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Report of the Board of Auditors on UNICEF Accounts for 1971 and on Greeting Card Operation Accounts for the 1970/1971 Season: Note by the Executive Director

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E/ICEF/AB/L.120/Rev.1
13 April 1973

ORIGINAL: ENGLISH

UNITED NATIONS CHILDREN'S FUND
Committee on Administrative Budget
1973 session

Report of the Board of Auditors on UNICEF accounts for 1971 and
on Greeting Card Operation accounts for the 1970/71 season

Note by the Executive Director

1. The reports of the United Nations Board of Auditors on the financial report and accounts of UNICEF for the year 1971 and on the accounts of the Greeting Card Operation for the 1970/71 season (covering the period 1 May 1970 to 30 April 1971), were not available at the time of the April 1972 Board session. It was agreed that they would be reviewed by the Committee on Administrative Budget at its April 1973 session. The reports are reproduced in annexes I and II to this document.
2. The accounts, as well as the reports of the Board of Auditors, were examined by the Advisory Committee on Administrative and Budgetary Questions, which commented on them as part of a report to the General Assembly. These comments are reproduced in annex III to this document. The General Assembly, upon the recommendation of the Fifth Committee accepted the financial report and accounts and the certificates of the Board of Auditors, and took note of the observations of the Advisory Committee (resolution 2812 (XXVII)).
3. In paragraphs 4-8 the Executive Director comments on the substantive observations of the Board of Auditors on the UNICEF accounts (annex I) and in paragraphs 9-14, on the Board's observations on the Greeting Card Operation accounts (annex II).

UNICEF accounts

Bank confirmation

4. The remaining three bank balance confirmations referred to in the report of the Board of Auditors, annex I, paragraphs 3 and 4 have now been received. This completes the collection of confirmations for some 180 bank accounts, which we have been requested to make on behalf of the Board of Auditors.

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Advances for non-supply assistance

5. There can be no disagreement, as stated in paragraph 5 of the report of the Board of Auditors that it is not normal to book "advances" as expenditure. The payments in question are for local training costs. Payments have to be made to institutions so that they can pay stipends to trainees. We think they would be more accurately described as "cash assistance to projects". Under that more accurate description, we believe they may be booked as expenditure.

Calling bids

6. In accordance with the observations in paragraphs 6 to 8 of the report of the Board of Auditors, steps are being taken to comply in every case with the rules relating to competitive bidding for public information and administrative supplies.

Clearance of supplies at seaports

7. The supplies assigned to the two countries referred to in paragraph 9 of the report of the Board of Auditors have been cleared at the seaports since the report was prepared. It is the responsibility of national authorities to clear the entrance of supplies at seaports. The UNICEF offices try to help them, if necessary, to avoid delays.

Helicopter service

8. With regard to the observations in paragraphs 11 to 15 of the report of the Board of Auditors, the helicopter service was part of an emergency relief operation conducted in Nigeria under the auspices of UNICEF. The Executive Director authorized payment of debts incurred by the contractor mainly for fuel and servicing of the helicopters. The Government and commercial concerns in Lagos advanced services to the contractor in good faith, on the basis of his being under contract to UNICEF. Therefore the Executive Director believed that there was a moral obligation, to help the contractor meet these debts. So far it has not proved possible to evacuate the helicopter on which a mortgage was secured. If it is not possible to sell it, there would be losses to UNICEF, the manufacturer, and the contractor as well. Nevertheless, the over-all cost of the contract would remain very reasonable in the light of commercial prices for helicopter service.

Greeting Card Operation accounts

Retention of excessive commission

9. As there is no formal agreement between UNICEF and the United States Committee for UNICEF, which would fix the commission to be retained by the Committee from the sale proceeds of cards and calendars, the Executive Director does not believe he is in a position, as proposed in paragraph 3 of the report of the Board of Auditors (see annex II), to set up a receivable for commission retained in the 1970/71 season in excess of 25 per cent.

Agreements with National Committees

10. Since the comments made in paragraph 4 in the report of the Board of Auditors, an agreement with the Canadian UNICEF Committee has been signed (June 1972). Discussions toward this end are still going on with the United States Committee for UNICEF.

Problems of stock control of greeting cards

11. With reference to the comments in paragraph 5 of the report of the Board of Auditors, it should be noted that problems of excess stock arise not at any central warehouse in the country, but at the thousands of consignment outlets where it is essential to maintain an appropriate level of stocks right up to the end of the sales season. The stocks constitute part of the "over-production" referred to in paragraphs 6 and 7 of the report of the Board of Auditors, and paragraph 14 explains further why a certain level of production in excess of sales is necessary and inevitable.

12. Another element in these "losses" is the number of cards rendered unsalable during imprinting of special messages, and at consignment points particularly by customer handling. This would account for an important part of the "losses" recorded for the United States Committee, which amounted to 2 per cent of the cards handled. We have examined past experience, and it is proposed to establish a regular allowance to cover these factors, so that losses in excess of these standards would come under examination for corrective action.

13. In Canada, some consignees need large initial stocks because long distances prevent their being restocked rapidly. Nevertheless it became clear after the 1970 sales season that too many cards had been distributed to consignees. In order to save the cost of return freight to a central point the Committee gave authorization for the destruction of unsold stocks of both cards and calendars. The Committee's authorization did not conform to the procedures laid down for the Greeting Card Operation and these destructions were recorded as unauthorized. Subsequently, a procedure has been agreed which conforms to the requirements of both parties. The Canadian Committee is also reviewing its methods of distribution to consignees, has strengthened its accounting procedure for consignees, and has put in a system of computerized inventory control.

"Over-production" of cards

14. The report of the Board of Auditors offers the opinion, in paragraphs 6 and 7 that there was too much "over-production" of cards. The Advisory Committee on Administrative and Budgetary Questions commented on the report of the Board of Auditors as follows:

"The Advisory Committee believes that, while some over-production of greeting cards is probably unavoidable, that cited in paragraph 6 of the report on the Greeting Card Operation is excessive and causes an unduly heavy drain on the resources of UNICEF." (A/8810, paragraph 20)

We agree that there was "over-production" of cards in the 1970/71 season.

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15. However, the figure cited by the auditors covers two categories. The first is cards printed and ready to be boxed by demand, if required, during the campaign; their cost is about one third of the sale price of boxed cards. The second category is boxed cards, ready for sale (17,000,000 cards or 1,700,000 boxes). At the end of the campaign the boxed cards are not in warehouses of UNICEF or of the National Committees, but are distributed on request to sales outlets, of which there are now some 5,000 in Europe and North America. Typically each handles some 40 different boxes - 20 with and 20 without imprinted greetings. Since it is necessary for outlets to have stocks lasting until the end of the campaign, it can be seen that with too little "over-production" there would be loss of sales. Our objective is to find a balance between loss of sales due to the running out of some designs, and the cost of too much production. In 1970, production in excess of sales accounted for 18 per cent of production costs, and 8 per cent of operational income.

16. Since 1971 we have been working with the UNICEF National Committees to reduce this figure. The Committees have generally agreed that it is not necessary to have stocks of all cards to be available during the last three weeks of the campaign. They are also beginning to watch the level of distribution to consignees who regularly end the campaign with too much stock. It is hoped that "over-production" will be reduced by these means.

Bidding process

17. The review recommended in paragraph 8 of the report of the Board of Auditors will be made in November 1972.

ANNEX I

Report of the Board of Auditors to the General Assembly
on the accounts of the United Nations Children's Fund
for the year ended 31 December 1971 a/

1. The Executive Director of the United Nations Children's Fund submitted to the Board of Auditors for audit the following statements together with the relevant schedules and notes which form an integral part of the statements:

- Statement I. Comparative statement of income and expenditure for the years ended 31 December 1970 and 1971;
- Statement II. Comparative statement of assets, liabilities and financial position at 31 December 1970 and 1971;
- Statement III. Consolidated statement of administrative and operational services, budgetary estimates, obligations incurred and unencumbered balances for the year ended 31 December 1971.

Schedules

- A. Contributions from Governments for the year ended 31 December 1971;
- B. Contributions from non-governmental sources for the year ended 31 December 1971;
- C. Statement of commitments, expenditures and balances of commitments for the year ended 31 December 1971;
- D. Short-term investments at 31 December 1971;
- E. Contributions receivable from Governments at 31 December 1971.

Scope of the audit

2. The examination included a review of financial transactions and supporting documents, the accounting procedures, internal controls and tests of the accuracy of the accounting records to the extent considered necessary in the circumstances. Following its examination, the Board of Auditors transmitted a long-form report containing its findings and recommendations to the Executive Director of UNICEF and the Chairman and members of the Advisory Committee on Administrative and Budgetary Questions. In submitting this long-form report to the Executive Director, the Board of Auditors proposed, and he agreed, that distribution of this report should be solely at his direction and copies are accordingly made available by the Secretary of the Board only upon receipt of that direction.

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a/ Official Records of the General Assembly, Twenty-seventh Session, Supplement No. 7B (A/8707/Add.2), pages 7 to 10.

Bank confirmations

3. The balance confirmations in respect of all checking accounts were received direct from the banks with the exception of two cases involving a total balance of \$6,409.18.

4. Similarly, confirmations of balance were received from all depositories of short-term investments except in one case involving a balance of \$226,666.67.

Advances to Governments for non-supply assistance booked as final expenditure

5. It was noticed that the advances to governments in respect of non-supply assistance were being booked as final expenditure. This procedure, besides being contrary to normal accounting practice resulted in over-statement of expenditure. It was suggested that advances may be treated as such, till these are liquidated. The follow-up machinery should be so geared up that a true picture of actual expenditure and accounts receivable emerges at the close of the financial year.

Placing of purchase orders for printing work and processing of audio-visual materials without calling for bids

6. The Public Information Division places orders for printing work and processing of films and other audio-visual materials with firms, almost all in New York without calling for competitive bids as required under Financial Rules 110.18 and 110.19. It was, therefore, brought to the notice of the Administration that the prevailing procedure of purchasing supplies and services was contrary to the Financial Rules. Besides, the attention of the Public Information Division was drawn to the suggestion of the Advisory Committee on Administrative and Budgetary Questions contained in paragraph 261 of their recommendations on the Budget Estimates of the United Nations for 1967 (A/6307) that contractual printing should be assigned on the widest possible geographical basis at the lowest competitive rates. Keeping in view the quality of work required by the Public Information Division steps may be taken to have printing work done in a place where rates are most economical. In emergent cases, or where close technical supervision is required, the work could be awarded to a firm in New York after competitive bidding in accordance with the Rules.

Purchase of office supplies and equipment without calling for bids

7. It was observed that office supplies and equipment such as stationery, furniture and office machines were purchased by the Administrative Division without calling for bids. These purchases were made piecemeal and on the basis of time-to-time requirements. Obviously, this system of purchases, in so far as they exceeded \$1,000 limit, contravened the provision of Financial Rules 110.18 and 110.19. It was, therefore, suggested that the requirements for office supplies, equipment and printing work may be assessed annually, biannually or after other suitable interval, as may be fixed, and vendors should be invited to bid.

/...

8. The Administrative Division proposed to have certain equipment standardised. It was agreed that, as far as possible, office supplies would be obtained on the basis of competitive bids in future.

Delay in clearance of supplies at sea-ports

9. It was noticed that in two cases supplies consigned to assistance-receiving countries were not cleared in time either due to non-availability of funds with the government or official delays. This situation not only results in loss/pilferage of supplies but also the carriers do not honour the claims for damages if surveys are not carried out within the stipulated time. Thus, UNICEF suffers losses in addition to experiencing difficulty in the timely execution of programmes.

10. However, the UNICEF may ascertain whether there are more cases of the type and take whatever constructive action may be indicated to prevent such situations.

Procurement of helicopter services by UNICEF through a contractor

11. During the Nigerian emergency, UNICEF entered into an agreement with a contractor in November 1968 for providing helicopter services for transportation of food, medical and other relief supplies. The contract was satisfactorily completed in June 1969.

12. During the operations, the contractor was indebted to various commercial concerns in addition to the Nigerian Government. Having failed to liquidate his debts, the contractor could not secure release of his helicopter from the Nigerian authorities and approached UNICEF for assistance. After discussions because the name of UNICEF was involved, UNICEF paid the creditors debts amounting to US\$32,000 in March 1970 on the condition that the contractor furnished UNICEF with chattel mortgages on the helicopter and undertook to evacuate the helicopter and arrange its sale. A promissory note to repay the full amount of advance in two instalments within six months was also obtained.

13. The contractor repaid \$19,000 but failed to repay the balance of \$13,000 and to evacuate the helicopter. UNICEF and a manufacturer of helicopters in consultation with the United Nations Division of Legal Affairs reached an agreement, which, among other things, provided that UNICEF would obtain release of the helicopter and arrange for its shipment, insurance, etc. the cost of which would be reimbursed to UNICEF by the manufacturer after putting the helicopter in satisfactory condition for sale.

14. It was observed that payment of \$32,000 to the creditors on behalf of the contractor was not covered by any rule of the Financial Regulations and Rules. As a result, \$13,000 are outstanding for the last two years - thus UNICEF funds have remained blocked which could have been better utilised in projects where money was most needed.

15. The Board noted that there was little hope for the recovery of the outstanding amount of \$13,000.

Acknowledgement

16. The Board of Auditors records its appreciation for the continuous co-operation and assistance received from the Office of the Executive Director as well as the Office of the Comptroller and his staff during the course of the audit work.

A.M. HENDERSON
Auditor General of Canada

J.E. ESCALLON O.
Controller General of Colombia

A.I. OSMANY
Auditor General of Pakistan

19 June 1972

ANNEX II

Report of the Board of Auditors to the General Assembly
on the accounts of the UNICEF Greeting Card Operation
for the year ended 30 April 1971 b/

1. The Executive Director of the UNICEF submitted the following Greeting Card Operation statements to the Board of Auditors for audit:

Statement I. Income and expenditure for 1970 campaign year to 30 April 1971;

Statement II. Budgetary authorizations and obligations incurred for the year ended 30 April 1971 and unobligated balances of authorizations at 30 April 1971;

Notes forming part of Statements I and II.

Scope of the audit

2. The examination of the accounts and financial statements has included a review of the systems of internal financial controls, accounting procedures, accuracy of records and a test-check of financial transactions and supporting documents to the extent considered necessary. Following its examination, the Board of Auditors transmitted a long-form report containing its findings and recommendations to the Executive Director of UNICEF and the Chairman and members of the Advisory Committee on Administrative and Budgetary Questions. In submitting this detailed report to the Executive Director, the Board of Auditors proposed, and he agreed, that distribution of this report should be solely at his direction and copies are accordingly made available by the Secretary of the Board only upon receipt of that direction.

The U.S. National Committee - retention of excessive commission

3. The U.S. National Committee retained a total commission of \$1,871,285 which is 33.29 per cent of the sale proceeds of cards and calendars. Ordinarily, the Commission should not have exceeded 25 per cent. The excess amount thus works out to \$451,166 for the campaign year 1970 alone. This amount needs to be set-up as receivable from the U.S. Committee.

Agreements with National Committees

4. At present no formal agreements exist with the U.S. and the Canadian National Committees. The absence of a formal agreement has proved detrimental to the business interest of the Greeting Card Operation due to excessive retention of discount, late remittances of net proceeds of the sales campaign and poor control over the stock locked up with the Committees.

b/ Official Records of the General Assembly, Twenty-seventh Session, Supplement No. 7B (A/8707/Add.2), pages 64-65.

Loss of greeting cards

5. The analysis of sales showed that 2,302,075 greeting cards and 11,806 calendars were unaccounted for in the books of the Canadian Committee and 888,866 cards in the books of the U.S. Committee. These figures represent losses exclusive of authorised destruction. In such circumstances it is important that the Committees be asked to accept the responsibility for making good the loss of cards and calendars and ensuring accurate sales reporting in future.

Over-production/destruction of cards

6. The Board noted that 32.6 million cards were over-produced during the year. The cost of these cards amounted to \$400,000. During the campaign year 1970, 29.5 million cards worth \$360,313 were destroyed as against 13.1 million during 1969.

7. The over-production resulting in the ultimate destruction of cards was largely attributable to guaranteeing of stocks to the National Committees at all times. The proposition of including a monetary deterrant in the agreements with the Committees against over-ordering merits consideration.

The bidding process

8. The bidding process does not follow Financial Rules 110.18, 110.20 and 110.21. Excessive use was made of the exceptions listed under Financial Rule 110.19. We recommend that studies be undertaken to determine the justification for the use of these rules for each of the major purchases by the Greeting Card Operation and that such information be submitted to a high powered committee appointed by UNICEF for scrutiny and establishing principles for future guidance.

Acknowledgement

9. The Board expresses its appreciation for the co-operation extended to the external auditors by the Director, officers and the staff of the Greeting Card Operation during the examination of the accounts.

A.M. HENDERSON
Auditor General of Canada

J.E. ESCALLON O.
Controller General of Colombia

A.I. OSMANY
Auditor General of Pakistan

19 June 1972

ANNEX III

Excerpt from
Report of the Advisory Committee on Administrative and Budgetary
Questions to the General Assembly at its twenty-seventh session
(A/8810, September 1972) on Financial Report of UNICEF for 1971

C. United Nations Children's Fund

17. The Advisory Committee examined the financial reports and accounts and the related reports of the Board on (a) the United Nations Children's Fund for the year ended 31 December 1971, and (b) the UNICEF Greeting Card Operation for the year ended 30 April 1971.

18. In the light of the Board's comments in paragraphs 6 to 8 of its report on the Fund, 9/ and paragraph 8 of its report on the Greeting Card Operation, 10/ the Advisory Committee trusts that the necessary action will be taken to ensure stricter compliance with the Financial Rules, which require the calling of bids.

19. Taking into account paragraph 4 of the Board's report on the Greeting Card Operation, the Executive Director of UNICEF may wish to examine the advantages of concluding an agreement with the Canadian National Committee for UNICEF, and of updating and formalizing the agreement with the United States National Committee. Study of this question might also suggest ways of avoiding further losses such as those described in paragraph 5 (losses exclusive of authorized destruction), and of determining the appropriate commission to be retained by the United States National Committee (para. 3).

20. The Advisory Committee believes that, while some overproduction of greeting cards is probably unavoidable, that cited in paragraph 6 of the report on the Greeting Card Operation is excessive and causes an unduly heavy drain on the resources of UNICEF.

9/ Official Records of the General Assembly, Twenty-seventh session,
Supplement No. 7B (A/8707/Add.2), part one, section B.

10/ Ibid., part two, section B.

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