

# Financial Section

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## **Message from Warren Sach Assistant Secretary-General Controller**

The increase in the scope of activities undertaken by the Organization was reflected in the financial report of the Organization for the biennium ended 31 December 2005, which revealed that expenditures showed an increase of 21.8 per cent compared with those for 2002-2003. There was also an increase of 6.5 per cent in expenditures for technical cooperation activities and an increase of 36.9 per cent in expenditures for general trust funds compared to 2002-2003.

While much work was carried out during 2005, the United Nations nevertheless continued to face many challenges in the finance and budget areas. At the end of the year, there was US\$ 333 million in outstanding assessments for the regular budget, US\$ 2.9 billion for peacekeeping operations, and US\$ 25 million for the two International Tribunals. At the end of 2005, the cash available for regular budget activities was equivalent to only four weeks' worth of expenditures. While 140 Member States had fully paid their regular budget assessments, only 22 Member States had fully paid their peacekeeping assessments. At the end of 2005, troop contributors were owed US\$ 695 million.

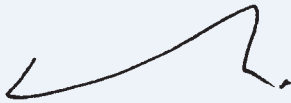
The General Assembly approved the proposed programme budget for the biennium 2006-2007 as well as additional requirements for implementing a number of recommendations of the 2005 World Summit, including the establishment of the Peacebuilding Commission, the Peacebuilding Support Office, the Human Rights Council and the Ethics Office, totaling US\$ 3.8 billion.

The unpredictable nature of the demand for peacekeeping activities made it difficult to determine financial outcomes with any confidence. Nevertheless, budgets were prepared for 15 peacekeeping operations, the support account and the United Nations Logistics Base, on the basis of which the General Assembly approved an appropriation of US\$ 3.5 billion for the period 1 July 2005 to 30 June 2006.

Efforts continued for improving financial policies and procedures, including the review of procedures for trust fund administration and management, the increased availability

of online budgetary information, and an improved cash management system. Work continued on the proposal to establish International Public Sector Accounting Standards (IPSAS), which will, among other things, improve internal control and transparency.

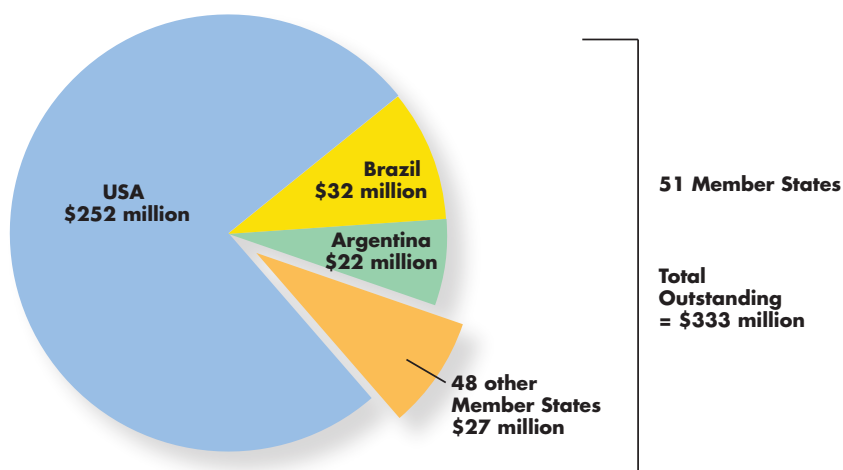
Securing the necessary resources for the Organization in its efforts to improve the lives of peoples everywhere was a particular challenge in 2005, a year that saw expansion in peacekeeping operations, peacebuilding and human rights activities, as well as many management reforms to ensure a more efficient and effective Organization. All efforts were aimed at ensuring a fully results-oriented Organization, both in the substantive areas and in the areas that provide administrative and management support.

A handwritten signature in black ink, appearing to read 'Warren Sach', with a stylized, sweeping line across the top and a small mark at the end.

Warren Sach  
Assistant Secretary-General  
Controller

## Regular Budget Assessments Outstanding at 31 December 2005

(US\$ millions)



Regular Budget — Financial Position at 31 December (US\$ millions)			
	2004	2005	Difference
Assessments	1,483	1,828	345
Payments received	1,568	1,852	284
Unpaid assessments	357	333	(24)

# Financial Analysis

## Introduction

This section provides succinct analysis of the results as reported in the attached set of financial statements. As such, the analysis pertains to increases or decreases in the 2004-2005 biennium, as compared to the previous biennium, except for peacekeeping operations and the Office of the United Nations High Commissioner for Refugees, which are on a 12-month cycle. Comments are in the same sequence as the financial statements themselves.

## United Nations

Statements I and II are overall summaries for presentation purposes only, bearing in mind that the resources in underlying funds cannot be co-mingled.

Statement IV shows regular budget expenditures by part and by section for the 2004-2005 biennium, compared to the budget. Overall spending of US\$ 3,612 million was 98.8 per cent of the total appropriation of US\$ 3,656 million. Detailed explanations of variances are included in the performance reports submitted to the General Assembly.

Statement VI for technical cooperation activities shows increased income of 18 per cent and increased expenditures of only 6 per cent, resulting in higher closing fund balances. This is a timing difference, as the funds received are expected to be utilized by projects in the 2006-2007 biennium.

Statement VII for general trust funds shows that for the first time in the history of the United Nations, donor contributions exceeded US\$ 1 billion. Donors provided increased support spread across the spectrum of the Organization's activities. In absolute terms, the largest contributions were for human rights and humanitarian funds; emergency relief operations; and for the UN Fund for International Partnership.

Statement VIII accounts for the Tax Equalization Fund, which was established by the General Assembly to equalize the net pay of staff members irrespective of their national tax obligations. Applying this principle, credits are given to Member States, and the United States is charged for taxes it levies on UN staff salaries. At the end of 2005, the residual balance due to the United States increased to US\$ 97 million, and the balance in favour of other Member States decreased to US\$ 12 million.

Statement IX shows capital expenditures of US\$ 69 million compared to US\$ 16 million in the previous biennium. Expenditures were mainly for security projects (US\$ 46 million) and the Capital Master Plan (US\$ 21 million).

Statement X summarizes activities for all other special funds, including funds held in trust for staff health plans and compensation awards, and special accounts for programme support costs. Funds held in trust accounts are managed conservatively to retain reserves, which totaled US\$ 328 million at the end of 2005. Programme support accounts are utilized in support of extra-budgetary activities, and related reserves rose to US\$ 133 million at the end of 2005.

### Peacekeeping operations

Peacekeeping operations follow a twelve-month cycle, from 1 July to 30 June of the following year.

Statement I shows income and expenditures for combined peacekeeping operations. Overall expenditures rose substantially by 39 per cent from US\$ 2,934 million in 2004 to US\$ 4,074 million in 2005. This surge was due to expanded peacekeeping operations in Africa, with MONUC (Congo) alone accounting for expenditures of US\$ 941 million. The main changes in expenditures of missions are shown in the table below, together with total 2005 expenditures.

Mission Expenditures (US\$ in millions)		
	Increase (decrease) in 2005	Total 2005
MONUC — expansion	276	941
UNMIL <sup>a)</sup>	236	784
UNOCI <sup>a)</sup>	264	347
MINUSTAH <sup>a)</sup>	343	377
ONUB <sup>a)</sup>	264	304
UNMIS — start up	219	219
UNAMSIL <sup>b)</sup>	(197)	275
UNMISSET <sup>b)</sup>	(123)	82
	1,282	3,329
All others — net	(142)	745
<b>Increase in overall expenditures</b>	<b>1,140</b>	<b>4,074</b>

The details of fiscal 2005 expenditures by mission and a comparison to its budget are shown in Schedule 1.1 of the financial statements.

a) These missions started during fiscal 2004, and fiscal 2005 expenditures reflect a full year's operations.

b) These missions were starting to wind down in fiscal 2005.

Statement II shows assets and liabilities for combined peacekeeping operations. Cash in the active missions was sufficient for operating requirements and for timely reimbursement to countries that had provided troops or formed police units, except for UNMIK (Kosovo), MINURSO (Western Sahara) and UNMOGIP (India/Pakistan). In addition, cash shortages continued for a number of closed missions, including UNOSOM (Somalia), UNTAC (Cambodia) and MINURCA (Central African Republic), as well as the two earliest peacekeeping missions — UNEF (Egypt) and ONUC (Congo).

### **International Criminal Tribunal for Rwanda**

Statement I shows expenditures that were 21 per cent higher compared to the previous biennium, mainly as a result of higher staffing costs.

Statement II shows an improved cash position as loans outstanding at the end of 2003 of US\$ 28 million were paid off. Higher payments by Member States towards their assessments were responsible for the turnaround.

### **International Criminal Tribunal for the former Yugoslavia**

Statement I shows that expenditures were only 6 per cent higher compared to the previous biennium, with higher staff costs offset by decreases in the other categories.

Statement II shows a much improved cash position, as loans outstanding at the end of 2003 of US\$ 48 million were paid off, and closing cash at the end of 2005 totaled US\$ 46 million. Higher payments by Member States towards their assessments were responsible for the turnaround.

### **United Nations Office on Drugs and Crime**

In addition to the expenditures accounted for under the United Nations Drug Control Programme, support for the drug programme is provided through the regular budget of the United Nations, which incurred expenditures of US\$ 21 million in the 2004-2005 biennium compared to US\$ 18 million in the previous biennium.

Statement I shows that voluntary contributions increased by 19 per cent to US\$ 133 million from US\$ 112 million in the previous biennium, with marked differences in contributions for special and general purpose funds. Increases continued for special purpose funds, and programme expenditures also rose, reflecting higher levels of programme delivery. On the other hand, contributions for general purpose funds remained relatively flat for the biennium, and as expenditures rose, a number of actions were taken to contain cost increases and arrest the decline in the liquidity position. At the end of 2005, closing reserves for all funds showed a small decline to US\$ 74 million from US\$ 75 million at the end of the previous biennium. Total cash on hand was also US\$ 74 million.

### **United Nations Environment Programme**

In addition to the expenditures accounted for under the United Nations Environment Programme, support for the environment programme is provided through the regular budget of the United Nations, which incurred expenditures of US\$ 11 million in the 2004-2005 biennium as compared to US\$ 9 million in the previous biennium.

Statement I shows that overall income grew by 22 per cent to US\$ 519 million in the 2004-2005 biennium, compared to US\$ 424 million in the previous biennium. Expenditures also rose significantly — by 36 per cent to US\$ 511 million — reflecting increased utilization of available funds. The overall liquidity position remained satisfactory, with total cash on hand at the end of 2005 increasing slightly to US\$ 245 million.

### **UN-Habitat**

In addition to the expenditures accounted for under the United Nations Human Settlements Programme, support for the human settlements programme is provided through the regular budget of the United Nations, which incurred expenditures of US\$ 16 million in the 2004-2005 biennium as compared to US\$ 14 million in the previous biennium.

Statement I shows that voluntary contributions increased significantly during the 2004-2005 biennium. The total reached an all-time high of US\$ 197 million as compared to US\$ 76 million in the previous biennium. Of the total income received, US\$ 176 million was special purpose funds, and only US\$ 21 million was general purpose funds. The continuing imbalance between the two remains a major challenge for UN-Habitat. Expenditures did not keep pace with the higher level of contributions, and closing reserves at the end of 2005 totaled US\$ 88 million as compared to US\$ 29 million previously. The overall liquidity position improved, with total cash on hand more than doubling to US\$ 129 million at the end of 2005.

### **United Nations Relief and Works Agency for Palestine Refugees in the Near East**

Statement I shows that total income received under UNRWA's regular budget for the 2004-2005 biennium was US\$ 721 million, including US\$ 35 million from the regular budget of the United Nations. Expenditures totaled US\$ 709 million, and closing reserves totaled US\$ 59 million at the end of 2005. Non-regular budget funds had a total income of US\$ 299 million and expenditures of US\$ 271 million, and ended 2005 with closing reserves of US\$ 109 million. The overall liquidity position was satisfactory with total cash on hand of US\$ 178 million as compared to US\$ 141 million at the end of the previous biennium.

### **Office of the United Nations High Commissioner for Refugees**

The financial statements of UNHCR are prepared on a 12-month calendar year basis.

Statement I shows that during 2005 voluntary contributions increased by 15 per cent to US\$ 1,135 million, including US\$ 39 million from the regular budget of the United Nations. As income fell short of funds originally programmed, spending cuts were instituted during 2005. In addition, a strengthening US dollar resulted in currency losses of US\$ 36 million compared to gains of US\$ 7 million in the previous year. Total expenditures came in at US\$ 1,145 million, which resulted in a reduction in closing reserves to US\$ 133 million. Cash on hand at the end of 2005 decreased to US\$ 133 million from US\$ 147 million at the end of the previous biennium.

### **International Trade Centre**

Approximately half of the Centre's activities are financed by voluntary contributions and the other half by assessments on the United Nations and WTO in equal shares.

Overall income in the 2004-2005 biennium increased by 32 per cent to US\$ 117 million. Expenditures also increased by 24 per cent as the Centre launched a number of new programmes, established alliances with new partners, enhanced its tool kit of products and services and made improvements to its business processes. The liquidity position of ITC remained satisfactory with cash on hand of US\$ 38 million at the end of 2005 compared to US\$ 27 million at the end of the previous biennium.

### **United Nations University**

Statement I shows total income during the 2004-2005 biennium of US\$ 73 million, compared to US\$ 75 million in the preceding biennium. Included in the current biennium was interest income of US\$ 18 million and a gain on sale of securities of US\$ 13 million, compared to interest income of US\$ 19 million and a loss on sale of securities of US\$ 14 million in the previous biennium. Income during the previous biennium had been boosted by currency revaluation gains of US\$ 35 million. Expenditures rose to US\$ 81 million, and closing reserves fell US\$ 5 million to US\$ 300 million, including US\$ 279 million for the Endowment Fund. Cash and investments in the Endowment Fund at the end of 2005 totaled US\$ 272 million, which had a market value of US\$ 303 million. This was a slight increase over the end of 2003 levels, when the Endowment Fund had cash and investments of US\$ 263 million with a market value of US\$ 274 million.

### **United Nations Institute for Training and Research**

Statement I shows that voluntary contributions for the 2004-2005 biennium increased by 88 per cent to US\$ 27 million, with increases for both the general and special purpose funds. Expenditures also increased from new projects established during the 2004-2005 biennium. By the end of 2005, the liquidity position of UNITAR had improved, with cash on hand of US\$ 14 million as compared to US\$ 7 million at the end of the previous biennium.

## Summary of Opinions Issued by the United Nations Board of Auditors

The summarized financial statements included in this section of the report have been extracted from the complete financial statements that have been audited by the United Nations Board of Auditors. The following table shows the periods covered by the financial statements and the types of opinion issued by the Board of Auditors.

Organization audited	Period of the financial statements	Type of opinion issued on the financial statements	Date of audit report
United Nations (A/61/5 Vol. I)	Biennium ended 31 December 2005	Unqualified opinion	28 July 2006
United Nations Peacekeeping Operations (A/60/5 Vol. II)	Year ended 30 June 2005	Unqualified opinion with emphasis of matter	31 January 2006
International Trade Centre (A/61/5 Vol. III)	Biennium ended 31 December 2005	Unqualified opinion	28 July 2006
United Nations University (A/61/5 Vol. IV)	Biennium ended 31 December 2005	Unqualified opinion	28 July 2006
International Criminal Tribunal for Rwanda (A/61/5 Add. 11)	Biennium ended 31 December 2005	Unqualified opinion	28 July 2006
International Criminal Tribunal for Former Yugoslavia (A/61/5 Add. 12)	Biennium ended 31 December 2005	Unqualified opinion	28 July 2006
United Nations Drug Control Programme (A/61/5 Add. 9)	Biennium ended 31 December 2005	Unqualified opinion	28 July 2006
United Nations Environment Programme (A/61/5 Add. 6)	Biennium ended 31 December 2005	Unqualified opinion with emphasis of matter	28 July 2006
United Nations Settlements Programme (A/61/5 Add 8)	Biennium ended 31 December 2005	Unqualified opinion	28 July 2006
United Nations Relief and Works Agency (A/61/5 Add. 3)	Biennium ended 31 December 2005	Unqualified opinion	28 July 2006
United Nations High Commissioner for Refugees (A/61/5 Add. 5)	Year ended 31 December 2005	Unqualified opinion	28 July 2006
United Nations Institute for Training and Research (A/61/5 Add. 4)	Biennium ended 31 December 2005	Unqualified opinion	28 July 2006

For a better understanding of the scope of the audits, results of operations, financial position and cash flows of the above-mentioned entities, the summarized financial statements should be read in conjunction with the financial statements from which they were derived and the Board's long-form and short-form reports thereon. Those reports also highlight, where applicable, any areas of non-compliance with relevant Financial Regulations and provide details of issues where the Board issued unqualified opinions with an emphasis of matter.

## Reproduction of Executive Summaries of the Reports of United Nations Board of Auditors

The United Nations Board of Auditors has conducted audits on the entities listed in the previous table. The Board of Auditors has issued a long report and an audit opinion for each audit. In addition, the reports of the Board of Auditors include Executive Summaries which have been reproduced in full below.

### United Nations (A/61/5 (Volume I))

“The Board has audited the financial statements of the United Nations for the biennium ended 31 December 2005. In addition, the Board has reviewed, under financial regulation 7.5, 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 also acted on specific requests from the Advisory Committee on Administrative and Budgetary Questions (ACABQ) and the General Assembly.

The Board expressed an unqualified opinion on the financial statements of the United Nations for the biennium ended 31 December 2005, as presented in Chapter III.

### *Implementation of previous recommendations*

As encouraged by the ACABQ in paragraph 9 of its report A/59/400 and in line with paragraph 7 of the General Assembly resolution A/59/264, the Board evaluated the ageing of its previous recommendations that was not yet fully implemented and had indicated the financial period, when such recommendations were first made, in annex I to the present chapter. Out of a total of 79 recommendations, 21 (26 per cent) were implemented, while 56 (71 per cent) were under implementation and 2 (3 per cent) were not implemented. Of the 58 recommendations not yet fully implemented, 37 (64 per cent) relate to the biennium 2002-2003; 14 (24 per cent) to biennium 2000-2001; and 7 (12 per cent) to biennium 1998-1999.

### *Coordination among oversight bodies*

In order to establish reliance that could be placed upon the audit work of oversight bodies, avoid duplication of effort and ensure optimal use of audit resources, the Board constantly co-ordinated with the other oversight bodies and experts (Office of Internal Oversight Service, the Joint Inspection Unit and consultants). The Board considered this coordination relevant in the present audit considering that the number of audits, reviews and investigations pertained to the operations of United Nations, its funds and programmes.

### *Financial overview for the biennium ended 31 December 2005*

Total income of \$5.86 billion exceeded total expenditure of \$5.32 billion by \$0.54 billion. The combined increase of \$1.29 billion in the assessed contributions, voluntary contributions and funds received under inter-organization arrangements resulted in the increase of total income by \$1.31 billion or 29 per cent. The increase in total income exceeded the increase of \$1.03 billion or 24 per cent in expenditure, which translated to an increase of \$0.51 billion or 22 per cent in reserves and fund balances. Total assets grew by \$0.59 billion or 19 per cent which was caused by the combined increase of \$0.69 billion in cash pools and other accounts receivable. Total liabilities increased by \$0.08 billion or 10 per cent while reserves and fund balances increased from \$2.27 billion to \$2.78 billion.

### *Presentation and disclosure of financial statements*

The Board assessed the extent to which the financial statements of the United Nations for the biennium ended 31 December 2005 conformed to the United Nations System Accounting Standards (UNSAS). The Board noted that:

(a) The closing balances of accounts receivable, inter-fund, and revenue as reported in the detailed trial balance materially differed from those in the total of the respective transactions journal for the posted accounting period from 01 January 2005 to 31 December 2005. The variance in accounts receivable amounted to \$20.87 million; inter-fund \$186.07 million; and revenue \$36.59 million, or a total of \$243.53 million;

(b) There were delays in the submission by travellers of travel expense claim forms (F.10) after completion of travel which was not in keeping with the requirements of ST/AI/2000/20 that liquidation shall be done within two calendar weeks after completion of travel;

(c) The provisions of ST/AI/2000/20 on the granting of travel advance to individuals other than staff members (allowed up to 75 per cent) and the period within which to file travel expense claims (within two calendar weeks after completion of travel) differed from the provisions in IMIS Users Procedures Manual ( up to 80 per cent and a period of within 60 days); and

(d) The balance of \$298.4 million of non-expendable property included unlocated or unaccounted items of \$23.45 million, and excluded unknown value of 22,403 items physically identified during the inventory-taking by the Administration.

### *Trust funds*

Trust funds are classified into two major categories: general trust funds and technical co-operation trust funds. General trust funds are established to support any activities except those

which are exclusively of a technical co-operation nature, and are used to enhance or expand the work programme of one or more organizational units of the Secretariat, or for humanitarian relief purposes to provide direct assistance in respect of emergency situations. Technical co-operation trust funds provide economic and social development assistance to developing countries. The Board noted that:

(a) There was a decrease in the number of inactive trust funds as only 35 of them, with combined reserve and fund balances of \$27.5 million as at 31 December 2005, did not show any expenditure for the biennium 2004-2005 except for transactions pertaining to the investment and related accounts, as compared with 63 trust funds in the biennium 2002-2003; and

(b) Four trust funds administered by DDA consecutively incurred a shortfall of income over expenditure from \$0.45 million in 2002-2003 to \$0.84 million in 2004-2005 while three trust funds incurred a combined shortfall of \$0.56 million in 2004-2005 from an excess of income over expenditure of \$1.34 million in 2002-2003, which was primarily caused by the decline in the combined voluntary contributions income. The risk of inability to sustain efforts in attaining the goals and objectives on trust funds management is likely to occur.

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

From the inception of United Nations Fund for International Partnerships (UNFIP) in 1 March 1998 to 31 December 2005, a total of \$808 million, including co-financing from other funding partners, had been allocated to fund 375 projects in 122 countries involving 37 United Nations organizations. The cumulative amount of co-financing from other funding partners stood at \$359.6 million, or 44 per cent of the total approved allocations. In addition, parallel funding provided for the same programmes and projects amounted to \$321.9 million. The Board noted that:

(a) Of the 324 reports expected by UNFIP for the cumulative period ended 31 December 2005, 118 (36 per cent) were not yet received as at audit date. Also, disbursements of \$2.08 million on 12 projects were not recorded in 2005 since the associated financial utilization reports were not submitted in time for the closing of accounts, which affected the balances of 'advances to implementing partners' and 'unliquidated obligations' accounts as at 31 December 2005; and

(b) Of the 313 completed projects (431.3 million) as at 31 December 2005, 172 (71 per cent) of the projects have submitted final certified financial statements. Moreover, 53 completed projects with unspent cash balance of \$3.7 million remained open as at 31 December 2005. The non-submission of final certified financial reports would result in the non-closure of the accounts and deprived UNFIP from utilising unspent funds to finance other projects.

### *Information and communications technology*

The Administration reported to the General Assembly that since the adoption of resolution 57/295, Chief Executives Board for Coordination (CEB) has made significant progress in establishing the United Nations System ICT strategic framework, its elaboration into specific initiatives and projects, including a knowledge-sharing and knowledge management strategy, and initiating the preparation of business case analyses for eight priority initiatives to be implemented by the organizations of the United Nations System. The Board noted that:

(a) The Administration needed a written or documented quality assurance approach or framework that can be used as guide in order to address risks on quality problems and manage quality to improve overall business efficiency;

(b) Except for the determination of functional needs as well as the proposition of the technical environment and infrastructure, the documents on file did not show any cost-benefit analysis undertaken. The Administration did not establish and account for the additional costs related to personnel, equipment, supplies and materials provided to contractor during the design, development and installation of Budget Information System; and the costs of testing following its formal acceptance; and

(c) The International Court of Justice developed a number of in-house applications which had not been properly tested and did not meet best practices and international standards requirements, notably in respect of documentation of functionalities, segregation of duties for creation and modification of data, and control, documentation and authorization of changes in information recorded, thus putting at risk the integrity and accuracy of data. ICJ had not adopted international standards on Information Security Management and had not performed risk assessment and management.

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

The CPC, in paragraph 30 of A/59/60, recognized that results-based budgeting in the United Nations is constantly developing in a positive way and confidence was expressed that the quality of future performance reports would reflect the improved quality of programme plans and budgets. The Board noted that:

(a) The quality control of edited and translated documents for the official six languages showed an average self-revision rate of 53.2 per cent in 2004. Although this was 8.2 per cent higher than the standard self-revision rate of 45 per cent, it was lower than the rate of 58.65 per cent accomplished in 2002;

(b) The six meetings used by United Nations Office at Geneva (UNOG) for the client satisfaction survey (which only depended on the agreement of respective substantive secretariats)

were inadequate to draw conclusion. UNOG had no complaint mechanism and procedure to report and address clients' claims and needs; and

(c) Out of 63, 19 (30 per cent) of the United Nations information centres (UNICs) did not submit their annual work plans for 2004. In 2005, 16 out of 63 UNICs (25 per cent) did not submit annual work plans, contrary to the requirements envisaged in ST/AI/2002/3 that the development of a departmental or office work plan prior to the beginning of the performance cycle would be the foundation for work unit plans.

#### *Treasury and investment management*

As at 31 December 2005, cash and term deposits reflected a balance of \$370.47 million. Cash pools and investments balances are valued at \$1.53 billion and \$51.62 million, respectively. Interest income earned for the biennium amounted to \$75.72 million. The Board noted that:

(a) The process of tracking and validation of cash could be readily set up in the Operations Processing Integrated Control System (OPICS). While there was a need to maintain a bank account for each of the participating funds, these need not be actual bank accounts because OPICS could facilitate and make efficient cash management automation;

(b) The Treasury's expense ratio was not tracked with reasonable accuracy as it was computed based on budget allocation. The approximation of the expenses relating to the Treasury Cash Management Application could be further improved if a more comprehensive and accurate method is applied by using actual expenditure rather than budget estimates;

(c) At UNOG, the average performance of the funds invested for United Nations Medical Insurance Society against Sickness and Accident produced an earning of 0.71 per cent in 2004-2005 whereas EURIBOR (Euro Interbank Offered Rate) generated 2.84 per cent of average return; and

(d) The United Nations Office at Vienna (UNOV) did not participate in the investment pool managed by the United Nations treasury at Headquarters. Had this been done, UNOV would have been in a position to invest funds in excess of \$2 million thereby generating revenue.

#### *Revenue-producing activities*

For the biennium 2004-2005, revenue-producing activities provided a net excess of income over expenditure of \$5.83 million as compared to \$0.46 million in 2002-2003. Of the total net income from sales of \$39.97 million, the sale of United Nations postage stamps of \$12.53 million and sale of publications of \$11.75 million represented 31 per cent and 29 per cent, respectively. The remaining \$15.69 million (40 per cent) pertained to income from services

to visitors, statistical products, gift centre, news-stand operations, garage operations, catering operations and other commercial operations. The Board noted that:

(a) The stock balance of stamps in the United Nations Postal Administration's (UNPA) consolidated statement of assets and liabilities as at 30 June 2005 of US\$ 89.15 million differed from the stock status reports of US\$ 92.34 million, by US\$ 3.19 million. Despite the use of stock movement log ("MegaStamp") which the UNPA placed reliance in recording stock movement, the stock status reports as at 20 September 2005 showed negative balances of some items of stamps in the total amount of US\$ 50,000;

(b) There were long outstanding receivables from the sale of publications. The Department of Public Information subsequently granted credit sales to delinquent customers, contrary to its standing credit policy that accounts four months in arrears would not receive further shipments. Despite the absence of a credit policy for guided tours and radio and visual services, receivables amounting to US\$ 0.14 million from customers existed; and

(c) The function to receive and deposit payments had been delegated to the Garage Administration Supervisor without a written authority, contrary to 103.8 (b) of the Financial Rules and Regulations that only officials designated by the Under-Secretary-General for Management shall be authorized to issue official receipts. There were instances where deposits were made after the lapse of three to nine business days from receipt of the money, which was not in keeping with Rule 103.8 (c) of the Financial Regulations and Rules that all monies received shall be deposited in an official bank account within two business days of receipt.

#### *Procurement and contract management*

In addition to the review by the Office of Internal Oversight Services, an external consulting firm was outsourced by the Administration to review the internal controls of the Procurement Service, covering only Headquarters-generated procurement. Consequently, the Board limited its audit of procurement and contract management to primarily determine the status of implementation of its previous recommendations except for those matters noted in the interim audits conducted by the Board before the issuance of report of the consulting firm. The Board noted that:

(a) The terms of the authority delegated to the Director of United Nations Interregional Crime and Justice Research Institute in respect of procurement have never been specified, contrary to the United Nations financial rule 105.13 and para. 3.2 of the procurement manual;

(b) The delegations of procurement authority granted to UNOG personnel were not fully in line with United Nations rules. The actual delegation of procurement authority of US\$ 100,000 for the Chief, Procurement and Contracts Unit exceeded the ceiling provided in the United Nations procurement manual of US\$ 75,000;

(c) Requisitions by the different offices at Headquarters and in the field offices were made on a per-need basis by the different offices which implied a lack of an annual procurement plan; and

(d) A provisionally registered contractor was awarded a contract by the Procurement Service even if a pending vendor registration form was never completed contrary to existing procurement policies. Several contracts and/or purchase orders were awarded to vendors who were not registered in the roster (ECLAC at Mexico, UNON), selected but not in compliance with the minimum number of vendors (ESCAP); and who received the contract frequently or nine to 29 times during the year (ESCAP).

#### *Inter-agency services*

United Nations agencies outside of headquarters in New York share common premises and administer services jointly with other United Nations agencies which pay rent to the former for use of space and for the administration of services rendered. The terms and conditions for the specific services are covered by written agreements which must be signed by both parties to bind each party's responsibility and accountability. The Board noted that:

(a) Three service level agreements were still unsigned as at 31 December 2005 pending review of the revised draft by UNEP and UN-Habitat while the performance on the financial services and human resources were not yet reported; and

(b) UNECA needed to explore the possibility of establishing and managing more common services, such as procurement.

#### *Human resources management*

In paragraph V.4 of its resolution 59/266 of 15 March 2005, on the system of equitable geographical distribution in the Secretariat at all levels, the General Assembly requested the Board of Auditors, to conduct an audit of the implementation of the principle of geographical representation in the Secretariat at all levels, as set out in relevant resolutions of the General Assembly, and to verify the application of established measures of transparency and accountability at all levels of the selection, recruitment and placement process in compliance with relevant resolutions of the Assembly. The Board also determined whether the United Nations has achieved the 50/50 gender distribution in all posts. The Board noted that:

(a) As at 31 December 2005, 2,606 staff members were subject to geographical distribution. Of the 191 Member States, 17 were unrepresented; eight were underrepresented; 99 were within range, below midpoint; 43 were within range, above midpoint and 24 were overrepresented. There was no improvement on the status of unrepresented and minimal improve-

ment for the underrepresented Member States from 2004 to 2005, while the overrepresented Member States increased by seven or 41 per cent; and

(b) The overall percentage of women was still below the desired 50/50 goal as women were only represented by 37 per cent out of the total staff of 5,976. Per category level, women were severely underrepresented as they occupied 15 per cent for the USG post, 20 per cent for the ASG category, 27 per cent for the D category and 38 per cent for the P category.

#### *Consultants and individual contractors*

Compliance by substantive offices at United Nations Headquarters, offices away from Headquarters and regional commissions for the biennium 2004-2005 with established rules on hiring, remunerating and evaluating the performance of consultants and individual contractors disclosed inconsistent practices. The Board noted that: in several instances, the selection of consultants was not competitive due to absence of a roster of consultants and documented justifications; the health certification requirement was not enforced; consultancy contracts were approved after commencement of work, two certifying officers were granted the authority to approve several contract of consultants; some consultancy contracts did not include the terms of reference; consultant's fees were initially paid in excess of the 30 per cent limit and in lump-sum amounts for travel and training courses; the performance of consultants was not evaluated or submitted 14 to 19 days delayed for two contractors; and the gender distribution ratio of consultants was below the 50/50 goal while the geographical representation showed consultants coming mostly from few regions.

#### *OCHA's response to the tsunami*

The Board visited OCHA offices in three tsunami affected countries (Sri Lanka, Indonesia, Thailand), as well as the OCHA Geneva and New York headquarters to review how OCHA performed its coordination mandate and managed the tsunami operation. The Board noted that:

(a) At the time of tsunami, 20 per cent of the posts on the OCHA Geneva staffing table were vacant, including the chief of the administrative office, the chief of the human resources section and two finance officers. This depleted capacity affected OCHA's ability to respond quickly and effectively to the administrative and financial challenges of the tsunami operation;

(b) OCHA did not have a ready roster of staff members willing to be redeployed to take part in emergency relief operations, at the time of the tsunami. A total of 30 staff from the Geneva and New York offices were deployed to the tsunami operation, who were almost systematically extended beyond the initial three weeks of their appointment; and

(c) Participating agencies differed in reporting on the total expenditure amount to the Expenditure Tracking System. Two agencies used the cash basis of reporting, contrary to the agreed principle of “cash plus accrual basis” when reporting on the total expenditure amount to the ETS.

#### *Recommendations*

The introduction section of the Board’s report contains a summary of the main recommendations.”

### **United Nations Peacekeeping Operations (A/60/5 Vol. II)**

“The Board of Auditors has audited the United Nations peacekeeping operations for the year ended 30 June 2005 at Headquarters and at 2 field missions funded from the regular budget, 15 missions funded from special assessed contributions and the United Nations Logistics Base at Brindisi, Italy. The audit of Headquarters included the Peacekeeping Reserve Fund and the support account for peacekeeping operations, 1 liquidated mission and 22 completed missions.

The Board also addressed special requests from the Advisory Committee on Administrative and Budgetary Questions and the General Assembly. In addition to the audit of the accounts and financial statements for the year ended 30 June 2005, the Board also carried out reviews of peacekeeping operations under financial regulation 7.5.

The Board issued an unqualified audit opinion on the financial statements for the United Nations peacekeeping operations for the year ended 30 June 2005, as reflected in chapter III.

#### *Implementation of previous recommendations*

As requested by the Advisory Committee on Administrative and Budgetary Questions in paragraph 8 of its report on the administrative and budgetary aspects of the financing of United Nations peacekeeping operations (A/59/736), the Board evaluated the ageing of its previous recommendations that had not yet been fully implemented and has indicated the financial period in which such recommendations were first made in annex II to the present chapter. Of a total of 78 recommendations, 38 (49 per cent) had been implemented, while 35 (45 per cent) were under implementation and 5 (6 per cent) had not been implemented. Of the 40 recommendations not yet fully implemented, 28 (70 per cent) relate to the 2003/04 period; 9 (23 per cent) to 2002/03; 2 (5 per cent) to 2001/02; and 1 (2 per cent) to 2000/01.

#### *Coordination among oversight bodies*

The Board continually coordinates with the other oversight bodies and experts (the Office of Internal Oversight Services, the Joint Inspection Unit and consultants) in the planning

of its audits in order to avoid duplication of efforts. This was especially relevant during the present audit, as a number of internal audits, inspections, investigations and reviews involved peacekeeping operations. Accordingly, the Board limited its own audit of performance-related coverage, where relevant, to a follow-up of its previous recommendations.

*Financial overview for the year ended 30 June 2005*

Total income amounted to \$4.5 billion, while total expenditure amounted to \$4.1 billion. The increase in expenditure of approximately 41 per cent is attributable mainly to the expanded operations of five recently established missions.

Assessed contributions outstanding increased by 9 per cent, to \$1.66 billion (2003/04: \$1.52 billion). This resulted in a reduction in the amount of cash available (\$1.74 billion) to settle liabilities (\$2.05 billion). An amount of \$705.2 million of the total \$1.66 billion (42 per cent) had been outstanding for over one year, of which \$153.9 million related to active peacekeeping missions; \$537.7 million related to completed missions and \$13.6 million related to special-purpose accounts. The Board is concerned by this increase in unpaid assessments.

*Procurement and contract management*

In addition to the planned review by the Office of Internal Oversight Services, an external consulting firm was commissioned by the Administration to review the internal controls of the Procurement Service, covering only Headquarters-generated procurement, including for peacekeeping operations. Consequently, the Board limited its audit primarily to determining the status of implementation of its previous recommendations and noted that:

- (a) Systems contracts had not been allocated on an equitable geographical basis;
- (b) The assessments of the progress and final performance of vendors had yet again not been submitted by missions in a timely manner;
- (c) Vendor review committees had still not been established at all missions;
- (d) Performance bonds again had not always been obtained from contractors in accordance with procurement regulations, resulting in potential losses to the United Nations;
- (e) Guidelines for the implementation of ethical principles for United Nations staff working in the procurement process had yet to be promulgated;
- (f) Two of the recently established missions did not have a procurement plan; and
- (g) The number of *ex-post facto* cases submitted by missions had increased significantly, from 30 cases in 2003 to 97 in 2004.

*Air operations*

Actual air transport expenditures amounted to \$371.2 million, or \$88.3 million (19.2 per cent) less than the budgeted amount of \$459.5 million. The Board evaluated the management of air operations at the mission level as well as the support provided by Headquarters and noted the following:

(a) Aircraft at the United Nations Mission in Liberia were not utilized efficiently in terms of passenger and cargo loads per flight;

(b) Only 43 per cent of air carriers awarded contracts during the 2004/05 period were subjected to on-site aviation quality inspections;

(c) The 90,973 actual total flight hours utilized were 42,323 hours (32 per cent) less than the 133,296 hours budgeted, requiring improved budgeting;

(d) Two air carrier vendors who were awarded seven contracts went bankrupt during the 2004/05 period. The potential loss for the Organization had yet to be determined;

(e) The installation of an aircraft tracking system at the United Nations Organization Mission in the Democratic Republic of the Congo had been delayed while the Department of Peacekeeping Operations considered the establishment of a centralized aircraft tracking system;

(f) The number of aviation support staff was not adequate, when compared with the International Civil Aviation Organization's benchmarks, to manage the increased air fleet; and

(g) MONUC did not perform a cost-benefit analysis to justify the need for executive jets in its reassessment of aircraft fleet requirements.

*Vehicle fleet management*

The Department of Peacekeeping Operations accounted for a fleet of 11,963 vehicles valued at \$380.5 million as at 30 June 2005. The Board noted that:

(a) The vehicle rotation policy was not applied at all missions, which hindered the effective and efficient utilization of vehicles;

(b) The scout car fleet of the United Nations Mission in Ethiopia and Eritrea was not operationally suitable for the driving conditions, resulting in a poor usage rate;

(c) The CarLog system did not provide reliable management information; and

(d) The directives in respect of liberty mileage and controls to monitor the private use of vehicles were not enforced at all missions.

#### *Strategic deployment stocks (non-expendable equipment)*

Strategic deployment stocks totalling \$71.9 million were purchased during the 2004/05 period. The closing value amounted to \$60.8 million as at 30 June 2005. The Board noted that:

(a) The draft policies and procedures in respect of strategic deployment stocks, except for the accounting guidelines and procedures, had still not been promulgated;

(b) Some items shipped to missions had been pending acknowledgement of receipt for more than 90 days; and

(c) The receiving and inspection process at UNLB had not been performed in all cases within the 20-day time frame as established by the Department of Peacekeeping Operations.

#### *Integrated missions*

The Secretary-General had called for a more integrated and unified United Nations, both at Headquarters and in the field. There was no formal definition of an integrated mission. As a result, the functions and structure of an integrated mission and the resulting roles and responsibilities of the various actors were not clearly understood. In addition, there was a lack of documented policy and guidelines for integrated missions.

The concept of integrated missions and their impact appeared not to have been adequately discussed with all the actors at the country office level. Members of United Nations country teams were of the view that they had not been adequately consulted during the process of planning for integrated missions.

One of the related obstacles, which could affect the success of an integrated mission, remained the differences in the mandates and objectives of the peacekeeping mission compared with the other United Nations entities. Furthermore, the funding methods (assessed or voluntary contributions) and the reporting lines to management for peacekeeping operations and other agencies differed.

#### *Recommendations of the Special Committee on Peacekeeping Operations and the Panel on United Nations Peace Operations*

Only 41 of the 51 recommendations approved by the General Assembly were considered to be within the Board's remit. Of those, 27 (66 per cent) had been implemented, 13 (32 per cent) were under implementation and 1 (2 per cent) had not been implemented by October 2004.

Of the 14 recommendations of the Panel on United Nations Peace Operations (see A/55/305-S/2000/809) pending full implementation, 3 fell under the responsibility of other departments and 1 was the responsibility of Member States. The remaining 10 recommenda-

tions were included in various workplans of the Department of Peacekeeping Operations. Of those 10 recommendations, 2 (20 per cent) were subsequently implemented and 8 (80 per cent) were under implementation. No comments were received on the status of implementation of the four recommendations that did not fall under the responsibility of the Department of Peacekeeping Operations.

### *Rations*

Ten rations contracts with an approximate contract value of \$629.5 million had been awarded by the Department of Peacekeeping Operations as at September 2005. The Board noted that:

(a) Standard operating procedures for rations management had not been implemented at newly established missions;

(b) Not all missions used performance-based criteria in respect of rations management;

(c) Not all the recommendations made by the Office of Internal Oversight Services had been fully implemented;

(d) Rations had been procured by the United Nations Mission for the Referendum in Western Sahara, UNMEE and the United Nations Mission of Support in East Timor without a valid rations contract;

(e) Packaging, storage and temperature control deficiencies were noted at seven missions; and

(f) One of the major rations vendors was suspended from participating in any further solicitation activities pending the outcome of an ongoing investigation.

### *Human resources management*

The Department of Peacekeeping Operations had initiated several projects during the period under review to improve the management of human resources. The Board noted that:

(a) Several shortcomings with regard to leave management had been identified at five missions;

(b) The effectiveness of training had not been evaluated at all missions;

(c) Individual contractors were performing, on a continuous basis, tasks considered to be core functions;

(d) The impact of using 300-series contracts as the primary instrument for appointing new peacekeeping mission staff had not yet been evaluated; and

(e) By October 2005 a total of 264 investigations had been completed during the past 22 months in respect of sexual exploitation and abuse, resulting in action taken against 124 personnel.

#### *Resident auditors*

The objectives of assigning resident auditors to United Nations peacekeeping and other field missions are to provide continuous on-site audit coverage of missions with a view to assessing internal controls, compliance, performance and progress in implementing the mission's mandate.

The budget in respect of the resident auditor function amounted to \$5.6 million during the 2004/05 period, and 28 of the 32 authorized posts were filled. The Board noted that:

(a) The allocation of resident auditors to missions was based only on expenditure levels, while factors such as risk and complexity of operations were not fully considered in deploying resources;

(b) The Chief Resident Auditor position was vacant at three missions; and

(c) The return rate of client satisfaction surveys in respect of audit reports, a measure of performance, was poor.

#### *Fraud and presumptive fraud*

The Administration reported to the Board 30 cases of fraud and presumptive fraud known to it for the financial period ended 30 June 2005 compared with 6 cases in the previous period. The Administration reported that the United Nations had not incurred losses in nine cases. An estimated loss of \$1,828,783 was incurred in respect of 17 other cases. The extent of the losses had not yet been determined by the Administration in four cases.

Of the 30 cases reported, 25 related to the United Nations Mission in Sierra Leone. The amounts involved (where quantified) amounted to \$330,808, covering 18 cases. A total of 19 of the 25 cases (76 per cent) related to fuel fraud. The estimated value of such fraud (where quantified) amounted to \$1.5 million (approximately 2.6 million litres of fuel). A similar audit was also carried out by the resident auditors of the United Nations Interim Force in Lebanon.

The Board is concerned that fuel mismanagement may be more pervasive across the various peacekeeping missions.

#### *Recommendations*

The Board has made several recommendations based on its audit observations. A summary of the main recommendations of the Board is set out in paragraph 13 of the report."

### International Trade Centre (A/61/5 Vol. III)

“The Board of Auditors has audited the financial statements of the International Trade Centre UNCTAD/WTO (ITC) for the biennium ended 31 December 2005.

The Board also addressed special requests from the Advisory Committee on Administrative and Budgetary Questions and the General Assembly. In addition to the audit of the accounts and financial statements for the year ended 31 December 2005, the Board also carried out reviews of the operations of ITC under Financial Regulation 7.5.

The Board issued an unqualified audit opinion on the financial statements of ITC for the biennium ended 31 December 2005, as reflected in chapter III.

#### *Implementation of previous recommendations*

As requested by the Advisory Committee on Administrative and Budgetary Questions, the Board evaluated the ageing of its previous recommendations that were not yet fully implemented and has indicated the financial period when such recommendations were first made in the annex to the present chapter. Out of a total of 10 recommendations, 4 (40 percent) were implemented, while 6 (60 percent) were under implementation. All recommendations not yet fully implemented related to the 2002-2003 period; five of them are pending decisions by the United Nations.

#### *Financial overview for the biennium ended 31 December 2005*

The financial position of ITC at the end of the biennium was healthy. However, reserves and fund balances of \$34.9 million, including \$31.3 million earmarked for technical cooperation activities were insufficient to cover after-service liabilities.

#### *United Nations System Accounting Standards*

The financial statements of the Centre for the biennium 2004-2005 were consistent with the United Nations System Accounting Standards.

#### *Consultants and experts*

The management of consultants and experts was not fully in compliance with the United Nations Regulations and Rules. There was room for improvement with regard to gender and geographical balance, the recruitment process and the duration of contracts.

#### *Programme management*

The Centre has developed its own monitoring and reporting tools, but should continue to integrate United Nations requirements into their design. The evaluation of project performance could be enhanced, in particular by the dissemination of appropriate guidelines to the Centre's staff.

### *Information technology and fraud prevention*

The Centre has yet to formally promulgate United Nations rules on the use of information and communication technology resources and data, in addition to its own policies and practices in that regard.

### *Fraud and presumptive fraud*

The Centre made significant efforts during the biennium to raise fraud-awareness among its staff members. Further progress could be made, notably in respect training.

### *Recommendations*

The Board has made several recommendations based on its audit observations. A summary of the main recommendations of the Board is set out in paragraph 14 and 15.”

## **United Nations University (UNU) (A/61/5/Vol. IV)**

“The Board of Auditors has reviewed the operations of the United Nations University (UNU) at its headquarters in Tokyo and in seven of its research and training centres and programmes. The Board has also audited the financial statements of UNU for the biennium ended 31 December 2005.

The Board issued an unqualified audit opinion on the financial statements for the United Nations University for the biennium ended 31 December 2005, as reflected in Chapter III.

### *Implementation of previous recommendations*

The Board reviewed the measures taken by UNU to implement the recommendations made by the Board in its report for the biennium ended 31 December 2003. Of the 25 recommendations contained in the report of the Board of Auditors on the accounts of the UNU for the biennium ended 31 December 2003, 10 (40 per cent) were implemented, 13 (52 per cent) were partially implemented and two (8 per cent) were not implemented.

### *Coordination among oversight bodies*

The Board continually coordinates with the other oversight bodies and experts (the Office of Internal Oversight Services, the Joint Inspection Unit and consultants) in the planning of its audits in order to avoid duplication of efforts and ensure optimal use of audit resources.

### *Financial overview for the biennium ended 31 December 2005*

Total income amounted to \$73.4 million, while total expenditure amounted to \$81.3 million (including loss of revaluation of \$3.8 million), resulting in shortfall of income over

expenditure in the amount of \$7.9 million. Of the \$73.4 million in income, \$38 million or 52 per cent represents voluntary contribution, \$31.7 million or 43 per cent pertains to interest income and net gains on sale of securities, and the remaining \$3.7 million or 5 per cent represents other/miscellaneous income. Had the high interest income and gains on the sale of investment not been considered in the total income, the financial position of UNU would have shown that it lacked the necessary resources to support its operations and projects.

The increase in expenditure of approximately 25 per cent is attributable mainly to the increase in staff and other personal costs, operating costs and research and training networks and dissemination.

Voluntary contributions increased by 23 per cent from \$31 million to \$38 million, while interest income increased by 539 per cent from \$5 million to \$32 million. The increase in interest income was as a result of higher interest rates and gain on sale of investments.

#### Conformity to the United Nations System Accounting Standards

The financial statements of the United Nations University were consistent with the United Nations System Accounting Standards except for the following:

- (a) The recording of miscellaneous income using the cash basis of accounting instead of the accrual basis;
- (b) The non-cancellation of invalid unliquidated obligations; and
- (c) The treatment of some expenditures pertaining to current and prior biennia as deferred charges.

#### *Presentation and disclosure of the financial statements*

There were variances noted in the financial reports generated by the Financial, Budgetary and Personnel Management System (FBPMS).

#### *Non-expendable property*

Inaccuracies in accounting for non-expendable property (NEP) cast doubts on the completeness and correctness of the disclosures made in the notes to the financial statements as follows:

- (a) Lack of comprehensive physical inventory since 2001 at UNU Programme for Biotechnology in Latin America and the Caribbean; and
- (b) Non-utilization by UNU headquarters of computerized property and inventory system.

### *Programme management*

The following inaccuracies were noted with regard to programme management:

(a) There was no complete and organized documentation on 18 projects at UNU Headquarters, eight at UNU/WIDER, seven at UNU/INWEH and 18 at UNU/BIOLAC;

(b) The absence of performance indicators, external factors and end-users or beneficiaries of outputs rendered it difficult to assess /evaluate the performance and over-all effectiveness of programmes/activities of UNU Headquarters, UNU/WIDER, UNU/BIOLAC and UNU/ILI;

(c) Salaries of research staff were not part of the project costing as this was not yet programmed in the FBPMS;

(d) Four programmes of UNU/IAS disclosed that percentages of expenditures were higher than the reported physical accomplishments; and

(e) Eleven projects programmed and begun in 2002 were completed in May 2005, well beyond their scheduled date of completion in 2004.

### *Procurement*

In regard to procurement, UNU Headquarters did not prepare a procurement plan and it restricted the number of invitees/prospective bidders to three or less.

### *Consultants and individual contractors*

Certain issues concerning advance payments, terms of reference, performance evaluation reports, duration of services, and statements of good health were raised in regard to services of consultants and individual contractors.

### *Recommendations*

The Board has made several recommendations based on its audit observations. A summary of the main recommendations of the Board is set out in paragraph 13 of the report.”

## **International Criminal Tribunal of Rwanda (A/61/5 Add. 11)**

“The Board of Auditors has reviewed the operations of the International Criminal Tribunal for the Prosecution of Persons Responsible for Genocide and Other Serious Violations of International Humanitarian Law Committed in the Territory of Rwanda and Rwandan Citizens Responsible for Genocide and Other Such Violations Committed in the Territory

of Neighbouring States between 1 January and 31 December 1994 (ICTR) and has also audited its financial statements for the biennium ended 31 December 2005.

The Board issued an unqualified audit opinion on the financial statements for the Tribunal for the biennium ended 31 December 2005 (see chap. III).

#### *Implementation of previous recommendations*

As requested by the Advisory Committee on Administrative and Budgetary Questions in its report A/59/736, paragraph 8 and A/60/387, paragraphs 12 and 20, the Board evaluated the ageing of its previous recommendations that had not yet been fully implemented and has indicated the financial period in which such recommendations were first made in annex to the present chapter. Of a total of 40 recommendations, 29 (73 per cent) had been implemented, while four (10 per cent) were under implementation and seven (17 per cent) had not been implemented. Of the four recommendations not yet fully implemented, one (9 per cent) relates to the 2000-2001 biennium. Included in the seven recommendations not yet implemented, three (43 per cent) relate to the biennium 2000-2001.

#### *Financial overview for the biennium ended 31 December 2005*

Total income increased by approximately 27 per cent, from \$205 million in 2002-2003 to \$262 million in 2004-2005. The increase by 29 per cent in the amount of assessed contributions, from \$201.7 million in the prior biennium to \$260.4 million in the biennium 2004 — 2005, mainly accounted for the increase in total income for the biennium under review.

Total expenditure increased by approximately 21 per cent, from \$208 million in 2002-2003 to \$252.5 million in 2004-2005. Of the total expenditure, 82 per cent (\$207 million) related to personnel; five per cent (\$12.4 million) related to operational requirements; and the balance of 13 per cent (\$33.1 million) represented travel, contractual services, acquisitions and other expenditures.

Assessed contributions receivable from Member States decreased by approximately 67 per cent, from \$34.8 million in 2002-2003 the biennium to \$11.4 million in 2004-2005. Overall, the financial situation of the Tribunal had improved, mainly due to the increased payments of assessed contributions by Member States. However, available cash remained insufficient to settle liabilities (\$0.74 of cash available to cover every \$1 of liabilities).

The total reserves and fund balances of \$18 million as at 31 December 2005 were inadequate to cover the Tribunal's end of service and post retirement benefits of \$43.2 million.

### *Completion strategy*

As of May 2006, the trials of 27 accused were completed for which 21 judgments were handed down. Of these 27 accused, 24 were convicted and three acquitted. Trials involving another 27 accused were in progress. Furthermore, 15 detainees were awaiting trial; the prosecutor intended to transfer five of these detainees to national jurisdictions. There were still 18 indicted persons at large. The Prosecutor intended to request for the transfer of 12 of these cases to national jurisdictions for trials.

The Tribunal was in process of negotiating possible transfers of cases to national jurisdictions; however, several constraints were identified by the Tribunal, which may prevent the transfer of certain cases. The main constraint was that countries were not willing to accept transfer of these cases, with the exception of Rwanda. Other constraints related to such matters as laws of the State that may not confer jurisdiction over suspects or the crimes they allegedly committed. Moreover, many of the suspects were in developing countries where judicial systems were under strain. The Tribunal did not have a comprehensive action plan to systematically address all possible constraints that may hinder it from completing its mandate by 2010.

As of May 2006, the Tribunal informed the Board that it was still difficult at that stage to indicate a completion strategy for the Appeals Chamber, as it was linked to the completion strategy of the International Tribunal of the Former Yugoslavia.

### *Legal Aid System*

The Tribunal tried to implement the recommendations of the consultant. However, this had led to strikes by defence counsels who refused to come to scheduled hearings if the provisions were not relaxed. In addition, the practical difficulties continued regarding the collation of financial information to assess the accumulated assets of accused in order to determine their eligibility for legal aid. As of May 2006, the matter remained unresolved and all detainees continued to be treated as indigent.

### *Defence Counsel Expenditure*

The lump-sum payment system was not applied to multiple accused cases as the efficiency and effectiveness of the system was still under consideration.

### *Non-expendable equipment*

The Board was unable to confirm the existence of two assets selected with a total value of \$175,782. Although the assets had been recorded on the Field Asset Control System, the Board noted that the location details contained therein did not match the physical location of eight assets selected.

### *Procurement and Contract Management*

The excessive lead times within the procurement process continued during the biennium 2004-2005. The time elapsed between the date of requisition and approval of the requisitions ranged from 39 to 121 days and between the requisition approval date and purchase order approval date from 121 to 228 days.

The Board noted that the insurance clauses, as stipulated in three contracts with a combined value of \$1.1 million, were not supported by proof of insurance.

Supplier evaluations were not in all instances performed before the extension of vendor contracts.

The Board noted that two contracts had exceeded their maximum award amounts without the prior approval. However, the Procurement Section continued procuring on the basis of these contracts.

### *Human resources management*

Incomplete reference checks or none at all were done for 193 recruited staff members.

Vacancy rates remained unchanged from the 11 per cent overall vacancy rate reported for the previous biennium.

The Board noted that some of the posts have been vacant from May 2002 to August 2004.

### *Information and communication technology*

It was possible to gain access to the server room was accessed without any difficulty, as the door was not locked and no one was present in the room. The boxes to the network cabling and related switches were in all instances easily accessible. The uninterrupted power supplies were also located in the corridors of the Tribunal, accessible by all.

### *Fraud and presumptive fraud*

The Administration reported to the Board six cases of fraud and presumptive fraud amounting to \$33,333, of which \$23,972 was recovered. In one case, the Tribunal found that no wrongdoing/fraud was committed. Although some steps have been taken to identify mechanisms to deal with fraud, a fraud-prevention strategy was yet to be compiled as at 11 April 2006. The crisis prevention strategy dealt with mainly the human resources, finance and assets management cycles, specifically addressing weaknesses and measures to prevent management crises.

### *Recommendations*

A summary of the main recommendations of the Board is set out in paragraph 10.”

### **International Criminal Tribunal for Former Yugoslavia (A/61/5 Add. 12)**

“The Board of Auditors has reviewed the management of the International Tribunal for the Prosecution of Persons Responsible for Serious Violations of International Humanitarian Law Committed in the Territory of the Former Yugoslavia since 1991 (ICTY). It has also audited its financial statements for the biennium ended 31 December 2005.

The Board’s main findings are as follows:

#### *Exchange rate variations*

The Tribunal’s financial situation was especially affected by exchange rate fluctuations between the euro and the dollar, and the absence of specific information on this subject makes comparisons between accounting periods difficult.

#### *Completion Strategy*

The ability of the Tribunal to terminate its work by the end of calendar year 2010 is quite uncertain. Furthermore, the premium to be paid to staff members who agree to continue working until the definitive conclusion of the Tribunal’s activities has not been evaluated.

#### *Working languages*

The two working languages of the Tribunal, French and English, are not treated equitably.

The Board made recommendations to improve financial management and reporting and programme management in respect of the above findings, and of a number of less significant issues. ICTY has actively responded to most recommendations, although some have not yet been implemented. By May 2006, the Administration planned to implement a number of appropriate remedies.

A list of the Board’s main recommendations is provided in paragraph 10 of the present report.”

### **United Nations International Drug Control Programme (A/61/5 Add. 9)**

“The Board of Auditors has reviewed the operations of the Fund of the United Nations International Drug Control Programme (UNDCP) and has also audited its financial statements for the biennium ended 31 December 2005.

The Board’s main findings are as follows:

(a) The expenditures increased to \$167 million in 2004-2005, or an increase of 21 per cent compared to the previous biennium;

(b) Expenditure increased faster than income from \$138 million to \$167 million thus resulting in a decrease of excess of income over expenditure by 96 per cent;

(c) Staff originating from North American and European countries represented 65.8 per cent of all staff in the professional category in the United Nations Office on Drugs and Crime with five countries alone providing 36.2 per cent of all staff;

(d) The total contributions outstanding at the end of the biennium amounted to \$68 million, \$21 million outstanding for more than two years;

(e) Contributions for the special purpose fund (earmarked funds) increased by 15 per cent (from \$114 million to \$131 million) whereas the non-earmarked contributions for the General Purpose Fund increased by only 0.2 per cent;

(f) The financial statements were prepared using two different sources (IMIS and ProFi) that were not fully reconciled at the time of the Board's audit. There was no standard operational procedure documented for the preparation of the statements ensuring that such reconciliation was conducted prior to the issuance of the statements;

(g) At April 2006, the audit coverage for the 2004-2005 biennium had decreased since it only reached 93 per cent for 2004 expenditures and 32 per cent for 2005 expenditures. In mid July 2006, the audit certificate coverage rate reached 99 per cent;

(h) The Board noted again the existence of an unauthorized bank account in Uzbekistan;

(i) No physical inventory count had been conducted at the United Nations Office on Drugs and Crime Headquarters;

(j) There was room for improvement in the Office's procurement as regards planning, vendor's evaluation and solicitation and advertisement tools; and

(k) Security features for information technology devices were not tested.

The Board made recommendations to improve financial management and reporting and programme management in respect of the above findings, and on a number of less significant issues.

A list of the Board's main recommendations appears in paragraph 16 of the present report."

### **United Nations Environment Programme (UNEP) (A/61/5/Add. 6)**

"The Board of Auditors has reviewed the operations of the Fund of the United Nations Environment Programme (UNEP) at the headquarters (HQ) in Nairobi and its six regional

offices. The Board has also audited the financial statements of the Fund of UNEP for the biennium ended 31 December 2005.

The Board issued an unqualified opinion on the financial statements for the Fund of the United Nations Environment Programme for the biennium ended 31 December 2005, as reflected in chapter III.

#### *Implementation of previous recommendations*

As requested by the Advisory Committee on Administrative and Budgetary Questions (A/59/736), the Board evaluated the ageing of its previous recommendations that had not yet been fully implemented and has indicated the financial period in which such recommendations were first made in the annex to the present chapter. Of a total of 13 recommendations, 9 (69 per cent) had been implemented, while 4 (31 per cent) was under implementation. The 4 recommendations not yet fully implemented related to the biennium 2002-2003.

#### *Financial overview for the biennium ended 31 December 2005*

Total income for the Environment Fund was registered at \$121.2 million which was \$5 million short of the expenditures recorded at \$126.3 million. This was, however, an improvement from the last biennium's shortfall of \$11.2 million. The General Trust Fund also showed a marked improvement as its shortfall of income over expenditure went down from \$8.6 million during the biennium 2002-2003 to \$2.1 million during the biennium 2004-2005 as a result of an increase in income from \$93.2 million in 2002-2003 to \$126.3 million in 2004-2005.

The Technical Co-operation Trust Funds registered an excess of income over expenditures amounting to \$1.6 million largely brought about by an increase in voluntary contributions from \$163.5 million in 2002-2003 to \$184.1 in 2004-2005. For the Multilateral Fund, income fell by \$20 million from \$314 million in 2002-2003 to \$294 in 2004-2005, which explained for its insufficiency to cover UNEP's increases in staff costs and other expenses.

#### *Unliquidated obligations*

Unliquidated obligations that remained outstanding as at 31 December 2005 included those obligations aggregating \$615,000, which were without formal contracts or agreements. This was not consistent with Rule 105.9 of the UN Financial Regulations and Rules and the United Nations System Accounting Standards. At UNEP-ROLAC, payments amounting to \$104,949 were not captured by the Integrated Accounting and Budgeting System such that balances of unliquidated obligations were not updated accordingly.

#### *Voluntary contributions receivable (Multilateral Fund)*

Voluntary contributions receivable relative to the Multilateral Fund amounting to \$82 million had been outstanding for more than five years (pledges between 1992 and 1999). The Meeting

of the Parties has yet to act on writing off the amount. Also, of the unpaid voluntary pledges receivable of \$160.6 million as at 31 December 2003, only \$10.6 million, or seven percent was collected. This, if not addressed, could hamper the implementation of programmes and projects.

#### *Travel*

Obligations raised at UNEP Headquarters with regard to travel requests in 2005 amounting to \$125,977 remained unliquidated as at 31 December 2005 although the travel periods indicated had already elapsed. Delays ranged from 21 to 353 days. The Board also observed that at UNEP-Regional Office for Europe, there were travel advances that exceeded one hundred percent of the estimated travel subsistence allowance, contrary to Section 9.1 of ST/AI/2000/20.

#### *Presentation and disclosure of financial statements (Multilateral Fund)*

The Board observed that out of \$302.4 million of expenditures incurred by the Multilateral Fund's implementing partners (World Bank, UNIDO and UNDP) incorporated in the financial statements of the Multilateral Fund, \$154.5 million were still subject to the audit of their respective external auditors. The Board has seen the need for the Administration to ensure that a reconciliation of the recorded figures is made as soon as the audited financial statements are available.

#### *Financial and management control*

The Board is concerned that at UNEP Headquarters, six trust funds showed negative allotment balances as at 31 December 2005 aggregating \$170,232. The approved allotments, therefore, did not serve their purpose as an expenditure control measure since obligations were still approved despite being beyond the allotment ceiling. At UNEP-Regional Office for Latin America and the Caribbean (UNEP-ROLAC), the Board observed that the system to monitor the financial implementation of the Global Environmental Citizenship project and Ozone Action Programme could still be enhanced. UNEP Headquarters could provide allotment information to UNEP-ROLAC and allow Programme Coordinators to have access to project cards.

#### *Cash management*

At UNEP-ROLAC, delays between 3 to 60 days were noted in the issuance of official receipts on collections, contrary to the prescribed two-business day period under Rule 103.8 of the United Nations Financial Regulations and Rules. Such delays contributed to the risk of funds being misappropriated. Both at UNEP-ROLAC and the UNEP-Regional Office for West Asia, staff were allowed to collect and remit funds without the benefit of a formal designation as required under Rule 103.8 (b) of the UNFRR.

### *Non-expendable property*

Non-expendable property costing \$11,218,093 as disclosed in the Notes to the financial statements differed from the inventory report's aggregate balance of \$1,204,640. This significant variation was due to the financial statements value being based on acquisition costs, while the inventory report was based on fair market values determined by a contractor hired to conduct a physical inventory.

Other deviations from existing regulations and rules included non-submission of physical inventory reports by out-posted projects and regional offices, a lack of values assigned to some inventory items, non-issuance of personal property receipts to accompany the issuance of movable/portable items, absence of bar-coding of some items, and some existing items were not included in the inventory count sheet.

### *Consultancy services*

Among other findings, the Board observed that in UNEP Headquarters, UNEP-ROA, and UNEP-ROE, some consultants were allowed to commence work prior to the approval of their contracts; the terms of reference did not contain the essential information on the expected delivery dates, the manner by which outputs would be delivered; absence of performance indicators; and the lack of properly documented processes involving the evaluation of the performance of consultants.

### *Human resources — Gender distribution*

As at 31 December 2005, of the 502 occupied posts at all professional and higher category levels at UNEP-HQ, 312 were male and 190 were female, a ratio of 62:38, which was below the goal of 50/50 parity between men and women in the UN. The Board also noted that men dominated the number of all initial appointments and promotions during the biennium 2004-2005 at ratios of 60:40 and 71:29, respectively.

The Board observed that on the average, female applicants to professional posts up to P5 comprised only 28 per cent while female applicants to Director and higher categories were only 16 per cent.

### *Inactive trust funds*

The Board noted that 18 inactive trust funds with total reserves and fund balances of \$0.879 million were not closed as at 31 December 2005. Except for one fund, these trust funds did not show any movement during the biennium 2004-2005 other than those transactions pertaining to investments and related accounts.

*Programme management*

The Board noted that of the four projects that required approval by the Project Approval Group, three commenced operations prior to their approval dates. Similarly, of the 10 projects that required approval by the Budget and Financial Management Service, four were implemented before these were approved.

Accordingly, there was a risk that resources that were committed and incurred could become irrelevant should the approving authority decide to alter, if not, shelve the project altogether.

*Recommendations*

The Board has made several recommendations based on its audit observations. A summary of the main recommendations of the Board is set out in paragraph 10 of the report.”

**United Nations Human Settlement Programme (UN-Habitat)  
(A/61/5/Add. 8)**

“The Board of Auditors has reviewed the operations of the United Nations Human Settlements Programme (UN-HABITAT), formerly the United Nations Centre for Human Settlements (Habitat), for the biennium ended 31 December 2005, at its headquarters and three regional offices. The Board has also audited the financial statements of UN-HABITAT for the biennium ended 31 December 2005.

The Board issued an unqualified audit opinion on the financial statements of UN-HABITAT for the biennium ended 31 December 2005, as reflected in Chapter III.

*Implementation of previous recommendations*

The Board evaluated the ageing of its previous recommendations that had not yet been fully implemented and has indicated the financial period in which such recommendations were first made in the Annex to the present Chapter. Of the 14 recommendations, 10 (71 per cent) had been implemented while four (29 per cent) were under implementation. All four recommendations not yet fully implemented related to 2002/03 biennium.

*Financial overview for the biennium ended 31 December 2005*

For the biennium 2004-2005, the Programme’s total income of \$228.48 million exceeded total expenditure of \$169.28 million before prior period adjustments. The increase in income of \$121.53 million (114 per cent) compared to the previous biennium was due mainly to the increase in contributions from governments and public donors by 159 per cent. The total expenditure increased by \$74.51 million (79 per cent) compared with \$94.78 million in the biennium 2002-2003 ended 31 December 2003.

Total assets increased by \$89.92 million (140 per cent) from \$64.11 million in 2003. The net increase is attributable to the increase in the investment in cash pool by 91 per cent from \$54.61 million to \$104.04 million. The increase in total liabilities of \$30.84 million (87 per cent) from \$35.29 million in 2003 to \$66.13 million in 2005 was due mainly to the increase in unliquidated obligations by 131 per cent. Total liabilities are comprised of 90 per cent unliquidated obligations and 10 per cent accounts payable.

The Governing Council, in its decision 19/2 of 9 May 2003, approved an increase in the general purpose statutory reserve for the United Nations Habitat and Human Settlement Foundation from \$1 million to its present level of \$2.4 million for the 2004-2005 biennium. The total reserves and fund balances increased by \$59.08 million (205 per cent) from \$28.81 million in 2003 to \$87.89 million in 2005.

#### *United Nations System Accounting Standards*

The financial statements were consistent with the United Nations System Accounting Standards (UNSAS), except for the (i) accounting for pension funds and advances from others as deferred charges instead of expenditures (disbursements) and other accounts payable, respectively, which resulted in the overstatement of the unliquidated obligations account by \$265,699 and the accounts payable account by \$3,928, and (ii) non-recognition of inventory of expendable items as required under paragraph 49 (IV) of UNSAS.

#### *Presentation and disclosure of financial statements*

The "other assets" account in Note 4 (b) disclosed the account balances of education grant advances, commitments against future years, and others. However, it did not include the inventory of unused expendable items as at 31 December 2005, contrary to paragraph 49 (iv) of UNSAS.

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

The Administration reported the write-off of receivables of \$6,273 and non-expendable property of \$116,619. The non-expendable property reported as disposed off included \$98,306 covering the cost of five vehicles, which were recommended by the Local Property Survey Board (LPSB) for repair, and subsequently confirmed by the Administration as having been repaired and already in operating condition.

#### *Programme management*

For the biennium 2004-2005, UN-HABITAT headquarters and its regional offices implemented 467 projects, with a budget or appropriation of \$212.614 million and total expenditures of \$157.853 million for the biennium. The Board noted that:

(a) At UN-HABITAT — Regional Office for Latin America and the Caribbean (ROLAC), (i) expected accomplishments in the Global Campaigns project were not quantified so as to facilitate the subsequent determination of actual performance against expectation as required under Rule 105.4 of ST/SGB/2000/8; and (ii) in the final reporting of projects, while all accomplishments per objective were comprehensively listed, these were not organized according to the project milestones;

(b) At UN-HABITAT — Regional Office for Asia and the Pacific (ROAP), (i) the 90-day report summarizing the project implementation status was not promptly issued for tsunami-related projects; (ii) out of 23 on-going projects in 2004, five projects did not have work plans, while one project did not specify the project's performance indicators; and

(c) At UN-HABITAT — Regional Office for Africa and the Arab States (ROAAS), (i) activities undertaken were reported without reference to the time frame indicated in the respective work plan, and although delays and reasons for delays were mentioned, slippages were not quantified and therefore, were not captured in the report; and (ii) 15 projects had been completed by 31 December 2003 or earlier but the accounts remained open as at 31 December 2004.

#### *Fund management*

Pursuant to ST/SGB/2000/13, the United Nations Office at Nairobi (UNON) provides financial services to UN-HABITAT. The Board noted that:

(a) "TDF" receivable from the United Nations Development Programme (UNDP) had not been settled for more than five years; and

(b) At UN-HABITAT — ROAP, fees on bank transfers were reflected in the disbursement vouchers (in journal voucher format) as charges to the foreign exchange loss/gain account instead of the bank charge account, resulting in the overstatement of the foreign exchange loss/gain account.

#### *Property management*

UN-HABITAT reported total acquisitions for the biennium 2004-2005 amounting to \$2.653 million. The Board noted that:

(a) Various acquisitions of non-expendable property amounting to \$2.43 million were neither included in the listing of acquisitions prepared by the Procurement, Travel and Shipping Section (PTSS) nor in the inventory report prepared by the out-posted offices;

(b) The inventory report prepared by a contractor hired by UN-HABITAT headquarters did not contain data such as purchase date, purchase amount and in some instances, serial numbers

of computer equipment; included items owned by the United Nations Environment Programme (UNEP) and UNON; and did not reflect movement of property;

(c) UN-HABITAT — ROAAS inventory reports did not contain information such as dates when the properties were purchased or acquired, or the location where these were issued; and

(d) At UN-HABITAT — ROLAC, 231 items of non-expendable equipment listed in the inventory report belonged to the Municipality of Rio de Janeiro, and included 30 expendable properties, 7 disposed items, and 3 personal items which belonged to the Senior Human Settlement Officer.

#### *Human resource management*

Managing human resources and determining the resource requirements, including directing policy and guiding, supervising and implementing personnel administration policies in accordance with Staff Regulations and Rules are among the services provided by UNON to UN-HABITAT. The Board noted that at UN-HABITAT — ROLAC, there were (i) no written contracts to support the payment of services by three individual contractors contrary to ST/AI/1999/7; (ii) no formal training needs assessment, training plan and monitoring system in place for staff development, and (iii) no formal assessment/ evaluation of the impact of the training to the staff and the organization was conducted.

#### *Information and communications technology*

The Board, in its report (A/59/5/Add.8), had raised the issue on the functionality of the Integrated Management Information System (IMIS) automatically closing any unencumbered allotment at the end of the fiscal year. As a temporary solution, pending the receipt of the approved funding document or allotment, IMIS allowed the creation of allotments with zero balances in the next fiscal year if related allotments existed in the prior fiscal year. These allotments would then be registered with negative balances in the project status report generated by IMIS if expenditures are charged against them.

The fund status report as at 31 December 2005, containing, *inter alia*, allotment, expenditure and unencumbered balance of allotment, reflected negative balances in expenditures totalling \$674,556 for seven funds. Also, the Board's review of a sample of the project status reports of QXB fund, disclosed that 5 out of 51 projects exceeded their allotments by a total of \$361,366 and one project incurred an expenditure of \$500,922 against a zero allotment.

#### *Fraud and presumptive fraud*

The Administration reported to the Board two cases of fraud or presumptive fraud during the biennium 2004-2005. One case pertained to false overtime claim from March 2003 to March

2005 in the total amount of Ksh 298,386 (approx. US\$ 4,202), and the other pertained to an attempted fraud of a UNON account with a depository bank.

#### *Recommendations*

A summary of the main recommendations of the Board is set out in paragraph 10 of the report.”

### **United Nations Relief and Works Agency (A/61/5 Add. 3)**

“The Board of Auditors has reviewed the operations of the United Nations Relief and Works Agency for Palestine Refugees and has also audited its financial statements for the biennium ended 31 December 2005. The Board issued an unqualified audit opinion on the financial statements for UNRWA for the biennium ended 31 December 2005, as reflected in chapter III.

#### *Implementation of previous recommendations*

As requested by the Advisory Committee on Administrative and Budgetary Questions in paragraph 8 of its report A/59/736 and A/60/387, paragraphs 12 and 20, the Board evaluated the ageing of its previous recommendations that had not yet been fully implemented and has indicated the financial period in which such recommendations were first made in the annex to the present chapter. Of a total of 45 recommendations, 35 (78 per cent) had been implemented, while three (6 per cent) were under implementation and seven (16 per cent) had not been implemented. The three recommendations not yet fully implemented related to the biennium 2002-2003. Included in the seven recommendations not yet implemented, one (14 per cent) related to the biennium 2000-2001 while the remaining six related to 2002-2003.

#### *Financial overview for the biennium ended 31 December 2005*

The total combined income of \$1.02 billion exceeded combined expenditures of \$0.99 billion, resulting in a surplus of \$57 million (2000-2001: \$19 million) after prior-year adjustments of \$20 million. The Agency’s closing working capital and fund balances as at 31 December 2005 amounted to \$38.7 million and \$129.3 million respectively.

Contributions to regular budget funds, which continued to be the main source of UNRWA income, amounted to \$734.7 million for the biennium 2004-2005 compared with \$613.7 million for the previous biennium. Contributions to non-regular budget funds also increased, from \$209.6 million in the biennium 2002-2003 to \$298.3 million in the biennium 2004-2005.

#### *Land and buildings*

UNRWA changed its previous accounting treatment for land and building by expensing the cost incurred in respect of construction of buildings and not capitalizing it. UNRWA rep-

resented to the Board that it had in substance no legal ownership to the land and buildings as most of the buildings were constructed on land that did not belong to UNRWA. In addition, UNRWA stated that it did not have any control over the refugee shelters constructed. Therefore, UNRWA derecognized the land and buildings, in consultation with the Board, and disclosed the change in accounting policy. This change was appropriately reflected in note 1.9 of the financial statements.

This notwithstanding, there was no centralized maintenance of a detail listing of all acquisitions and disposals in respect of land and buildings being made across the various field offices.

#### *Procurement and contract management*

Not all staff associated with the procurement process at the Gaza and Jordan field offices visited were aware of the Standards of Conduct and the requirements thereof.

The proposed lead time between requisition for purchases and the actual capturing of purchase orders exceeded the three month guideline by four to ten months in instances. In respect of purchase orders captured on the system, the guideline for approval of purchase orders within one month was exceeded by three to seven months.

#### *Human resource management*

As per the Programme Budget for the biennium 2004-2005, the international staff and area staff establishment was 148 and 26,242 respectively. In view of the number of staff, a human resource plan would be important in order to efficiently and effectively manage resources to achieve the strategic objectives of UNRWA. A human resource plan integrates various aspects of management of staff, systems and practices that impact on the entity's results. UNRWA did not have a human resource plan in place.

While UNRWA was reviewing strategies for succession planning, opportunities for staff rotation, and transfers were limited owing to the nature of the operations, namely: the areas of operations were scattered within the region; some duty stations experienced frequent emergency situations; and the prevailing political and security situation in the region limited the movement, transfer and rotation of staff.

#### *Results-based management*

UNRWA did not have policies/directives/guidelines to implement and sustain result-based management. The policy should include a communication strategy to facilitate proper understanding of results-based management to all role players.

The absence of policy and proper structuring of processes and systems, inconsistent reporting and responsibilities not clearly defined created an environment not conducive for results-based management. Management of performance to achieve results maybe impacted negatively and thus affecting operations.

#### *Programme and project management*

A formalised strategy, by way of policies/directives/guidelines to implement and sustain project and programme management was not in place for all projects of UNRWA. The project procedure manual was only applied to projects specifically funded by donors; however this manual could also be adjusted to apply to other projects as well.

#### *Microfinance and Micro-enterprise Programme (MMP)*

The Board analysed the amounts of bad debts written-off and subsequently recovered and recognised as revenue. The analysis indicated that the MMP policy used to determine the level of bad debts may be overly conservative.

The Board noted an exception with respect to accounting for interest on loans, which were recorded on the cash basis of accounting. The financial effect of the departure from International Financial Reporting Standards (IFRS) in respect of the recognition of investment income was not material. Interest income was estimated to be understated between US\$ 21,690 to US\$ 80,294, depending on the interest charge policy for the year ended 31 December 2005.

#### *Provident Fund*

The Board noted that 8,878 humanitarian loans due from members of the provident fund amounting to US\$ 46,487 million were accounted for at historical cost and not at amortized cost in terms of IFRS. The overall effect of this deviation was estimated as a US\$ 1.4 million overstatement of the outstanding balance for humanitarian loans to members and the liability of restricted member's credits on loans.

#### *Information and communication technology*

UNRWA had purchased and developed a number of applications systems. The Board therefore deployed specialist ICT audit expertise. In summary, the Board's observations are that: no concise, complete and approved change control process for emergency changes were in place; no disaster recovery plan existed; no Information and Communication Technology (ICT) security policy existed; the auditing feature, the logging of policy changes and the account management events on the domain controller had not been enabled; and the remote access service controls to limit the security risk exposure were not in place.

### *Fraud and presumptive fraud*

UNRWA reported 11 cases of fraud and presumptive fraud to the Board for the financial period ended 31 December 2005. There was financial loss of \$21,882 in one case, no financial losses in 4 cases and the extent of potential losses for five cases could not be determined. In the one additional case, UNRWA had yet to determine the financial loss, since the case was still pending.

### *Recommendations*

A summary of the main recommendations of the Board is set out in paragraph 10.”

## **United Nations High Commissioner for Refugees (A/61/5 Add. 5)**

“The Board of Auditors has audited the financial statements of the Office of the United Nations High Commissioner for Refugees for the period from 1 January to 31 December 2005. The Board has also reviewed the operations of the voluntary funds administered by the High Commissioner at the headquarters of the Office of the United Nations High Commissioner for Refugees (UNHCR) at Geneva and at seven field offices.

### *The Board’s main findings are as follows:*

(a) For amounts paid to implementing partners in 2005, \$340 million, and reported in the financial statements as at 31 December 2005, no audit certificate was available at UNHCR and therefore at the time when financial statements for 2005 were prepared and signed, UNHCR did not have reasonable assurance on the proper use of funds disbursed to them;

(b) With an excess of expenditures over income at the year end amounting to \$32 million, the financial position of UNHCR had weakened. A contributing factor was the US\$ appreciation during the course of the year of 15% against major non-US\$ donor currencies that resulted in a foreign exchange currency adjustment of US\$36 million loss (even if on a longer period from 1991 to 2005 the foreign exchange impact results in a gain position amounting to US\$ 42.2 million);

(c) For the six last years also expenditures were higher than income and UNHCR’s financial position may raise questions on its ability to continue this trend. The Board is concerned with the sustainability of the expenditures vis-a-vis income evolution;

(d) There were still 113 staff in between assignments on average for six months representing a significant cost for the organization;

(e) UNHCR lacked efficient tools for its treasury information and its cash forecasting limiting its possibility of managing its Treasury in the best possible way;

(f) There was no formalized foreign exchange risk policy. UNHCR's restricted foreign-exchange risk policy was based on the governance structure of voluntary contributions and recording pledges as income. UNHCR faces a global exposure as payments and receipts are not made in the same currencies and at the same period. UNHCR had no strategies to cover this gap but considered it did need to further formalize comprehensive foreign-exchange risk policy;

(g) Completed travels were posted as unliquidated obligations at year-end and had not been settled six months after their completion;

(h) The amounts in previous-year subprojects covered by audit certificates increased from 53 per cent in mid-June 2005 to 67 per cent in mid-June 2006;

(i) UNHCR had not completely phased out the use of "project staff" by the deadline set in 2001 for it to do so;

(j) For fundraising activities, there were not sufficient resources devoted to income-generated activities contrary to other successful UN organizations in that field. UNHCR did not properly define nor monitor performance indicators for fund raising activities;

(k) UNHCR signed agreements that are not in compliance with UN rules for staff, suppliers and audit arrangements;

(l) UNHCR's internal audit service did not devote all the agreed resources to the audit of UNHCR;

(m) For Tsunami-related operations, the needs assessment could not be properly conducted and therefore UNHCR could not spend all the resources it had requested or stored items that it had purchased in excess;

(n) UNHCR's procurement service had little information on procurement conducted by Field Offices and implementing partners;

(o) Some staff in UNHCR's procurement service had been working there for more than 10 years.

The Board made recommendations to improve financial management and reporting and programme management in respect of the above findings, and of a number of less significant issues. UNHCR has actively responded to most recommendations, although some have not yet been implemented. By May 2006, the Administration planned to implement a number of appropriate remedies.

A list of the Board's main recommendations is provided in paragraph 16 of the present report."

## **United Nations Institute for Training and Research (A/61/5 Add. 4)**

“The Board of Auditors has audited the United Nations Institute for Training and Research (UNITAR) for the biennium ended 31 December 2005 at Headquarters and in its offices in New York and Hiroshima.

The Board also addressed special requests from the Advisory Committee on Administrative and Budgetary Questions and the General Assembly. In addition to the audit of the accounts and financial statements for the year ended 31 December 2005, the Board also carried out reviews of UNITAR’s operations under financial regulation 7.5.

The Board issued an unqualified audit opinion on the financial statements for the United Nations Institute for Training and Research for the biennium ended 31 December 2005, as reflected in chapter III.

### *Implementation of previous recommendations*

As requested by the ACABQ in paragraph 8 of its report A/59/736- paragraph 12 and paragraph 20 of its report A/60/387, the Board evaluated the ageing of its previous recommendations that was not yet fully implemented and has indicated the biennium, when such recommendations were first made, in annex to the present chapter. Out of a total of 15 recommendations, six (40 per cent) were implemented, while seven (47 per cent) were under implementation and two (13 per cent) were not implemented. Of the nine recommendations not yet fully implemented, six (67 per cent) relates to the 2002-2003 period, two (22 per cent) to the 2000-2001 period, and one (11 per cent) to the 1998-1999 period.

### *Financial overview for the biennium ended 31 December 2005*

The financial situation of the Institute has significantly improved since the previous biennium. Income amounted to \$29.1 million as at 31 December 2005 (+ 75 per cent compared to the previous biennium), while expenditure reached \$22.5 million (+ 47 per cent). Reserves and fund balances totalised \$12.8 million at the end of 2005, or 1.5 times their 2003 level.

### *Cash management*

Cash holdings at the end of the biennium represented one and a half year of expenditure of the Institute. While schedule of payment of donors’ contributions and low utilization of funds available explained it, such a high level of liquidities also questioned the ability of the Institute to implement programmes in a timely manner.

### *Programme management*

During the biennium, the Institute has succeeded in reversing the declining trend of in voluntary contributions paid to the General Fund. However, funding of its core training activities

were still highly dependent from the programme support income generated by special projects. In spite of recurring recommendations from the Board of Auditors, alternative funding sources, including the definition of new rules for admission to the core training programme, have yet to be fully considered by the Institute and its Board of Trustees.

Since 2005, UNITAR has introduced results-based management and budgeting. But the Board noted that there was still room for improvement in respect of strategic planning, monitoring and assessment of performance and reporting to stakeholders.

#### *Fraud prevention and management*

Fraud-awareness policy and mechanisms developed by UNITAR were not fully consistent with UN rules and procedures and would have to be further enhanced, in conjunction with the UN fraud prevention plan and policy currently under consideration.

The Institute has not developed tools and mechanisms to prevent and properly manage IT related fraud risks.

#### *Recommendations*

The Board has made several recommendations based on its audit observations. A summary of the main recommendations of the Board is set out in paragraph 17 below.”