. This could be a handicap when considering the need to secure resources and anticipate their evolution, and to maintain an accurate resource-planning tool. Moreover, the lack of sufficient predictable funding sources led UNCTAD to the decision of discontinuing the establishment of annual indicative plans for technical cooperation activities in 2004. In the absence of financial planning tools at the project level, UNCTAD was not in a position to comprehensively identify budget needs and available resources, and it therefore could not readily ensure that expected activities matched and met the objectives. This could also jeopardize proper evaluation of project implementation.

318. **The Board recommends that the United Nations Conference on Trade and Development consider (a) documenting a multi-year funding strategy, in cooperation with donors, and (b) submitting a yearly technical cooperation plan to its governing bodies.** After the Board's audit, UNCTAD planned to submit to the Working Party of the Trade and Development Board in September 2004 a multi-year, multi-donor funding mechanism.

319. The Working Party had emphasized, at its fortieth session, the pioneering role played by UNCTAD in relating indicators with the work programme and the contribution it had made to the development of the results-oriented budgetary approach.<sup>35</sup> Staff members have been trained to that effect. The proposed programme budget for the biennium 2004-2005<sup>36</sup> provided for the first time a complete set of objectives, expected accomplishments, and indicators of achievement and performance, but this was not extended to other actions, such as technical cooperation activities.<sup>37</sup>

320. The 2004-2005 budget provided 24 expected accomplishments and 35 indicators of achievement, related to the 7 objectives defined by UNCTAD (one for each programme). UNCTAD had also established a limited number of representative indicators that complied with the United Nations requirements of specific, measurable, achievable, relevant and time-bound indicators, but these only partially covered the accomplishments. In some cases, the linkage between the indicators and the expected accomplishments appeared to be weak, and there remained a risk that the evaluation of subprogramme implementation and the monitoring of accomplishments might be based on less than significant information.

321. **The United Nations Conference on Trade and Development agreed with the Board's recommendation that it improve benchmarks and indicators of achievement with a view to measuring the performance of its activities funded under section 23 of the United Nations regular budget.**

322. As at 31 December 2003, UNCTAD employed 112 experts (under the 200 series of the Staff Rules), representing 27 per cent of Professional staff, to implement technical cooperation programmes, projects and activities. Pursuant to administrative instruction ST/AI/297, technical cooperation personnel should neither have supervisory functions nor be responsible for the recruitment of other staff members. However, the Board noted that experts were in charge of supervisory and evaluation functions, or responsible for the recruitment of other staff members, budget allocation, spending and adjustment matters.

323. The United Nations Conference on Trade and Development did not introduce a transparent and consistent procedure for the recruitment of experts and, in some cases, it recruited experts with no vacancy announcement or competitive review. UNCTAD had been less than successful in achieving United Nations goals as regards gender and geographical balance of experts. Women were underrepresented (23 per cent, compared with 46 per cent for 100-series staff) and Europe was overrepresented (54 per cent of experts, compared with 19 per cent for Latin America and 4 per cent for Africa).

---

<sup>35</sup> TB/B/EX(31)/2, chap. I, agreed conclusions.

<sup>36</sup> A/58/6, sect. 12.

<sup>37</sup> *Ibid.*, sect. 23.

**324. While recognizing the constraints of programme implementation and the need for flexibility in the administration of programme delivery, the Board recommends that the secretariat of the United Nations Conference on Trade and Development comply with the Staff Rules and Regulations of the United Nations on the scope of the tasks entrusted to 200-series staff members. The Board also recommends that it review the geographical and gender balance of its staff, and consider introducing systematically competitive selection of its staff under the 200 series of the Staff Rules.**

325. Each UNCTAD commission may convene expert meetings of a short duration and must pay consideration to the participation of experts from developing countries, including its financing. Geographical balance targets have been set, and generally met. There have been two funding sources. On the one hand, the General Assembly, by its decision 52/462 of 31 March 1998, allocated some \$5.5 million of the unspent balance from the regular budget for the biennium 1996-1997 to finance UNCTAD activities, of which \$1.09 million (20 per cent) was allocated for the travel of experts from developing countries. The account so funded was depleted by 31 December 2003. On the other hand, a trust fund for financing the participation of experts from developing countries and countries with economies in transition in UNCTAD expert group meetings was established in 2001. In early 2004, it had a balance of \$114,931, or 10 per cent less than the amount spent in 2003. UNCTAD is therefore no longer able to sustain previous goals of funding the travel of experts from developing countries to its meetings, although it has not formally revised either the goals or the funding priorities.

**326. The Board recommends that the United Nations Conference on Trade and Development review its policy and funding on financing the travel of experts from developing countries in order to align goals and means.**

#### **International Court of Justice**

327. For the biennium 2002-2003, ICJ had an approved budget of \$28.3 million, \$28.1 million (99 per cent) of which was expended. ICJ, the principal judicial organ of the United Nations, is composed of 15 highly qualified judges elected to nine-year terms of office by the General Assembly and the Security Council. The General Assembly, in paragraph 5 of annex III to its resolution 58/264 of 23 December 2003, decided that no retirement pension should be payable to a former judge who had been elected a member of ICJ or who had been elected or appointed a permanent judge of the International Tribunal for the Former Yugoslavia or who had been appointed to serve in the International Tribunal for the Former Yugoslavia or the International Criminal Tribunal for Rwanda as an ad litem judge until he or she ceased to hold that office or appointment. ICJ has since suspended payments.

328. The Board observed non-compliance with United Nations regulations and rules, or administrative instructions on the issue of non-expendable property. Although a local property survey board was established in December 2002, write-offs for 2002 and 2003 were approved or listed before the board became operational, as stated by ICJ. On human resources, no annual review of rental subsidies cases was performed.

329. In several cases, ICJ was unable to provide the Board with supporting documents of transactions (missing purchase orders, proof of residency missing in one personnel file, travel purchase outside the travel contract with no documented

justification for the reported cost saving, missing contracts or letters of appointment for consultants).

**330. The Board recommends that the International Court of Justice further strengthen its administrative processes to ensure compliance with regulations and rules.**

#### **International Civil Service Commission**

331. The Board reviewed the monitoring and reporting system of ICSC and noted that, while it was given access to IMDIS, it did not use its online programme performance monitoring system capability during the biennium 2002-2003, except for input on the programme of work for the bienniums 2002-2003 and 2004-2005. ICSC informed the Board, however, that for the biennium 2004-2005, it was expecting to fully utilize its access to IMDIS. Also not evident was the conduct of self-evaluation exercises within the framework of the budget process. While ICSC stated that this was a continuous undertaking to ensure compliance with expectations or deliverables, the exercise had not been documented.

**332. The Board recommends that the International Civil Service Commission maximize the use of the Integrated Monitoring and Documentation and Information System in its programme performance monitoring system.**

333. As at October 2003, ICSC had a vacancy rate of 13 per cent. The Board was, however, still concerned about the prolonged vacancies with regard to some posts. ICSC informed the Board that, while it recognized the need to fill vacant posts expeditiously, the very specialized nature of most of the posts demanded that selection should be based on the widest possible range of suitable, highly trained and qualified applicants which, according to ICSC, Galaxy could facilitate.

**334. The Board recommends that the International Civil Service Commission expedite the filling of vacant posts.**

### **15. Fraud and presumptive fraud**

#### **Cases reported**

335. The Administration reported to the Board 14 cases of fraud and presumptive fraud<sup>38</sup> for the financial period ended 31 December 2003, involving a total sum of \$707,304, which had come to its attention during the biennium 2002-2003. These cases were perpetrated at the United Nations Office at Nairobi (10 cases, \$160,436), United Nations Headquarters (2 cases, \$58,281), ECLAC (one case, \$110,000) and UNOGBIS (one case, \$378,586). The number of cases and the amount involved were higher by 6 (75 per cent) and \$627,575 (787 per cent), respectively, than the 8 cases and sum of \$79,729 for the biennium 2000-2001. Of the \$707,304 involved, \$10,183 (2 per cent) was recovered from the staff members concerned, losses of \$178,233 (25 per cent) were prevented due to sound document review procedures in place, while \$518,888 (73 per cent) had yet to be recovered as at 26 March 2004. The cases are summarized in table II.10 and the details are set out in paragraphs 336 to 343 below.

---

<sup>38</sup> Excludes those relating to peacekeeping operations and other United Nations entities, on which the Board reports separately.

Table II.10  
**Summary of cases of fraud or presumptive fraud during the biennium 2002-2003**  
 (United States dollars)

<i>Nature of fraud or presumptive fraud</i>	<i>Number of cases</i>	<i>Amount involved</i>	<i>Amount recovered</i>	<i>Amount unrecovered</i>	<i>Prevented loss</i>
Use of position and/or United Nations facilities for personal benefits	<b>2</b>	<b>488 586</b>	<b>0</b>	<b>488 586</b>	<b>0</b>
ECLAC	1	110 000	0	110 000	0
UNOGBIS	1	378 586	0	378 586	0
Alteration of cheque/forging of wire transfers	<b>5</b>	<b>188 841</b>	<b>6 410</b>	<b>5 701</b>	<b>176 731</b>
United Nations Headquarters	2	58 281	0	0	58 281
United Nations Office at Nairobi	3	130 560	6 410	5 701	118 450
Fraudulent application for reimbursement of claims	<b>6</b>	<b>29 877</b>	<b>3 773</b>	<b>24 601</b>	<b>1 502</b>
United Nations Office at Nairobi	6	29 877	3 773	24 601	1 502
Stolen printer toner cartridges	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
United Nations Office at Nairobi	1	0	0	0	0
<b>Total</b>	<b>14</b>	<b>707 304</b>	<b>10 183</b>	<b>518 888</b>	<b>178 233</b>

#### **Use of position and/or United Nations facilities for personal benefit**

336. A former P-5 staff member and Chief of the Agriculture Development Unit of ECLAC was summarily dismissed for serious misconduct, in accordance with paragraph 2 of staff regulation 10.2. The decision was based on the findings that the perpetrator had assigned considerable work to consultants, research assistants and her General Service assistant, under the pretext of preparing an official Agriculture Development Unit book on poverty when the true purpose was to assist her husband in the research and writing of his doctoral thesis. In the course of an on-site review of programme management and administrative practices at ECLAC, the Office of Internal Oversight Services inspectors received information from an ECLAC staff member alleging that the perpetrator had diverted the services of the Agricultural Development Unit staff and consultants to preparing the doctoral thesis of her husband. The total unrecovered loss was estimated at \$110,000.

337. A Special Representative of the Secretary-General for Guinea-Bissau (UNOGBIS), on secondment from the Food and Agriculture Organization of the United Nations (FAO), had allegedly set up locally an informal financial system to receive funds from donor countries, unbeknown to Headquarters. Donor countries contributed to the activities of UNOGBIS through their embassies in Dakar, depositing funds in a company. The case was detected by the perpetrator's successor who heard of the cash flow to certain projects coming from the company's office, with UNOGBIS staff being able to produce any statements or reports regarding said funds. Upon learning of the incident, the Department of Political Affairs immediately requested an investigation by the Office of Internal Oversight Services. The amounts received by the company could not be determined, since records were not available or had been destroyed. Since the monies were never received by the United Nations, there was no actual loss to the Organization. In another allegation,

the perpetrator also submitted false documentation for the purchase of three official vehicles for the Mission, so that he could obtain a luxury model for his own use. In addition, the perpetrator submitted fraudulent hotel receipts in order to obtain the special mission subsistence allowance rate of \$118 per day. As a result, that special rate was applied to UNOGBIS staff members who resided at two specific hotels. The loss on account of misrepresentation of hotel rates was \$378,586, which was not recovered. The Administration considered the issue of personal financial responsibility of the perpetrator for the existence of a possibly inflated special mission subsistence allowance rate. Action on this matter would require that the perpetrator's liability be properly established, even though he categorically denied any responsibility. In March 2004, the issue was subject to disciplinary review at FAO, the perpetrator's parent office. The Administration was following up the FAO proceedings, since the outcome would be a decisive factor for any subsequent appropriate action. Until the issue is resolved, the Office of Human Resources Management has put on hold the processing of the perpetrator's remaining (education grant) claims with the Organization, a total of \$44,305.55. To prevent a similar occurrence, tighter controls have been established in the financial management system of the office. UNDP has agreed to increase its administrative support to the Mission. The perpetrator has separated from the Mission.

#### **Alteration of a cheque and forging of wire transfers**

338. A counterfeit cheque in the amount of \$28,281 was presented for payment to a United Nations depository bank by an unidentified perpetrator on 2 August 2002. The bank immediately brought it to the attention of Treasury at United Nations Headquarters. The attempted fraud constituted no loss to the United Nations.

339. On 30 May 2002, a cheque of \$92,000 was presented to the bank for payment. The cheque was originally issued to a UNEP contractor in the amount of \$519.25, but was lost in transit by the courier of the payee's bank. The bank noted several alterations on the cheque and immediately informed Treasury at the United Nations Office at Nairobi. On 11 February 2003, another cheque in the amount of \$26,450 was presented to the bank for payment. The details of the cheque sent for collection stated that it had been issued on 7 January 2003, to a different payee. The Syracuse office of the bank noted that a stop payment had been issued for the cheque in September 2002, at the request of the staff member-payee who reported that the cheque, which was actually issued on 22 July 2002 for \$2,384.28, had been lost or misplaced, with the staff member having provided an indemnity to the United Nations Office at Nairobi in October 2002. On these two occasions, Treasury at the United Nations Office at Nairobi requested the Office of Internal Oversight Services to investigate the matter and advise it of action taken. Although there was no loss to the Organization, Treasury at the United Nations Office at Nairobi has been encouraging the use of electronic fund transfers and intended to promote further reductions in cheque issuance in order to achieve even better risk management and operational efficiency.

340. Fraud was committed against a long-serving member of the Professional staff at the United Nations Office at Nairobi, when three cheques in her name were intercepted in the mail. Two of the three cheques were issued by the Office, fraudulently altered and subsequently presented for payment by the perpetrator. The Office forwarded the two paid and cancelled cheques to United Nations Headquarters for investigation and recovery. The concerned bank accepted liability

for cashing one of the two cheques and reimbursed to the United Nations the amount of \$6,409.59. The other cheque went missing at the United Nations Office at Nairobi, United Nations Headquarters Treasury and a concerned depository bank of the United Nations and, as a consequence, the paying bank refuted the claim. In March 2002, the Office of Internal Oversight Services concluded that, in the absence of any loss to the United Nations, no further action was needed. However, given the misplacement of the original cheque within the United Nations system, the United Nations Office at Nairobi, on 7 November 2002, sought the approval of the Controller to pay its staff member-payee the amount of \$5,700.77 and to write off the resultant loss. The case was facilitated, first, by the staff member using the postal service to mail cheques and, second, there is a higher risk of loss or misplacement of cheques than by payment transfer. The United Nations Office at Nairobi undertook a strategic approach to address both the technical and procedural lapses that arose in this case, such as adopting technical measures to make its cheque stock more tamper proof and adopting procedural measures to prevent fraud. While it was indicated in the description of the facts of the case that the cheque was missing within the United Nations system, the United Nations Office at Nairobi clarified in July 2004 that the cheque was not missing at the Office but it had actually traced the cheque to its delivery at United Nations Headquarters. The Office of Internal Oversight Services in its investigation has never refuted this claim or provided evidence to the contrary. The United Nations Office at Nairobi also informed the Board that it had taken technical measures to make its cheque stock more tamper proof and had requested United Nations Treasury to ensure that bank account cheques are consistent with security best practice.

341. Another case of attempted fraud occurred when a forged wire transfer from an unknown source instructed a United Nations depository bank to transfer \$30,000. In turn, the bank alerted Treasury at United Nations Headquarters. There was no loss to the Organization. The perpetrators could not be identified.

#### **Fraudulent application for reimbursement of claims**

342. The United Nations Office at Nairobi reported six cases of fraudulent medical claims from the United Nations Medical Insurance Plan in the total amount of \$29,876.46 (Ksh 2,240,712.48). Suspicions of the staff of the Joint Medical Service at the United Nations Office at Nairobi led to the detection of these cases of dishonesty on the part of the staff members. Of the amount, \$24,601.06 was not recovered, \$3,773 was recovered and payment of \$1,502.40 was prevented. Of the six cases, the services of two staff members have been terminated, one staff member has retired and his after-service health insurance has been invalidated, two were dependants, and one was awaiting disciplinary action. To remedy the matter, new United Nations Medical Insurance Plan identification cards were issued to staff members and recognized dependants.

#### **Stolen printer toner cartridges**

343. A staff member at the United Nations Office at Nairobi was alleged to have stolen two laser-jet printer toner cartridges. He was caught in the act by staff of the Office's Security and Safety Services. The amount involved was undetermined and the staff member resigned before the completion of disciplinary proceedings.

**Fraud-awareness, prevention plan and policy**

344. The United Nations has mechanisms embodied in the Financial Regulations and Rules and established procedures to ensure that there are adequate internal controls to minimize occurrences of fraud. Approving officers, bank signatories and certifying officers play a role in ensuring that the assets of the Organization are protected. Furthermore, there are written procedures that require the immediate reporting of all cases of fraud or presumptive fraud to the Controller, and for their investigation by the Office of Internal Oversight Services. As such, the United Nations has, to some extent, an established framework on this issue. However, in terms of implementation, it did not have a comprehensive internal anti-fraud and anti-corruption infrastructure, and did not include anti-corruption and anti-fraud elements in the various rules, procedures and internal controls, which means that such internal risks may not be properly addressed. A similar situation was found at the United Nations Office at Geneva. During the biennium 2002-2003, the United Nations Office at Geneva did not report cases of fraud or presumptive fraud, although its Security and Safety Section carried out some 100 investigations annually of incidents ranging from the theft of computer equipment and personal items to physical aggression and acts of vandalism.

345. The United Nations System Staff College indicated that it had a policy on fraud-awareness and a great deal of relevant training, but did not document it, most of it being reported as on-the-job training and coaching. Although the small size of the College might explain this situation, its United Nations system-wide mission makes it particularly important that its management set an example in such matters.

346. Owing to the lack of a comprehensive internal anti-fraud plan, a large number of United Nations system offices, funds and programmes have:

(a) No sufficient framework for prevention, detection, resolution and reporting;

(b) No decentralized corruption and fraud risk-assessment mechanisms and no corruption and fraud-prevention committee;

(c) No appropriate resolution mechanisms for reported and detected incidents and allegations of corruption and fraud (although reliance is placed on the Office of Internal Oversight Services in this regard).

347. The United Nations Office at Nairobi informed the Board that it had implemented procedural measures to prevent fraud, inter alia: in 2004, it had issued information circulars and policy statements regarding further restrictions in issuing cheques; it had invited the Office of Internal Oversight Services to its annual administrative management meeting for UNEP and the United Nations Human Settlements Programme administrative officers both at and away from Headquarters and it intended to include this activity in the agenda of the annual meetings. UNON also reported that OIOS in Nairobi also routinely provided training to UNON security officers.

348. Most offices participated in the organizational integrity initiative conducted by the Office of Internal Oversight Services in 2003.

**349. The Board recommends that the Administration (a) implement a comprehensive and well-communicated corruption and fraud-prevention plan in the United Nations system, (b) establish a corruption and fraud-prevention**

committee that would serve as an effective framework and coordination point for a United Nations system corruption and fraud-prevention mechanism, (c) conduct ethics, corruption and fraud-awareness training sessions and workshops among managers, international and local employees and other stakeholders, (d) develop appropriate resolution mechanisms for reported and detected incidents and allegations of corruption and fraud, and (e) review the investigation processes at offices away from Headquarters.

#### **D. Acknowledgement**

350. The Board of Auditors wishes to express its appreciation for the cooperation and assistance extended by the Secretary-General of the United Nations, the Directors-General of the United Nations Offices at Geneva, Nairobi and Vienna, the executive secretaries of the regional commissions, the United Nations High Commissioner for Human Rights, the Registrar of the International Court of Justice, the Secretary-General of the United Nations Conference on Trade and Development, the Chairman of the Joint Inspection Unit, the Chairman of the Board of Trustees or Director of the research and/or training institutes, the Chairman of the Board of Governors of the United System Staff College, and their officers and members of their staff.

*(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 audit report.

**Annex I****United Nations offices and organizations audited during the biennium 2002-2003<sup>a</sup>**

<i>Office</i>	<i>Location</i>
<b>United Nations Headquarters</b>	New York
Office of Legal Affairs	New York
Office of Internal Oversight Services	New York
Department of Political Affairs	New York
Special Political Missions	
United Nations Verification Mission in Guatemala (MINUGUA)	Guatemala City
United Nations Peace-building Support Office in Guinea-Bissau (UNOGBIS)	Bissau
United Nations Peace-building Support Office in the Central African Republic (BONUCA)	Bangui
Office of the Special Coordinator for the Middle East Peace Process	Gaza
United Nations Assistance Mission in Afghanistan (UNAMA)	Kabul
Department for Disarmament Affairs	New York
Department of Economic and Social Affairs	New York
Department for General Assembly and Conference Management	New York
Department of Public Information	New York
Department of Management	New York
United Nations Fund for International Partnerships	New York
International Civil Service Commission	New York
<b>United Nations offices away from Headquarters</b>	
United Nations Office at Nairobi	Nairobi
United Nations Office at Vienna	Vienna
United Nations Office at Geneva	Geneva
Regional commissions	
Economic Commission for Europe (ECE)	Geneva
Economic Commission for Africa (ECA)	Addis Ababa
Economic Commission for Latin America and the Caribbean (ECLAC) headquarters	Santiago
ECLAC subregional headquarters	Mexico City

<i>Office</i>	<i>Location</i>
ECLAC subregional headquarters	Port of Spain
Economic and Social Commission for Asia and the Pacific (ESCAP) headquarters	Bangkok
ESCAP Statistical Institute for Asia and the Pacific	Chiba, Japan
ESCAP Regional Coordination Centre for Research and Development of Coarse Grains, Pulses, Roots and Tuber Crops in the Humid Tropics of Asia and the Pacific	Bogor, Indonesia
Economic and Social Commission for Western Asia (ESCWA)	Beirut
International Court of Justice (ICJ)	The Hague
Joint Inspection Unit (JIU)	Geneva
International Research and Training Institute for the Advancement of Women (INSTRAW)	Santo Domingo
United Nations Institute for Disarmament Research (UNIDIR)	Geneva
United Nations Interregional Crime and Justice Research Institute (UNICRI)	Turin, Italy
United Nations Conference on Trade and Development (UNCTAD)	Geneva
Office for the Coordination of Humanitarian Affairs	New York and Geneva
United Nations System Staff College (UNSSC)	Turin

<sup>a</sup> The accounts of the offices and organizations appear in the combined financial statements of the United Nations.

## Annex II

## Inactive trust funds as at 31 December 2003

(Thousands of United States dollars)

<i>Trust fund</i>	<i>Fund code</i>	<i>Fund balance</i>	<i>Inactive since/in</i>
Trust Fund for the Commission of Experts established pursuant to Security Council resolution 780 (1992)	COA	420	1994-1995
Trust Fund for the colloquium on the progressive development and codification of international law	CVA	7	1998-1999
Trust Fund for Iraq-Kuwait border issues	IKA	1 096	1994-1995
Trust Fund for jointly financed information projects	JKA	149	1994-1995
Voluntary Fund for supporting developing countries participating in the United Nations Conference on Straddling Fish Stocks and Highly Migratory Fish Stocks	MFA	8	1994-1995
Trust Fund for research in regional cooperation in Asia and in new and renewable energy resources	JRA	19	1988-1989
United Nations Trust Fund for training for the United Nations Transition Assistance Group	UTA	113	1990-1991
Cambodia Trust Fund	KCA	2 308	1998-1999
Trust Fund for the Rapidly Deployable Mission Headquarters	RJA	1 028	1997
Trust Fund for Somalia police force (subaccount of the Trust Fund for Somalia unified command)	SUA	301	1994-1995
Trust Fund to support the implementation of the Agreement on a Temporary Ceasefire and the Cessation of Other Hostile Acts on the Tajik-Afghan Border and within the Country for the Duration of the Talks	TQA	7	1996-1997
Trust Fund for the Promotion of Peace	YPA	15	2000-2003
Trust Fund for Publicity against Apartheid	UAA	270	1997-2003
Trust Fund for special projects of the Special Committee against Apartheid	AAA	29	2002-2003
Trust Fund for the Repatriation of Cambodian Refugees and Displaced Persons	CNA	120	2002-2003
Trust Fund to finance third world observers to the South African elections	FTA	263	2002-2003
Trust Fund for the settlement of the question of East Timor	TYA	13 697	
Trust Fund to support the Multinational force deployed in East Timor	TMA	6 555	2002-2003
Trust Fund in Support of the Activities of the Office of the United Nations High Commissioner for Human Rights	HD	10 194	2002-2003
Trust Fund in support of the activities of the Committee on the Exercise of the Inalienable Rights of the Palestinian People	QPA	25	2002-2003
Trust Fund in support of the Security Council Committee established pursuant to Security Council resolution 864 (1993)	RLA	413	2002-2003
Trust Fund for Peace-building in Somalia	SOP	1 449	2002-2003
Voluntary Fund for the Cambodian Peace Process	CEA	4 610	2002-2003
Trust Fund for the activities of the International Support and Verification Commission (CIAV)	VCA	237	2002-2003
Trust Fund for the support of activities of MINURCA (United Nations Mission in the Central African Republic)	RQA	27	2000-2003
Trust Fund for the peacemaking activities of the Secretary-General	PEA	336	2000-2003

<i>Trust fund</i>	<i>Fund code</i>	<i>Fund balance</i>	<i>Inactive since/in</i>
Trust Fund for the International Commission of Inquiry on the Arms Flows in the Great Lakes Region of Central Africa	GSA	405	2000-2003
Trust Fund for assistance to military officers on loan from Governments in support of peacekeeping	LNA	41	1998-2003
Trust Fund for the United Nations Special Coordinator in the Occupied Territories	GGA	289	2000-2003
Trust Fund for the promotion of social and economic development in Afghanistan	ANC	100	2002-2003
Trust Fund to assist States in the Settlement of Disputes through the International Court of Justice	TJA	1 912	2000-2003
Trust Fund for the participation of the developing countries in the work of the Preparatory Committee on the Establishment of an International Criminal Court and in the 1998 Diplomatic Conference of Plenipotentiaries	BJA	34	2000-2003
Trust Fund to Assist States in the Settlement of Disputes through the International Tribunal for the Law of the Sea	KFA	56	2002-2003
Trust Fund for the Economic and Social Commission for Western Asia Regional Activities	WEA	1 783	2002-2003
Trust Fund for the International Comparison Project	GBA	21	1998-2003
Trust Fund for the Promotion of a United Nations International Programme for Ageing	WPA	21	2002-2003
Programme on Mobilization of Personal Savings in Developing Countries	MDA	186	1998-2003
Trust Fund of the World Food Council	FDA	0	2002-2003
Voluntary Fund for Supporting Developing Countries' Participation in the 1994 International Conference on Population and Development and its Preparatory Process	PGA	275	2002-2003
Trust Fund for the Global Conference on the Sustainable Development of Small Island Developing States	GIA	39	2002-2003
Trust Fund for support of the activities relating to the implementation of the United Nations New Agenda for the Development of Africa	NAA	79	2002-2003
Trust Fund for the United Nations Year of Dialogue among Civilizations	YJA	77	2002-2003
Trust Fund for the fifteenth United Nations Regional Cartographic Conference for Asia and the Pacific	HGA	10	2002-2003
Trust Fund for holding the twenty-fourth special session of the General Assembly at United Nations Office at Geneva	HJA	79	2002-2003
Trust Fund for the Participation of all States in activities related to the special session of the General Assembly on HIV/AIDS	HXA	75	2002-2003
Trust Fund in support of the Permanent Forum on Indigenous Issues	FII	15	2002-2003
Kampuchea Emergency Trust Fund	KAA	2 912	2002-2003
Trust Fund for Rwanda	RUA	518	1998-2003
Trust Fund to Support the International Security Assistance Force in Afghanistan	ANS	20	2002-2003
Emergency Trust Fund for humanitarian assistance for Iraq, Kuwait and Iraq-Turkey and Iraq-Iran border areas	BRA	413	2002-2003
Committee on the Elimination of Racial Discrimination	EDA	405	2002-2003
Trust Fund for the Oral History of the United Nations	UHA	1	2002-2003
Trust Fund for Information Support for African Economic Recovery and Development	EXA	249	2002-2003
United Nations Philatelic Museum (Geneva)	PMA	4	2002-2003
Sculpture in memory of Hammarskjöld, grant by Blaustein Foundation	YYA	16	2002-2003
Meditation Room gifts from New York City	YXA	9	2002-2003

<i>Trust fund</i>	<i>Fund code</i>	<i>Fund balance</i>	<i>Inactive since/in</i>
The Special (Ralph Bunche) Account for the Secretary-General for Purposes Related to Peace and Security	YEA	233	2000-2003
Trust Fund for the Restoration and Maintenance of the Peace Bell	YRA	22	2002-2003
Trust Fund for the Gilberto Amado Memorial Lecture (Geneva)	YKA	11	2002-2003
Trust Fund for Activities related to Administrative and Budgetary Aspects of Peace-keeping Operations	APA	1	2000-2003
Trust Fund to assist with field mission transport management	TSA	44	2002-2003
Trust Fund for the Ad Hoc Intergovernmental Group of Experts in the Legal and Financial Fields	LFA	9	2002-2003
Trust Fund for the Financing of a United Nations International Conference on Medical Support for Peacekeeping Operations	MBA	10	2002-2003
<b>Total</b>	<b>63</b>	<b>54 070</b>	

## Annex III

**Summary of the status of implementation of recommendations  
for the biennium 1998-1999 (with “under implementation”  
status as at 31 December 2001)**

**As at 31 December 2003**

	Reference in report for the biennium 1998-1999 <sup>a</sup>	Reference to inclusion in report for the biennium 2000-2001 <sup>b</sup>	Status of implementation as at 31 December 2003			Reference to inclusion in current report
			Implemented	Under implementation	Total	
<b>Budgetary control</b>						
<i>Budgetary control of general trust funds</i>	Para. 21	Table A.2	-	Para. 21	1	See paras. 55 (b)-56
<i>Inactive trust funds</i>	Para. 24	Para. 35	-	Paras. 24, 35	1	See paras. 48-54
United Nations Fund for International Partnerships	Para. 49	Para. 91	-	Paras. 49, 91	1	See paras. 58-63
<b>Integrated Management Information System</b>						
<i>Integrated Management Information System reporting system</i>	Para. 101	Paras. 103-106	-	Para. 101	1	
<i>Electronically transferred inter-office vouchers</i>	Para. 108	Table A.2	-	Para. 108	1	
<i>Reports generated by the Integrated Management Information System</i>	Para. 111	Table A.2	Para. 111			
<i>Archiving of Integrated Management Information System data</i>	Para. 113	Table A.2	-	Para. 113	1	See paras. 109-112
<i>Monitoring of problems</i>	Para. 117	Table A.2	Para. 117			
Internal audit	Para. 245	Para. 185	-	Paras. 245, 185	1	See para. 268
Health insurance programmes	Para. 281	Table A.2	Para. 281			
<b>Total</b>						
<b>Number</b>	<b>10</b>	<b>10</b>	<b>3</b>	<b>7</b>	<b>10</b>	
<b>Percentage</b>	<b>100</b>	<b>100</b>	<b>30</b>	<b>70</b>	<b>100</b>	

<sup>a</sup> See *Official Records of the General Assembly, Fifty-fifth Session, Supplement No. 5 (A/55/5)*, vol. I.

<sup>b</sup> See *ibid.*, *Fifty-seventh Session, supplement No.5 and corrigendum (A/57/5)*, vol. I.

## Annex IV

### Summary of the status of implementation of recommendations for the biennium 2000-2001<sup>a</sup>

<i>Topic</i>	<i>Implemented</i>	<i>Under implementation</i>	<i>Not implemented</i>	<i>Total</i>	<i>Reference to inclusion in current report</i>
Presentation of financial statements	Para. 27			1	
Trust funds		Para. 35		1	See paras. 48-52
United Nations Fund for International Partnerships	Paras. 85, 97, 99	Paras. 91, 95		5	See paras. 58-63, 64-68
Integrated Management Information System		Paras. 110, 113, 118, 122, 133, 138, 144, 149, 151, 153, 155, 160	Paras. 129, 146, 157, 164	16	See paras. 109-112, 113, 114, 133, 143-145
Integrated Monitoring and Documentation Information System		Paras. 169, 173		2	
Information and communication technology	Para. 177	Para. 178		2	
Office of Internal Oversight Services	Para. 192	Paras. 183, 185, 189		4	See paras. 260-264, 268
Special political missions		Paras. 196, 200		2	See paras. 283-285
Inter-agency services	Paras. 208, 221, 224, 226	Paras. 203, 205, 210, 212, 216		9	See para. 207
Other agencies	Paras. 231, 254, 262, 265	Paras. 235, 240, 242, 247, 250, 269		10	See paras. 288-290, 299-301, 302-303
Regional commissions		Para. 275		1	
Department of General Assembly Affairs and Conference Services (now known as Department for General Assembly and Conference Management)		Paras. 279, 282, 285		3	
Consultants and individual contractors		Para. 288		1	See paras. 255-257
<b>Total</b>					
<b>Number</b>	<b>14</b>	<b>39</b>	<b>4</b>	<b>57</b>	
<b>Percentage</b>	<b>25</b>	<b>68</b>	<b>7</b>	<b>100</b>	

<sup>a</sup> See Official Records of the General Assembly, Fifty-seventh Session, Supplement No. 5 and corrigendum (A/57/5), vol. I, chap. II.

## Chapter III

### Audit opinion

We have audited the accompanying financial statements of the United Nations, comprising statements numbered I to X, schedules numbered 5.1, 5.2, 7.1, 9.1 and 10.1 to 10.5 and the supporting notes, including appendices A and B, for the biennium ended 31 December 2003. The financial statements are the responsibility of the Secretary-General. Our responsibility is to express an opinion on them 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 and in conformity with the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance as to 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 Secretary-General, as well as evaluating the presentation of the financial statements. We believe our audit provides a reasonable basis for the audit opinion.

In our opinion, these financial statements present fairly, in all material respects, the financial position as at 31 December 2003 and the results of operations and cash flows for the period then ended in accordance with the United Nations 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.

Furthermore, in our opinion, the transactions of the United Nations that have come to our notice, or which we have tested as part of our audit, have been, in all significant respects, in accordance with the Financial Regulations and legislative authority.

In accordance with article VII of the Financial Regulations, we have also issued a long form report on our audit of the financial statements of the United Nations.

*(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 audit opinion.

## Chapter IV

### Certification of the financial statements

1. The financial statements of the United Nations for the biennium 2002-2003 ending 31 December 2003 have been prepared in accordance with financial rule 106.10. These include all funds except those for peacekeeping operations, the United Nations Compensation Commission, the United Nations escrow account established under the provisions of Security Council resolution 986 (1995), the United Nations escrow accounts established under the provisions of Security Council resolutions 687 (1991), 706 (1991), 778 (1992) and 1284 (1999), and the International Tribunal for the Former Yugoslavia and the International Tribunal for Rwanda, which are the subject of separate financial statements.
2. The summary of significant accounting policies applied in the preparation of these statements is included as notes to the financial statements. These notes provide additional information and clarification of the financial activities undertaken by the Organization during the period covered by the statements for which the Secretary-General has administrative responsibility.
3. I certify that the appended financial statements of the United Nations, numbered I to X, are correct.

(Signed) Jean-Pierre **Halbwachs**  
Assistant Secretary-General, Controller

29 March 2004

**Chapter V**  
**Financial statements for the biennium ended**  
**31 December 2003**



---

## Notes to the financial statements

### Note 1

#### The United Nations and its activities

(a) The Charter of the United Nations was signed on 26 June 1945 and came into force on 24 October 1945. The Organization's primary objectives, to be implemented through its five major organs, are as follows:

- (i) The maintenance of international peace and security;
- (ii) The promotion of international economic and social progress and development programmes;
- (iii) The universal observance of human rights;
- (iv) The administration of international justice and law;
- (v) The development of self-government for Trust Territories.

(b) The General Assembly focuses on a wide range of political, economic and social issues, as well as financial and administrative aspects of the Organization.

(c) Under the direction of the Security Council, the Organization has been involved in various aspects of peacekeeping and peacemaking, including efforts to resolve conflicts, restore democracy, promote disarmament, provide electoral assistance, facilitate post-conflict peace-building, engage in humanitarian activities to ensure the survival of groups deprived of basic needs and overseeing the prosecution of persons responsible for serious violations of international humanitarian law.

(d) The Economic and Social Council plays a particular role in economic and social development, including a major oversight role in the efforts of other organizations of the United Nations system to address international economic, social and health problems.

(e) The International Court of Justice has jurisdiction over disputes between Member States brought before it for advisory opinions or binding resolutions.

(f) The Trusteeship Council completed its primary functions in 1994 with the termination of the Trusteeship Agreement for the last United Nations Trust Territory.

### Note 2

#### Summary of significant accounting and financial reporting policies of the United Nations

(a) The accounts of the United Nations are maintained in accordance with the Financial Regulations and Rules of the United Nations as adopted by the General Assembly, the rules formulated by the Secretary-General as required under the regulations and administrative instructions issued by the Under-Secretary-General for Management or the Controller. They also take fully into account the United Nations system accounting standards, as adopted by the former Administrative Committee on Coordination since replaced by the United Nations System Chief Executives Board for Coordination. The Organization follows International Accounting Standard 1, Presentation of financial statements, on the disclosure of

accounting policies, as modified and adopted by the United Nations System Chief Executives Board for Coordination, as shown below:

(i) Going concern, consistency and accrual are fundamental accounting assumptions. Where fundamental accounting assumptions are followed in financial statements, the disclosure of such assumptions is not required. If a fundamental accounting assumption is not followed, that fact should be disclosed together with the reasons;

(ii) Prudence, substance over form and materiality should govern the selection and application of accounting policies;

(iii) Financial statements should include clear and concise disclosure of all significant accounting policies that have been used;

(iv) The disclosure of the significant accounting policies used should be an integral part of the financial statements. These policies should normally be disclosed in one place;

(v) Financial statements should show comparative figures for the corresponding period of the preceding financial period;

(vi) A change in an accounting policy that has a material effect in the current period or may have a material effect in subsequent periods should be disclosed together with the reasons. The effect of the change should, if material, be disclosed and quantified.

(b) The Organization's accounts are maintained on a fund accounting basis. Separate funds for general or special purposes may be established by the General Assembly, the Security Council or the Secretary-General. Each fund is maintained as a distinct financial and accounting entity with a separate self-balancing double-entry group of accounts. Separate financial statements are prepared for each fund or for a group of funds of the same nature.

(c) The financial period of the Organization is a biennium consisting of two consecutive calendar years for all funds other than peacekeeping accounts, which are reported on a fiscal year basis covering the period from 1 July to 30 June.

(d) Generally, income, expenditure, assets and liabilities are recognized on the accrual basis of accounting. For assessed income, the policy set out in paragraph (k) (ii) below applies.

(e) The accounts of the Organization are presented in United States dollars. Accounts maintained in other currencies are translated into United States dollars at the time of the transaction at rates of exchange established by the United Nations. In respect of such currencies, the financial statements shall reflect the cash, investments, unpaid pledges and current accounts receivable and payable in currencies other than the United States dollar, translated at the applicable United Nations rate of exchange in effect as at the date of the statements. In the event that the application of an actual exchange rate at the date of the statements would provide a valuation materially different from the application of the Organization's rate of exchange for the last month of the financial period, a footnote will be provided quantifying the difference.

(f) The Organization's financial statements are prepared on the historical cost basis of accounting and are not adjusted to reflect the effects of changing prices for goods and services.

(g) The cash flow summary statement is based on the indirect method of cash flows, as referred to in the United Nations system accounting standards.

(h) The Organization's financial statements are presented in accordance with the ongoing recommendations of the Working Party on Accounting Standards of the United Nations System Chief Executives Board for Coordination.

(i) The results of the Organization's operations presented in statements I, II and III are summarized by general type of activity and are presented on a combined basis for funds other than those that are reported on separately, after the elimination of all inter-fund balances and instances of double-counting of income and expenditure. Their presentation on a combined basis does not imply that the various separate funds can be intermingled in any way, since, normally, resources may not be utilized between funds.

(j) Separate financial statements are issued for the United Nations general and related funds, for the United Nations Iraq escrow accounts, for the United Nations Compensation Commission, for the International Tribunal for the Former Yugoslavia under the provisions of Security Council resolutions 808 (1993) and 827 (1993), for the International Tribunal for Rwanda, under the provisions of Security Council resolution 955 (1994) and the peacekeeping accounts, which are reported separately on a fiscal year basis covering the period from 1 July to 30 June.

(k) Income:

(i) The amounts necessary to finance the activities of the United Nations regular budget, the peacekeeping operations, the Capital Master Plan, the International Tribunals for Yugoslavia and Rwanda and the Working Capital Fund are assessed to Member States in accordance with the scale of assessments determined by the General Assembly;

(ii) Income is recognized when assessments to Member States have been authorized by the General Assembly. Neither appropriations nor spending authorities are recognized as income except to the extent that a matching assessment on Member States has been levied;

(iii) Amounts assessed to non-member States that agree to reimburse the Organization for the costs of their participation in United Nations treaty bodies, organs and conferences are credited to miscellaneous income;

(iv) Voluntary contributions from Member States and other donors are recorded as income on the basis of a written commitment to pay monetary contributions at specified times within the current financial period. Voluntary contributions made in the form of services and supplies that are acceptable to the Secretary-General are credited to income or noted in the financial statements;

(v) Income from revenue-producing activities (including activities handled by outside contractors) is shown in the financial statements on a net basis, after the subtraction of directly related operating expenditures;

(vi) Income received under inter-organizational arrangements represents allocations of funding from agencies to enable the Organization to administer projects or other programmes on their behalf;

(vii) Allocations from other funds represent monies appropriated or designated from one fund for the transfer to and disbursement from another fund;

(viii) Income from jointly financed activities represents amounts charged to other organizations for their share of joint costs paid for by the Organization;

(ix) Income for services rendered includes amounts charged for staff member salaries and other costs that are attributable to providing technical and administrative support to other organizations;

(x) Interest income includes all interest earned on deposits in various bank accounts, investment income earned on marketable securities and other negotiable instruments, and investment income earned in the cash pools. All realized losses and net unrealized losses on short-term investments are offset against investment income. Investment income and costs associated with the operation of investments in the cash pools are allocated to participating funds;

(xi) Miscellaneous income includes income from the rental of premises, the sale of used or surplus property, refunds of expenditures charged to prior periods, income from net gains resulting from currency translations, settlements of insurance claims, amounts assessed on new Member States for the year of admission to the United Nations, amounts assessed to non-member States as stated in (k) (iii) above, monies accepted for which no purpose was specified and other sundry income. In respect of general trust funds, miscellaneous income also includes savings on, or cancellation of prior-period obligations;

(xii) Income relating to future financial periods is not recognized in the current financial period and is recorded as deferred income, as referred to in item (n) (iii) below.

(l) Expenditure:

(i) Expenditures are incurred against authorized appropriations or commitment authorities. Total expenditures reported include unliquidated obligations and disbursements;

(ii) Expenditures incurred for non-expendable property are charged to the budget of the period when acquired and are not capitalized. The inventory of such non-expendable property is maintained at the historical cost;

(iii) Expenditures for future financial periods are not charged to the current financial period but are recorded as deferred charges, as referred to in item (m) (vi) below.

(m) Assets:

(i) Cash and term deposits represent funds held in demand-deposit accounts and interest-bearing bank deposits;

(ii) Investments include marketable securities and other negotiable instruments acquired by the Organization to produce income. Short-term investments are stated at the lower of cost or market value; long-term

investments are stated at cost. Cost is defined as the nominal value plus or minus any unamortized premium or discount. The market value of investments is disclosed in the footnotes to the financial statements;

(iii) Cash pools comprise participating funds' share of cash and term deposits, short-term and long-term investments and accrual of investment income, all of which are managed in the pools. The investments in the cash pools are similar in nature and are accounted for as set out in item (m) (ii) above. The share in the cash pools is reported separately in each participating fund's statement and its composition and the market value of its investments are disclosed in a footnote to the statement;

(iv) Assessed contributions represent legal obligations of contributors and, therefore, the balances of unpaid assessed contributions due from Member States are reported irrespective of collectability. It is the policy of the United Nations not to make provision for delays in the collection of such assessments;

(v) Inter-fund balances reflect transactions between funds, and are included in the amounts due to and from the United Nations General Fund. Inter-fund balances also reflect transactions directly with the United Nations General Fund. Inter-fund balances are settled periodically, depending on the availability of cash resources;

(vi) Deferred charges normally comprise expenditure items that are not properly chargeable to the current financial period. They will be charged as expenditure in a subsequent period. These expenditure items include commitments approved by the Controller for future financial periods in accordance with financial rule 106.7. Such commitments are normally restricted to administrative requirements of a continuing nature and to contracts or legal obligations where long lead times are required for delivery;

(vii) For purposes of the balance sheet statements only, those portions of education grant advances that are assumed to pertain to the scholastic years completed as at the date of the financial statement are shown as deferred charges. The full amounts of the advances are maintained as accounts receivable from staff members until the required proofs of entitlement are produced, at which time the budgetary accounts are charged and the advances settled;

(viii) Construction in progress is shown in the accounts as such until completion of the construction projects, at which time the completed construction projects, together with the cost of the land, are reflected as capital assets of the Organization;

(ix) Maintenance and repairs of capital assets are charged against the appropriate budgetary accounts. Furniture, equipment, other non-expendable property and leasehold improvements are not included in the assets of the Organization. Such acquisitions are charged against budgetary accounts in the year of purchase. The value of non-expendable property is disclosed in the notes to the financial statements.

- (n) Liabilities, reserves and fund balances:
  - (i) Operating and other types of reserves are included in the totals for reserves and fund balances shown in the financial statements;
  - (ii) Unliquidated obligations for future years are reported both as deferred charges and as unliquidated obligations;
  - (iii) Deferred income includes pledged contributions for future periods, advances received under revenue-producing activities and other income received but not yet earned;
  - (iv) The commitments of the Organization relating to prior, current and future financial periods are shown as unliquidated obligations. Current-period obligations related to the regular budget and special accounts remain valid for 12 months following the end of the biennium to which they relate. Obligations for most technical cooperation activities remain valid for 12 months after the end of each calendar year. Unliquidated obligations relating to amounts owed by peacekeeping operations to Member States may be retained for a period of five years beyond the end of the financial period. Unliquidated obligations relating to funds of a multi-year nature remain valid until the completion of the project;
  - (v) Contingent liabilities, if any, are disclosed in the notes to the financial statements;
  - (vi) The United Nations is a member organization participating in the United Nations Joint Staff Pension Fund (UNJSPF), which was established by the General Assembly to provide retirement, death, disability and related benefits. UNJSPF is a funded defined benefit plan. The financial obligation of the Organization to UNJSPF consists of its mandated contribution at the rate established by the General Assembly together with its share of any actuarial deficiency payments under article 26 of the Regulations of UNJSPF. Such deficiency payments are only payable if and when the General Assembly has invoked the provision of article 26, following a determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of UNJSPF as at the valuation date. As at the date of the current financial statement, the General Assembly has not invoked this provision.
- (o) Technical cooperation activities:
  - (i) The technical cooperation financial statements report on activities financed by voluntary contributions, funds received under inter-organizational arrangements from UNDP, UNFPA and other sources, and by allocation from section 21 of the regular budget;
  - (ii) Effective 1 January 2002, voluntary contributions from Member States or other donors for technical cooperation activities are recorded as income upon receipt of cash, including amounts received pending the identification of specific projects;
  - (iii) The allocation income from UNDP and UNFPA is determined taking into account interest and other miscellaneous income against total expenditure;

- 
- (iv) Miscellaneous income arising from regular budget activities is credited to miscellaneous income of the General Fund. Interest and miscellaneous income for technical cooperation trust funds are credited to the trust funds concerned;
- (v) Unliquidated obligations for the current period in respect of all technical cooperation activities other than the regular budget remain valid for 12 months following the end of the calendar year, rather than the biennium, to which they relate. However, in accordance with UNDP/UNFPA reporting requirements, executing agencies may retain unliquidated obligations beyond 12 months when a firm liability to pay still exists. Savings on or cancellation of prior-period obligations are credited to individual projects as a reduction of current-period expenditure in accordance with UNDP/UNFPA reporting requirements;
- (vi) The appropriation for the technical cooperation programmes of the regular budget is administered in accordance with the Financial Regulations of the Organization. Unliquidated obligations for the regular programme of technical cooperation that are outstanding at the end of a financial period are transferred from the United Nations General Fund accounts to the technical cooperation accounts in the following financial period;
- (vii) A system of average costing is used for UNDP/UNFPA projects whereby those elements of experts' actual costs that are unique to the individual expert are charged to UNDP/UNFPA projects at average cost. This is calculated by apportioning those costs over all UNDP or UNFPA projects in respect of which expert-months have been delivered in the current period;
- (viii) The repatriation grant entitlement is calculated on the basis of 8 per cent of net base pay for all project personnel, except those subject to average costing;
- (ix) Distribution of interest income for trust funds is calculated at year's end using the percentage participation of each fund based on the monthly average fund balance.
- (p) Trust funds established by the General Assembly or the Secretary-General are of two types — general trust funds and technical cooperation trust funds:
- (i) Accounts for general trust funds are maintained under the same accounting procedures as those adopted for the regular budget;
  - (ii) Accounts for technical cooperation trust funds and for UNDP/UNFPA general trust funds are accounted for on the same basis as described above for technical cooperation activities;
  - (iii) Funds provided to reimburse the Organization for the use of its facilities are not treated as trust funds. Any unspent balances of such funds held by the Organization are included as part of accounts payable totals reported in the General Fund (statement IV) or in other statements.

**Note 3**

**All funds summaries: income and expenditure and changes in reserves and fund balances (statement I); assets, liabilities and reserves and fund balances (statement II); cash flows (statement III)**

(a) Statements I, II and III contain financial results for United Nations funds, which are totalled into six groups of related funds and, after elimination, combined into a grand total reflecting all activities of the Organization. This combined presentation should not be interpreted to mean that any individual fund can be used for any purpose other than that for which it is authorized. The six groups consist of:

- (i) General Fund and related funds, comprising the United Nations General Fund, Working Capital Fund and Special Account, which is reflected in statement V;
- (ii) Technical cooperation activities, which includes the financial results reflected in statement VI;
- (iii) General trust funds, which includes the financial results summarized in statement VII;
- (iv) Tax Equalization Fund, which includes the financial results summarized in statement VIII;
- (v) Capital assets and construction in progress, which includes the financial results summarized in statement IX;
- (vi) Other special funds, which includes other United Nations special funds summarized in statement X.

(b) Statement I includes two calculations of the excess or shortfall of income compared with expenditure. The first calculation is based on income and expenditure only for the current period of the biennium. The second calculation shown is a net one, which includes any prior-period adjustments to income or expenditure.

(c) Effective 1 January 2002, statements of the United Nations Compensation Commission and the United Nations escrow accounts established pursuant to Security Council resolutions 687 (1991), 706 (1991), 778 (1992) and 1284 (1999) are excluded from the present volume of United Nations financial statements but are reported on in separate volumes.

**Note 4**

**General Fund: status of appropriations (statement IV)**

In accordance with General Assembly resolutions 56/254 A, 56/274 B, 56/286, 57/293 A, 57/311 and 58/267 A, the revised budget appropriations and gross assessments for the biennium 2002-2003 are as follows:

	2002	2003	Total
Budget appropriations (resolution 56/254 A)	1 312 589	1 312 590	2 625 179
<i>Add:</i> Increased appropriations for the biennium 2002-2003:			
resolution 56/274 B	-	14 729	14 729
resolution 56/286	-	59 360	59 360
resolution 57/293 A	-	191 551	191 551
resolution 57/311	-	250	250
resolution 58/267 A	-	76 659	76 659
<b>Total 2002-2003 revised budget appropriation</b>	<b>1 312 589</b>	<b>1 655 139</b>	<b>2 967 728</b>
Estimated income (other than staff assessment) for the biennium 2002-2003 (resolution 56/254 B)	25 879	25 879	51 758
<i>Less:</i> Decrease in income (other than staff assessment) for the biennium 2002-2003 (resolution 57/293 B)	-	(10 376)	(10 376)
<b>Total revised estimated income</b>	<b>25 879</b>	<b>15 503</b>	<b>41 382</b>
<b>Total 2002-2003 revised budget appropriations less total estimated income</b>	<b>1 286 710</b>	<b>1 639 636</b>	<b>2 926 346</b>
<i>Less:</i> Unencumbered balance of the final appropriations for the biennium 2000-2001 (resolution 57/293 C)	-	(237)	(237)
Savings from liquidations of prior-period obligations as at 31 December 2001 (resolution 57/293 C)	-	(26 749)	(26 749)
Net balance of other adjustments to fund balances as at 31 December 2001 (resolution 57/293 C)	-	(5)	(5)
Increase in appropriations for the biennium 2002-2003 to be assessed in 2004 (resolutions 57/311 and 58/267 A)	-	(76 909)	(76 909)
	-	(103 900)	(103 900)
<i>Add:</i> Increase in the final appropriations for the biennium 2000-2001 (resolutions 56/240 A and C)	-	28 062	28 062
Decrease in income (other than staff assessment) for the biennium 2000-2001 (resolution 57/293 C)	-	5 234	5 234
	-	33 296	33 296
<b>Gross amount assessed to Member States in the biennium 2002-2003 (resolutions 56/254 C and 57/293 C)</b>	<b>1 286 710</b>	<b>1 569 032</b>	<b>2 855 742</b>

**Note 5****United Nations General Fund and related funds (statement V)****1. United Nations General Fund**

(a) Cash and term deposits:

(i) The cash and term deposits figure shown represents the net total of all cash balances (including funds held in non-convertible currencies) less any overdrafts;

(ii) The following is the United States dollar equivalent of the non-convertible currencies held as at 31 December 2003 (in thousands of United States dollars):

<i>Non-convertible currency</i>	<i>United States dollar equivalent</i>
Afghanistan afgani	65
Brazilian real	120
CFA franc	288
Czech koruna	8
Egyptian pound	6
Ethiopian birr	677
Hungarian forint	6
Romanian leu	132
Russian ruble	1
Syrian pound	31

(b) Assessed contributions unpaid:

(i) In accordance with financial regulation 3.5, payments made by a Member State are credited first to the Working Capital Fund and then to regular budget contributions due in the order in which the Member State was assessed;

(ii) Certain Member States have indicated that they do not intend to pay some of their assessed contributions or that such contributions will be paid only under certain conditions. A number of Member States have requested that attention be drawn to their positions as stated by their delegations at successive sessions of the General Assembly. They do not consider themselves bound to pay their estimated share of certain expenditure items included in the Organization's regular budget, such as the United Nations bond issue. Prior to 1975, withholdings by those Member States included their estimated shares of the United Nations Commission for the Unification and Rehabilitation of Korea and the United Nations Memorial Cemetery in Korea. Prior to 1968, there were withholdings for the United Nations Truce Supervision Organization;

(iii) Certain Member States have also stated that they do not consider themselves bound to particular expenditure items included in the United Nations regular budget, such as those for the Committee on the Exercise of the Inalienable Rights of the Palestinian People and the Special Unit on Palestinian Rights, the International Conference on the Question of Palestine, the International Conference on the Alliance between South Africa and Israel, the Preparatory Commission for the United Nations Conference on the Law of the Sea, the United Nations International School, the grants in aid to cover the deficit of UNITAR, the International Conference on Kampuchea and the expenses involved in transferring extrabudgetary posts to the regular budget;

(iv) As a result of the positions taken by some Member States as outlined above, it is estimated that, as at 31 December 2003, a cumulative total of \$59,606,000 will have been withheld from the payments of two Member States. This estimate is included in the total contributions outstanding as at 31 December 2003 of \$452,982,462 with respect to the regular budget;

(v) The assessed contributions receivable, as shown in the accounts for the period ended 31 December 2003, have been recorded in accordance with the Financial Regulations and Rules of the United Nations, the relevant resolutions of the General Assembly and the policy of the United Nations. With reference to the amounts shown as unpaid, certain Member States have indicated that they do not intend to pay some of the assessed contributions or that such contributions will be paid only under certain conditions. Based on United Nations policy, as stated in note 2, paragraph (m) (iv) above, no provision has been made for delays in the collection of outstanding assessed contributions;

(vi) The assessed contributions receivable shown in statement V exclude \$16,636,846 in unpaid assessed contributions to the regular budget by China for the period up to 24 October 1971. Following the General Assembly's adoption on 25 October 1971 of resolution 2758 (XXIV), entitled "Restoration of the lawful rights of the People's Republic of China in the United Nations", that amount has been transferred to a special account under General Assembly resolution 3049 C (XXVII) of 19 December 1972;

(vii) The details of assessed contributions receivable are shown in the report on the status of contributions as at 31 December 2003 (ST/ADM/SER.B/619). The report shows total unpaid assessments of \$452,982,462, including the former Yugoslavia which ceased to be a Member State on 1 November 2000. However, no action has been taken in the accounts as there is no specific General Assembly resolution on this matter. Of the total unpaid assessments, \$85,594,331 are over one year old and \$367,388,131 are less than one year old.

(c) The following is a breakdown of other accounts receivable pertaining to the United Nations General Fund that are included in statement V as at 31 December 2003 and 2001 (in thousands of United States dollars):

<i>Accounts receivable</i>	<i>2003</i>	<i>2001</i>
Governments	3 215	3 894
Staff members	9 251	14 590
Vendors	2 232	5 756
Specialized agencies	6 087	6 798
Other entities	50 486	59 807
Other	10 389	8 782
<b>Total</b>	<b>81 660</b>	<b>99 627</b>

(d) The following is a breakdown of deferred charges pertaining to the United Nations General Fund that are included in statement V as at 31 December 2003 and 2001 (in thousands of United States dollars):

<i>Deferred charges</i>	<i>2003</i>	<i>2001</i>
Education grant advances	8 172	6 958
Commitments against future years	47 111 <sup>a</sup>	26 868 <sup>b</sup>
Other	1 048	6 599
<b>Total</b>	<b>56 331</b>	<b>40 425</b>

<sup>a</sup> Represents reserves for obligations from 2005 to 2011.

<sup>b</sup> Represents reserves for obligations from 2003 to 2011.

(e) The following is a breakdown of other accounts payable pertaining to the United Nations General Fund that are included in statement V as at 31 December 2003 and 2001 (in thousands of United States dollars):

<i>Accounts payable</i>	<i>2003</i>	<i>2001</i>
Governments	3 632	897
Staff members	6 319	8 176
Vendors	37 511	39 723
Specialized agencies	2 224	1 422
Due to other United Nations entities	34 165	34 138
Provisions for repatriation grant	8 284	6 437
Other	6 950	9 733
<b>Total</b>	<b>99 085</b>	<b>100 526</b>

(f) Other liabilities as at 31 December 2003 and 2001 as shown in statement V were as follows (in thousands of United States dollars):

<i>Other liabilities</i>	<i>2003</i>	<i>2001</i>
UNPA customers' subscription deposits	687	685
Other	40	343
<b>Total</b>	<b>727</b>	<b>1 028</b>

(g) The surplus account of the United Nations General Fund represents funds available for credit to Member States arising from unobligated balances of appropriations, savings on or cancellation of prior-period obligations and other designated income. The following table shows the composition of total reserves and fund balances as at 31 December 2003 and 2001 (in thousands of United States dollars):

<i>Reserves and fund balances</i>	<i>2003</i>	<i>2001</i>
<b>Authorized retained surpluses as established by:</b>		
General Assembly resolutions 2947 A and B (XXVII)	3 938	3 938
General Assembly resolution 36/116 B	45 480	
<i>Less</i> write-off of arrears for South Africa <sup>a</sup>	19 100	26 380
General Assembly resolution 40/241 B	10 532	
<i>Less</i> write-off of arrears for South Africa <sup>a</sup>	4 423	6 109
General Assembly resolution 42/216 A	154 881	
<i>Less</i> transfer to peacekeeping reserve fund <sup>b</sup>	82 601	
<i>Less</i> write-off of arrears for South Africa <sup>a</sup>	30 359	41 921
<b>Total authorized retained surplus</b>	<b>78 348</b>	<b>78 348</b>
<i>Less</i> funding of UNITAR building <sup>c</sup>	9 992	9 992
<b>Net authorized retained surplus</b>	<b>68 356</b>	<b>68 356</b>
<b>Cumulative surplus</b>		
(Shortfall) excess of income over expenditure	(72 790)	(33 004)
Savings on or cancellation of prior-period obligations	18 553	26 749
Transfer from surplus	-	(45 377)
Other adjustments to fund balance	(696)	(50)
Credits to Member States	-	(25 395)
<b>Subtotal</b>	<b>(54 933)</b>	<b>(77 077)</b>
Balance of cumulative (deficit) surplus as at 31 December 2001	(6 305)	70 772
<b>Total cumulative (deficit) surplus<sup>d</sup></b>	<b>(61 238)</b>	<b>(6 305)</b>
<b>Total reserves and fund balances</b>	<b>7 118</b>	<b>62 051</b>

<sup>a</sup> General Assembly resolution 50/83 of 15 December 1995.

<sup>b</sup> General Assembly resolution 47/217 of 23 December 1992.

<sup>c</sup> General Assembly resolution 47/227 of 8 April 1993.

<sup>d</sup> The deficit is covered by an assessment in 2004 of \$76,909,100 pertaining to the final appropriation for the biennium 2002-2003, approved by the General Assembly in resolution 58/267 A of 23 December 2003.

## 2. Working Capital Fund

In accordance with General Assembly resolution 56/257 of 24 December 2001, the Working Capital Fund was established in the amount of \$100 million for the biennium 2002-2003. As at 31 December 2003, the principal balance of the Working Capital Fund was \$101,275,000.

## 3. Special Account

Under the provisions of General Assembly resolutions 2053 A (XX) of 15 December 1965 and 3049 A (XXVII) of 19 December 1972, the Special Account has received voluntary contributions from Member States and private donors in order to overcome the financial difficulties of the United Nations and to resolve the Organization's short-term deficit.

**Note 6**

**Technical cooperation activities (statement VI)**

(a) Effective 1 January 2002, accounting policy on recognition of voluntary contributions for technical cooperation trust funds has been changed to the cash basis of accounting, including amounts received pending the identification of specific projects. Previous financial statements have been restated to reflect the change in accounting policy.

(b) Effective 1 January 2002, UNDP projects for which the United Nations is acting as an associated agency and/or cooperating agency are reflected in the main body of the financial statements, rather than as in the previous practice of disclosing such expenditures in the notes.

(c) The amount of \$29,100,000 shown in statement VI as receivable from funding sources includes unliquidated obligations for which funds will be requested only as payments become due, in accordance with existing arrangements with UNDP and UNFPA.

**Note 7**

**General trust funds (statement VII)**

(a) General trust funds have been recategorized into new groupings broadly in line with the section groupings of the regular budget, as reflected in statement IV.

(b) Twelve new trust funds were established and 13 trust funds were closed during the biennium 2002-2003 ending 31 December 2003. As at 31 December 2003, there were 189 general trust funds.

(c) The United Nations Fund for International Partnerships (UNFIP), a trust fund administered by the Secretary-General, was established by the United Nations in 1998 following the agreement signed by the United Nations with the United Nations Foundation, Inc., a not-for-profit corporation organized under the laws of the State of New York of the United States of America. Funding is provided by the Foundation to assist and support the United Nations in achieving the goals and objectives of the Charter of the United Nations. UNFIP, through its administrative office, works with the Foundation to identify and select projects and activities to be funded by the Foundation, receives and distributes the funds for such projects and activities, and monitors and reports to the Foundation on the use of the funds.

Upon approval of project documents, UNFIP advances the annual cash requirements to United Nations funds, programmes and specialized agencies (see appendix A). At periodic intervals, implementing partners submit reports providing details of cash disbursed in carrying out project activities, which serve as the basis for clearing the cash advances.

**Note 8**

**United Nations Tax Equalization Fund (statement VIII)**

The Tax Equalization Fund was established under the provisions of General Assembly resolution 973 (X) of 15 December 1955 to equalize the net pay of all staff members whatever their national tax obligations. The Fund reports as income the staff assessment in respect of staff members financed under the regular budget, assessed peacekeeping operations and the Tribunals for Rwanda and the Former Yugoslavia. The fund includes as expenditure the credits against the regular budget,

peacekeeping and Tribunal assessments of Member States which do not levy taxes on the United Nations income of their nationals. Member States that do levy income taxes on their nationals working for the Organization do not receive this credit in full. Instead, their share is utilized in the first instance to reimburse staff members for taxes they had to pay on their United Nations income. Such reimbursements for taxes paid are reported as expenditure by the Tax Equalization Fund. Staff members financed by extrabudgetary funds who are required to pay income tax are reimbursed directly from the resources of those funds.

## Note 9

### Capital Assets Fund and construction in progress (statement IX)

#### 1. Capital Assets Fund

(a) Land and buildings are reported at original cost. No depreciation is provided for buildings. Major improvements and extensions to existing buildings are reflected in the construction-in-progress fund and are capitalized when the projects are completed.

(b) The capital assets of the Organization, expressed in millions of United States dollars, comprise land and buildings (at cost) at the following locations:

<i>Capital assets</i>	<i>Amount</i>
United Nations building New York (original cost): 67.1	
<i>Less</i> cost of Library building razed in 1960: 1.7	65.4
Dag Hammarskjöld library building, New York	6.7
Land for permanent Headquarters site, New York	9.6
Extension of meeting rooms of North Lawn and delegates' dining facilities and staff cafeteria, New York	56.2
UNITAR building	11.0
<b>Subtotal</b>	<b>148.9</b>
Secretariat building and General Assembly Hall, library building and villas, Geneva	12.3
Modernization of Palais des Nations, Geneva	2.1
Major maintenance, Geneva	6.7
Extensions of conference facilities, Geneva	47.7
<b>Subtotal</b>	<b>68.8</b>
United Nations accommodation at Nairobi, Gigiri building	27.1
Conference facilities at Nairobi, Gigiri building	8.7
<b>Subtotal</b>	<b>35.8</b>
Land and structures, Addis Ababa, Mogadishu and Pusan	0.3
ECA building, Addis Ababa	7.5
New ECA conference facilities	115.0
<b>Subtotal</b>	<b>122.8</b>

<i>Capital assets</i>	<i>Amount</i>
United Nations building, Santiago	5.6
Documents Research Centre, Santiago	1.0
<b>Subtotal</b>	<b>6.6</b>
ESCAP building, Bangkok: 8.7	
<i>Less</i> cost of Netherlands building razed in 1990: 0.2	8.5
ESCAP conference building in Bangkok	46.5
<b>Subtotal</b>	<b>55.0</b>
<b>Total</b>	<b>437.9</b>

## 2. Construction in progress

(a) Funds are appropriated from the United Nations regular budget for new construction and major improvements; the resulting expenditures are recorded and reported in separate construction accounts.

(b) Any unexpended balances of appropriations in the construction-in-progress account are carried forward into succeeding bienniums until the projects are completed.

(c) The Capital Master Plan encompasses all expenditures relating to the major refurbishment of the United Nations Headquarters complex in New York. Activities began in 2001 when an amount of \$8 million was appropriated, pursuant to General Assembly resolution 55/238 for the preparation of a comprehensive design plan and detailed cost analysis. During the biennium 2002-2003, an amount of \$25,500,000 was appropriated and assessed in accordance with General Assembly resolution 57/292.

(d) Under the terms of General Assembly resolution 56/286, an amount of \$41,830,900 was appropriated under section 31 of the regular budget for strengthening the security and safety of United Nations premises. These expenditures are accounted for as construction in progress under the security measures fund.

### Note 10

#### Other special funds (statement X)

### 1. Funds held in trust (schedule 10.1)

(a) Funds held in trust account for resources set aside and disbursements made for compensation payments under appendix D to the Staff Rules, reimbursements of claims made under the medical insurance plan, payments to stabilize medical, dental and life insurance premiums of active and after-service personnel and payment of liability claims and other costs associated with the general liability of the Organization. They also contain the accounts of certain self-insurance activities, such as the Geneva Staff Medical Insurance Society against Sickness and Accident.

(b) Premiums collected for medical, dental and life insurance schemes managed at United Nations Headquarters and paid to the insurance carriers under contract with the United Nations are accounted for in the General Fund.

## **2. Special accounts for programme support costs (schedule 10.2)**

(a) Reimbursement for programme support costs is provided for in respect of extrabudgetary technical cooperation, administrative and substantive activities. The reimbursement is calculated as a percentage of the programme resources expended. The special accounts for programme support costs are shown separately from the extrabudgetary funds from which they derive their incomes.

(b) Unliquidated obligations in respect of special accounts for programme support costs are accounted for on the same basis as for the programme budget.

(c) The special account for programme support costs of peacekeeping operations is presented in a separate volume of the report of the Board of Auditors, on United Nations peacekeeping operations.

## **3. Common support services (schedule 10.3)**

(a) Integrated Management Information System (IMIS):

(i) Funds were appropriated from the United Nations regular budget for the IMIS project and allocations were provided from various funds, including the peacekeeping accounts;

(ii) Interest income is computed on inter-fund indebtedness from the General Fund at the end of each month, based on the average rate of return on the short-term United States dollar investments applicable for the month;

(iii) Any unexpended fund balances are carried forward to the succeeding biennium until the project is complete.

(b) Information technology and telecommunications represents the Special Account for Information Technology and Telecommunications Services Costs at Headquarters, which was established during the biennium 2000-2001 to account for the recovery of the costs associated with information technology and telecommunications services provided by the Office of Central Support Services at United Nations Headquarters. Such costs, which include common carrier costs, infrastructure maintenance and development costs, and operational and management costs of the Office of Central Support Services, are reimbursed by the users of the services.

(c) Common services represents the Special Account for Common Services which was established during the biennium 2000-2001 to support the activities of the Executive Coordinator for Common Services for the establishment of various common services with United Nations funds and programmes, including support through the Common Services Support Unit to: develop an evaluation framework for Common Services and establish performance indicators and identify constraints; encourage development of common qualitative and quantitative performance indicators related to specific common service areas; and facilitate the work of the technical working groups by proposing strategies, supporting the necessary action by ensuring that the targeted deliverables are regularly monitored and providing policy guidance.

(d) Travel services represents the Special Account for Travel Services which was established during the biennium 2000-2001 to account for the travel services provider at Headquarters. The income received from rebates is being used to cover the cost of services charged by the travel services provider.

(e) Rented premises represents the Special Account for Rented Premises at Headquarters which was established during the biennium 2002-2003 to account for rental and maintenance costs of rented premises at Headquarters.

#### **4. Jointly financed activities (schedule 10.4)**

(a) As a result of the introduction of net budgeting as endorsed by the General Assembly in its resolution on the programme budget for the biennium 1998-1999, the costs of the International Civil Service Commission, the Joint Inspection Unit and conference services and security services (Vienna) are charged directly to the fund established for these jointly financed activities. The costs of the CEB secretariat, the United Nations Security Coordinator and the Dag Hammarskjöld Library Consortium (established in the 2002-2003 biennium) are also accounted for under this special fund. These costs when incurred are charged directly to the fund and are subsequently distributed among participating organizations. The amounts paid by participating organizations are credited to income.

(b) The activities of the Staff College were previously accounted for by the International Labour Organization as a United Nations system project. Pursuant to General Assembly resolution 55/278, the United Nations System Staff College was established effective 1 January 2002 and a special account was created to account for the activities of the College, which is reported in the financial statements of the United Nations. The College serves as the institution for system-wide knowledge management, training and continuous learning for the staff of the United Nations system, aimed in particular at the areas of economic and social development, peace and security and internal management of the United Nations system.

#### **5. United Nations Central Emergency Revolving Fund**

The United Nations Central Emergency Revolving Fund was established by the Secretary-General in accordance with General Assembly resolution 46/182 of 19 December 1991. The Fund is financed by voluntary contributions. Its resources are to be used only for advances to United Nations organizations and entities in order to expedite their responses to requests for emergency assistance. Those advances are to be repaid to the Fund as a first charge against voluntary contributions received in respect of the particular emergency assistance programme (see appendix B).

#### **6. Special multi-year account for supplementary development activities**

(a) Represents the special multi-year account for supplementary development activities which was established by the General Assembly in its resolution 54/15. Resources appropriated under the section for the Development Account of the United Nations regular budget are transferred into the special multi-year account.

(b) The unspent balance of appropriations at the end of the biennium will be carried forward to the succeeding biennium.

## 7. Other funds (schedule 10.5)

(a) The Nobel Peace Prize Memorial Fund was established effective 29 May 2003 for the receipt and administration of the entire proceeds of the Nobel Peace Prize awarded in 2001 to the United Nations and the Secretary-General. The Fund may also receive contributions from others. The purpose is to create a living memorial to the United Nations civilian personnel who have been killed in the service of peace and to assist in the education of their surviving children.

(b) The fund for special awards was established for the receipt of the Nobel Peace Prize awarded to the United Nations peacekeeping forces in 1998 and other awards. The funds have been utilized mainly for the construction of a memorial dedicated to the United Nations staff members who have lost their lives in the service of peace.

(c) United Nations Mission in East Timor:

(i) The Security Council established, by its resolution 1246 (1999), the United Nations Mission in East Timor (UNAMET) to organize and conduct a popular consultation, on the basis of a direct, secret and universal ballot;

(ii) The United Nations Mission in East Timor was succeeded by the United Nations Transitional Administration in East Timor (UNTAET) then by the United Nations Mission of Support in East Timor (UNMISSET), which are funded from the United Nations peacekeeping budget.

(d) United Nations bonds represents the special account for the sale of United Nations bonds. Under the terms of General Assembly resolution 1739 (XVI) of 20 December 1961, the Secretary-General was authorized to issue bonds up to a total of \$200 million, utilizing the proceeds of sale for purposes normally associated with the Working Capital Fund. The Secretary-General was also requested to include in the regular budget an amount sufficient to pay interest and instalments of principal, in accordance with the terms of the issue. A total of \$169,906,000 was realized from the sale of the bonds and utilized for the United Nations Emergency Force (1956) and the United Nations Operation in the Congo. The last payments of principal and interest were made to bond holders in the biennium 1988-1989, and the bond issue is now fully amortized.

### Note 11

#### Non-expendable property

In accordance with United Nations accounting policies, non-expendable property is not included in the fixed assets of the Organization but is charged against the current appropriations when acquired. The following table shows the non-expendable property expressed in thousands of United States dollars, at Headquarters and overseas locations, according to the cumulative inventory records of the United Nations:

<i>Location</i>	<i>2003</i>	<i>2001</i>
Headquarters, New York	88 712	81 012
MINUGUA	4 947	6 111
United Nations Administrative Unit-Baghdad	2 136	4 379
International Court of Justice	1 547	1 362
United Nations Office at Vienna	6 621	5 734
United Nations Office at Nairobi	6 414	4 193
United Nations Office at Geneva	37 655	31 910
ESCWA	2 103	1 855
ECLAC, Mexico City	766	694
ECLAC, Santiago	2 584	2 535
ESCAP	6 149	5 035
ECA	25 480	28 457
UNMOGIP	5 222	4 171
UNTSO	11 065	9 300
UNSMA	-	1 297
UNAMA	21 721	-
United Nations information centres	4 573	5 499
UNMA	4 834	3 657
BONUCA	1 284	854
UNAMI	3 356	-
MINUCI	4 350	-
UNTOP	1 837	1 437
<b>Total</b>	<b>243 356</b>	<b>199 492</b>

**Note 12****Liabilities for end-of-service and post-retirement benefits**

(a) The United Nations has not specifically recognized, in any of its financial accounts, liabilities for after-service health insurance costs or the liabilities for other types of end-of-service payments, which will be owed when staff members leave the Organization. Such costs are budgeted for in the regular budget and the actual payments made in each financial period are reported as current expenditures.

(b) Based on established practice, in order to gain a better understanding of the financial dimensions of the Organization's liabilities for after-service health insurance, a consulting actuary was engaged to carry out an actuarial valuation of post-retirement health insurance benefits. It is estimated that United Nations liability as at 31 December 2003 for after-service health insurance benefits covering all participants, regardless of funding source, is as follows (in thousands of United States dollars):

<i>After-service health insurance liability</i>	<i>Present value of future benefits</i>	<i>Accrued liability</i>
Gross liability	2 334 699	1 920 693
Offset from retiree contributions	(529 018)	(435 843)
<b>Net liability</b>	<b>1 805 681</b>	<b>1 484 850</b>

(c) The present value of the future benefits figures shown above are the discounted values of all benefits to be paid in future to all current retirees and active employees expected to retire. Accrued liability represents those portions of the present values of benefits that have accrued from the staff members' dates of entry on duty until the valuation date. Active staff members' benefits are fully accrued on the date on which they become fully eligible for benefits.

(d) Staff members who separate from the Organization are entitled to be paid for any unused vacation days that they may have accrued up to a maximum of 60 days. The Organization's total liability for such unpaid accrued vacation compensation as at 31 December 2003 is estimated to be between \$100 million and \$105 million.

(e) Some staff members are entitled to repatriation grants and payment of related relocation expenditures upon their termination from the Organization, based on the number of years of service. The Organization's total liability for such unpaid repatriation and relocation entitlements as at 31 December 2003 is estimated to be between \$90 million and \$95 million.

## Appendix A

### United Nations Fund for International Partnerships

#### Advances receivable as at 31 December 2003

(Thousands of United States dollars)

<i>Implementing organization</i>	<i>2003</i>	<i>2001</i>
ILO	693	642
FAO	261	1 281
UNESCO	2 308	3 988
UNIDO	704	527
UNDP	13 216	13 140
UNFPA	6 423	11 990
UNICEF	6 456	24 001
United Nations Development Group Office	-	132
UNEP	25	25
UNITAR	120	254
OHCHR	20	14
United Nations Framework Convention on Climate Change	406	1 117
UNHCR	170	1 006
WHO	16 309	28 024
UNIFEM	3 084	1 092
UNCTAD	1	921
UNIDIR	-	41
University for Peace (Department of Economic and Social Affairs )	-	759
<b>Total</b>	<b>50 196</b>	<b>88 954</b>

## Appendix B

## United Nations Central Emergency Revolving Fund

## Advances receivable as at 31 December 2003

(Thousands of United States dollars)

<i>Operational organization*</i>	<i>Project</i>	<i>Amount outstanding as at 1 January 2002</i>	<i>Amount advanced in 2002/2003</i>	<i>Amount reimbursed in 2002/2003</i>	<i>Amount outstanding as at 31 December 2003</i>
DHA — Geneva	Democratic People's Republic of Korea	50	-	50	-
DHA — Geneva	Balkans	500	-	500	-
UNDP	Ethiopia	630	-	-	630
UNRWA	Gaza Strip & West Bank	1 200	-	1 200	-
FAO	Congo	200	-	200	-
FAO	Eritrea	500	-	500	-
DHA — Geneva	Afghanistan	1 000	-	1 000	-
FAO	Sudan	240	-	240	-
FAO	Afghanistan	200	-	200	-
UNICEF	Sudan	2 500	-	2 500	-
FAO	Burundi	950	-	950	-
FAO	Afghanistan	95	-	95	-
FAO	Congo	1 170	-	1 170	-
UNMAS	Eritrea	500	-	500	-
FAO	Afghanistan	350	-	350	-
UNMAS	Eritrea	500	-	500	-
FAO	The former Yugoslav Republic of Macedonia	975	-	975	-
FAO	Mozambique	529	-	529	-
FAO	Guinea	200	-	200	-
FAO	Mozambique	400	-	400	-
FAO	Eritrea	500	-	500	-
FAO	Sierra Leone	59	-	59	-
UNICEF	Afghanistan	10 000	-	10 000	-
FAO	Somalia	-	400	400	-
FAO	Afghanistan	-	800	800	-
FAO	Sudan	-	60	60	-
FAO	Eritrea	-	500	500	-
FAO	Central African Republic	-	100	100	-
FAO	Georgia	-	600	600	-
FAO	The former Yugoslav Republic of Macedonia	-	400	400	-
FAO	Rwanda	-	100	100	-
FAO	Afghanistan	-	200	200	-
FAO	Sierra Leone	-	280	280	-

<i>Operational organization*</i>	<i>Project</i>	<i>Amount outstanding as at 1 January 2002</i>	<i>Amount advanced in 2002/2003</i>	<i>Amount reimbursed in 2002/2003</i>	<i>Amount outstanding as at 31 December 2003</i>
FAO	Georgia	-	300	300	-
FAO	Congo	-	80	80	-
FAO	Sierra Leone	-	250	250	-
FAO	The former Yugoslav Republic of Macedonia	-	420	420	-
FAO	Congo	-	180	180	-
UNICEF	Sudan	-	2 500	2 500	-
FAO	Tajikistan	-	200	200	-
FAO	Afghanistan	-	1 790	1 790	-
WFP	South Africa	-	20 000	20 000	-
UNMAS	Afghanistan	-	4 000	4 000	-
UNICEF	South Africa	-	5 444	5 444	-
UNICEF	Sudan	-	800	800	-
UNHCR	Iraq	-	6 000	6 000	-
UNICEF	Iraq	-	5 000	1 573	3 427
FAO	Angola	-	1 000	1 000	-
WFP	Iraq	-	3 500	3 500	-
DHA — Geneva	Middle East	-	300	300	-
DHA — Geneva	Middle East	-	450	450	-
UNSECOORD	Iraq	-	1 090	342	748
WHO	Iraq	-	1 500	1 500	-
UNDP	Iraq	-	300	300	-
UNMAS	Iraq	-	750	750	-
DHA — Geneva	Liberia	-	700	-	700
WHO	Liberia	-	500	-	500
FAO	Congo	-	100	100	-
FAO	Burundi	-	200	200	-
FAO	Sudan	-	321	-	321
UNMAS	Afghanistan	-	1 000	-	1 000
<b>Total</b>		<b>23 248</b>	<b>62 115</b>	<b>78 037</b>	<b>7 326</b>

\* DHA (Office for the Coordination of Humanitarian Affairs, formerly a department).