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26 April 1978

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UNITED NATIONS CHILDREN'S FUND
Committee on Administration and Finance
1978 session

Observations of the Executive Director on the
comments and recommendations of the Board of Auditors and the
report of the Advisory Committee on Administrative and
Budgetary Questions on the 1976 UNICEF financial report
and the financial report of the Greeting Card Operation
for the 1975-1976 season

When the Committee on Administration and Finance met in May 1977, it reviewed and noted the 1976 financial report and the financial report of the Greeting Card Operation (GCO) for the 1975-1976 season (1 May 1975 to 30 April 1976). The comments and recommendations of the Board of Auditors and the report of the Advisory Committee on Administrative and Budgetary Questions (ACABQ) were not then available on these reports. They are reproduced as annexes to this paper. ^{1/} The observations of the Executive Director on the substantive points raised by audit and ACABQ reports in connexion with the UNICEF financial report and the Greeting Card financial report are given below. For convenience of reference, the number of the paragraph of the report of the External Auditors is shown, to which the Executive Director's observation is made.

Annex I

UNICEF financial report

Delegation of authority

Audit
para.6

The Executive Director is responsible for the general direction of operations and accountable to the Executive Board for all operations. Delegations of authority have to be reconciled with the above requirement, which is general in international organizations. The report to the present session of the Board "Strengthening the management of UNICEF" (E/ICEF/AB/L.184) summarizes how this problem has been handled since the Executive Board approved in 1975 the Executive Director's recommendations following the management study.

^{1/} Annex I - Audit comments and recommendations on UNICEF; annex II - Audit comments and recommendations on GCO accounts; annex III - Excerpt from the report of ACABQ.

Organization of the financial function

Audit para. 9 The financial function has been reviewed in the light of the comments of the External Auditors and the implementation of the management study. The following steps have been taken:

Audit para. 8 In accordance with the decisions made following the management study, the Director, Division of Personnel Administration reports directly to the Executive Director on personnel matters. The Senior Deputy Executive Director has a special concern, on behalf of the Executive Director, only with respect to the administrative services and programme support budgets.

Audit Para. 10 In the field, financial and administrative functions are usually performed by the same person. Concerning administrative and finance officers where such posts exist in the field, their recruitment, training, career development and placement will be agreed between the Division of Personnel Administration and the Comptroller.

Field manual

Audit para. 14 UNICEF's accounting instructions and financial circulars are up-to-date. However, a consolidated financial manual would be more useful to staff, especially in the field. The Executive Director hopes that this can be compiled in the course of 1979. Apart from the time of the Comptroller and other staff members, the additional cost for temporary professional work and office services for preparing this manual would probably be \$30,000 to \$50,000.

Delegation of financial authorities

Audit paras.15-17 The system of delegation is being documented in accordance with the improvements suggested in the audit report.

Internal audit

Audit para. 21 The programme support budget for 1979 contains recommendations to add three posts of auditors to the strength of the internal audit staff in the field (E/ICEF/AB/L.188, paras. 89-91). If these posts are approved and new auditors recruited, this will make available staff time for more auditing in headquarters as recommended.

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Cut-off accounting procedures

Audit
paras. 22-24 Cut-off procedures have been in effect in UNICEF for many years. In a world-wide organization, it is common practice to apply such uniform procedures for field offices in different parts of the world in order to ensure timely preparation of the financial report. Cut-off procedures affect statements both at the beginning and at the end of the financial year. If the procedures are applied properly and consistently over the years, the net effect is minimal. The figures quoted in paragraph 22 are largely compensated by what was recorded at the beginning of 1976 because of the cut-off at the end of 1975. UNICEF has sufficient safeguards for maintaining a proper accountability and comparability on an annual basis.

General ledger input

Audit
para. 26 This was the first time that the external auditors used a computer audit programme to test the data processing procedure, thus introducing a useful practice. It is being repeated in 1977 with closer co-operation between the External Auditors and the Comptroller to ensure that the test takes fully into account UNICEF accounting and EDP procedures.

Annex II

Greeting Card Operation financial report

Segregation of duties

Audit
para. 5 While the observation is accepted in principle, the small number of staff in financial accounting makes it difficult to implement in full. It is also necessary, for the continuity of services during absences, vacations, etc., that accounting clerks be capable of interchanging duties. Present arrangements are considered to provide a reasonable degree of segregation under these conditions. They have worked well over the years, with no irregularities.

Segregation of stores and production functions

Audit
para. 7 UNICEF agrees with the observation and the recommendation is being implemented. The revised and improved system took effect after the physical stock-taking in early January 1978.

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Discount retained by a National Committee

Audit
para. 10

At a meeting of members of the Board of the Committee with the Executive Director, it was agreed that a consultant would help the Committee and the Greeting Card Operation to examine their related operations with a view to improving efficiency and reducing costs. This is now proceeding.

Annex III

Report of the Advisory Committee on
Administrative and Budgetary Questions

The points raised have been covered in the above observations.

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Annex I

Report of the Board of Auditors on UNICEF accounts for 1976
(excerpt from A/32/7/Add.2, pages 39-42)

1. In accordance with General Assembly resolutions and the Financial Regulations of the United Nations, the Board of Auditors has examined the accounts of UNICEF for the year ended 31 December 1976 as represented by statements I, II, III, IV, V, VI and VII and the relevant supporting schedules and notes to these statements, which form an integral part of them.

2. The examination was made in accordance with article XII of the Financial Regulations of the United Nations and the annex thereto and with the Common Auditing Standards adopted by the Panel of External Auditors of the United Nations and Specialized Agencies.

Scope of examination

3. In 1976-1977, the Board of Auditors began the introduction of a uniform systems-based audit approach that includes:

(a) Identifying the strengths and weaknesses in the financial systems so that the Board can more effectively direct the scope and approach of the audit examination and the nature, extent and timing of detailed audit tests;

(b) Reporting weaknesses in the system to the administration with appropriate recommendations for corrective action.

4. Effort this year was mainly directed to systems at headquarters, primarily those falling within the responsibility of the Comptroller's Division. In the course of the review, officials in all major divisions, including the Greeting Card Operation, were interviewed and audit teams visited field offices at Geneva, Copenhagen, Lagos and Abidjan.

5. The basic systems of financial control in UNICEF focus on:

(a) The commitment of resources to assistance programme and administrative and support costs;

(b) The timely processing of transactions;

(c) The maintenance of accounting records for revenue and expenditures;

(d) The responsibility for approving expenditures.

6. Authority has been decentralized to a great extent, but the general direction of operations has tended to remain with headquarters, most notably with the Office of the Executive Director.

7. Progress has been made by UNICEF in the development of financial control procedures. It has developed a fairly comprehensive and timely management information system. The organization has also made good progress in using internal

audit as an effective management tool in the monitoring of financial and operational systems. Our observations are intended to assist management in considering and implementing further improvements.

Organization of the financial function

8. The Executive Director is responsible for the system of financial management and control. In practice, however, the chief financial officer is the Comptroller, who reports to the Senior Deputy Executive Director, is a member of the Executive Director's Office and has other major functions, including responsibility for personnel.

9. Given the importance of financial considerations in the management of all UNICEF activities, the role of the financial function merits further review to ensure effective leadership, direction and guidance of financial policies, systems and procedures.

10. There are 42 field offices serving 102 countries, including a major packing and assembly operation in Copenhagen, a large area office at Geneva and a greeting card operation. Important financial decisions are made in all of these areas and financial controls are exercised by many persons who are not financially oriented. Functional relationships between the chief financial officer and administrative and financial staff in and out of headquarters should be strengthened so that the chief financial officer can ensure that there is consistency in the application of accounting principles and instructions, that financial rules and regulations are understood and not misinterpreted and that the systems of internal control are effective. For these purposes, he should be involved in the training and monitoring of the careers of all officers carrying out financial tasks.

11. Evaluation of the effectiveness, economy and efficiency of assistance programme performance is mainly a function of the field offices, the Programme Division and Internal Audit. The Comptroller should review the scope and results of these evaluations to determine whether they adequately ensure the proper use of the funds entrusted to UNICEF and should inform the Executive Director's Office of the results.

12. The Comptroller should be responsible for reviewing the scope and results of the evaluations of assistance programmes carried out by the Programme Division and Internal Audit.

Financial manual

13. Various means for communicating accounting and procurement procedures have been developed by UNICEF as well as instructions for implementation of assistance programmes. Because there is no comprehensive manual of financial policies and procedures, staff depend on individual circulars, but these tend to describe what should be done without adequate emphasis on the precise responsibility for action. There is a need for a more comprehensive documentation and communication of financial policies, responsibilities and procedures.

14. UNICEF should develop a comprehensive financial manual setting out all financial

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policies and procedures as well as the role of persons with financial responsibilities.

Delegation of financial authorities

15. Financial authorities have been delegated to the Executive Director by the General Assembly, but there is no formal evidence of delegation of financial authorities by the Executive Director to lower levels of management.

16. In practice, commitment authorities are being exercised to obligate funds, certifying authorities are being exercised to incur expenditures and approve documents for payment and approving authorities are being exercised to ensure compliance with regulations, rules and instructions. However, there is insufficient definition of the specific functions and responsibilities of each of these authorities.

17. Improvements in the system of delegating authorities should be developed in order to:

(a) Clarify the functions to be performed by each type of authority, establish appropriate limits on the authorities and ensure that defined authorities are commensurate with operational responsibilities;

(b) Ensure that the method of delegating authorities facilitates checking by those responsible for recognizing authorized signatures.

Internal audit

18. The internal audit function at UNICEF covers a range of activities, including financial auditing, programme auditing for efficiency and economy, and consulting services.

19. Internal audit appears to have the mandate, scope and reporting relationship to perform as an effective management tool and is performing well under present resources.

20. With the decentralized nature of operations and limited staff resources of UNICEF, Internal Audit has concentrated on field office audits, with limited coverage of headquarters systems. Many essential controls are at headquarters and any review of systems of internal control is incomplete without assessing them. This may require additional resources, although redeployment of present audit efforts should first be considered.

21. The scope of internal audit should be expanded in order to cover all operations.

Cut-off procedures

22. The Administration's cut-off procedures required the field offices to close their accounts on 17 December 1976 so that the financial statements could be prepared on time. Accordingly, the financial statements reflected balances of the

field offices as at that date. Cash received in the period 17 to 31 December 1976, which amounted to approximately \$933,000, and payments made during the same period, which amounted to approximately \$349,000, are not reflected in the financial statements. This means that the cash balance recorded in statement II is understated by approximately \$584,000 and other amounts in the several statements are accordingly understated or overstated.

23. Similarly transactions in short-term investment accounts during the period from 17 to 31 December 1976, which amounted to a net reduction of \$90,000, are not reflected in the financial statements. This means that the short-term investments balance in statement II is overstated by \$90,000 and other amounts are understated or overstated accordingly.

24. The cut-off procedures should be reviewed to ensure that all transactions are properly reflected in the accounts for the year.

General ledger input

25. The evaluation of data processing procedures at UNICEF headquarters revealed that controls should be reviewed to ensure that all authorized transactions are accurately and completely recorded in the accounting system. A computer audit programme used to validate the financial statements disclosed that numerical sequence and other document controls are not adequate and transactions may be missing from the data base.

26. We have no reason to believe that present conditions materially affect the financial statements. Nevertheless, controls to ensure completeness and accuracy of data are necessary not only to ensure control of transactions, but also to ensure that the validity of the financial statements is not impaired in any way.

Acknowledgement

27. The Board of Auditors records its appreciation for the co-operation and assistance extended by the Executive Director, his officers and members of their staff.

(Signed) J. J. MACDONELL
Auditor General of Canada

(Signed) A. MARTINEZ ZULETA
Controller General of Colombia

(Signed) A. OSEI
Auditor General of Ghana

24 June 1977

Annex II

Report of the Board of Auditors on
Greeting Card Operation accounts for the 1975 season

(excerpt from A/32/7/Add.2, pages 82-83)

1. In accordance with General Assembly resolutions and the Financial Regulations of the United Nations, the Board of Auditors has examined the accounts of the UNICEF Greeting Card Operation for the year ended 30 April 1976 as represented by statements I, II and III and the relevant supporting schedules and notes to these statements, which form an integral part of them.

Scope of examination

2. This examination was made in accordance with article XII of the Financial Regulations of the United Nations and the annex thereto and with the Common Auditing Standards adopted by the Panel of External Auditors of the United Nations and Specialized Agencies.

Audit observations and recommendations

Segregation of duties

3. A review of the system of internal control disclosed that there is minimal segregation of duties in the processing of transactions, the pre-audit function, the maintenance of the accounts receivable records and the general ledger input function.

4. In order to improve internal control, there should be a proper division of duties so that no employee is in a position to affect adversely the propriety of accounting transactions and accounting records and that errors are detected and corrected within a reasonable time.

5. The Administration should as far as possible, without taking on additional staff, reallocate duties in the Accounts Section in such a manner as to achieve a reasonable segregation of duties.

Separation of stores and production functions

6. The review of the Administration's procedures for issuing raw materials and flat cards from stores for production purposes revealed the following deficiencies:

(a) Issues of raw materials and flat cards for production are not made on stores requisitions;

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(b) There is minimal physical separation of raw materials and flat cards between those which are in stores under the charge of the storekeeper and those issued to the production foreman.

7. Control over raw materials and flat cards is therefore not adequate and the Administration should revise its procedures to ensure proper recording of issues and adequate separation of stocks.

Discount retained by a national committee

8. The Board of Auditors reported last year that various national committees under the agreements executed with UNICEF retained discounts up to 25 per cent of sales while one committee, with which no agreement had been executed, had retained discounts ranging from 28.8 per cent to 47 per cent during the last six years, that is, from 1969-1970 to 1974-1975. The Board further observed that the execution of an agreement with this committee had been delayed and suggested that early and effective steps for its finalization should be taken.

9. During the 1975 campaign year, the committee retained a discount of 46 per cent amounting to \$2,321,246.00 out of sales totalling \$5,027,870.00. The Administration stated that negotiations with the committee for concluding an agreement have been proceeding, but have not yet been finalized.

10. The Board reiterates its recommendation that the Administration finalize the agreement at the earliest possible moment.

Previous Board of Auditor's report

11. The Administration has generally taken action on the points brought out in the previous audit report. The points requiring further action have been included in the foregoing paragraphs.

Acknowledgement

12. The Board of Auditors wishes to record its appreciation for the co-operation and assistance extended by the Director, his officers and members of their staff.

(Signed) J.J. MACDONELL
Auditor General of Canada

(Signed) A. MARTINEZ ZULETA
Controller General of Colombia

(Signed) A. OSEI
Auditor General of Ghana

24 June 1977

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Annex III

Report of the Advisory Committee on
Administrative and Budgetary Questions

(excerpt from A/32/145, paras. 7-8)

B. United Nations Children's Fund

7. The Advisory Committee has examined the reports of the Board of Auditors on (a) the accounts of the United Nations Children's Fund (UNICEF) for the year ended 31 December 1976, 1/ and (b) those of the UNICEF Greeting Card Operation for the year ended 30 April 1976. 2/ The Advisory Committee has been informed by the Board that henceforth the observations and recommendations of the Board with regard to the Greeting Card Operation will not be issued as a separate report but will be included in the over-all report on UNICEF. In connexion with the Greeting Card Operation, the Committee notes that the long-standing problem of discount retention by one national committee (see paras. 8-10 of the Board's report) has still not been resolved.

8. The Advisory Committee notes paragraph 25 of the Board's report on UNICEF where it is stated that a computer audit programme used to validate the financial statements disclosed that numerical sequence and other document controls are not adequate and that transactions may be missing from the data base. In paragraph 26 of its report, however, the Board states that it has no reason to believe that this condition materially affects the financial statements.

1/ Official Records of the General Assembly, Thirty-second Session, Supplement No. 7b (A/32/7/Add.2), part one, chap. IV.

2/ Ibid., part two, chap. IV.

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