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Message by Mr. James P. Grant
Deputy Executive Director (Operations) of the United Nations Children's Fund (UNICEF)
in response to
The Fifth Committee of the General Assembly

United Nations – New York
7 October 1986



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Statement by Mr. Karl-Eric Knutsson
Deputy Executive Director (Operations) of UNICEF
in response to questions raised in
The Fifth Committee of the General Assembly

New York - 7 October 1986

Mr. Chairman,
Members of the External Board of Auditors,
Chairman of the ACABQ,
Distinguished Delegates:

May I begin, Mr. Chairman, by noting that we in UNICEF as usual have worked very closely with the very professional group of External Auditors. We have already profitted from that co-operation. I am confident that the external auditors on their side can attest to the seriousness, the professional attention and the openness accorded to them and their work by UNICEF.

Second, Mr. Chairman, before I address the substance of the comments made, there are this year several reasons why I feel obliged to open my response by a few general remarks. I want to make it clear that this approach does not represent an attempt to relegate these specific responses to the specific observations to a secondary level.

The reason for my opening remarks is about the seriousness of some of the general comments made in the ACABQ report and in the debate in this Committee, such as the statement that "the response of the UNICEF Administration to the issues raised by the Board is far from satisfactory and that the UNICEF Administration has not attempted to deal with these matters in a serious manner." This is a grave observation. I hope that my response will demonstrate that we have in fact taken it in a serious, constructive, forward looking and also corrective way. However, if it is not carefully interpreted, the statement that I just quoted might be read as a general assessment of the management of UNICEF as a whole. As one of the delegates pointed out, such an assessment cannot be made based on a series of isolated observations of varying relative importance.

I certainly do not here intend to make such an overall assessment myself. That would be pretentious and inappropriate for an individual staff member of any organization. However, I want to assure this Committee that we take very seriously the task to manage, with increasing efficiency and effectiveness, the resources put to our disposal, and that we take very seriously our responsibilities and our accountability towards UNICEF's Executive Board, the General Assembly and this Committee, which are all served by the ACABQ. We also take very seriously our responsibilities in relation to donor governments and NGO's, which provide us with resources which, are entrusted to them by individual taxpayers and dedicated voluntary contributors.

Over the last biennia the seriousness with which we take this responsibility has been demonstrated by a series of steps taken to provide a lean and efficient management. Thus we have continued to reduce international core staff at Headquarters locations while at the same time strengthening the field - to the point that around 83 per cent of our staff now are in the field. In one area - that of supply - we have managed to reduce staff considerably in spite of doubling the throughput. For 1986 we have instructed that travel shall be reduced by 25 per cent and consultancies by 40 per cent below the approved levels. For the next budget, presently being prepared, further substantial reductions and consolidations will be proposed in spite of rising demands on the organization and increasing workloads on our staff. We intend, among other things, to eliminate more than 100 posts presently included in our budget.

Having said this, Mr. Chairman, I have been made acutely aware that we must not only be serious...we must also be seen to be serious. We must therefore in the future more diligently and decisively eliminate the causes which have led to repeated critical observations. We will not hesitate to frankly admit "mea culpa" when mistakes have been made or when we have failed to explain properly, actions which we have taken.

In this regard, this audit process presented some difficulties due to unforeseen obstacles affecting the external auditors' timetable which forced us to give our final answers before the receipt of the auditors' management letter. Nevertheless, all observations by the auditors are responded to in detail and in good faith. They are summarized in the Board of Auditors report after each relevant observation. The Executive Director has, furthermore, in his response again elaborated on some of the major issues in order to add to those points where further clarification could be useful.

More serious, however, is a very unfortunate use of language - which was not challenged by us in the form that it was put in the Board of Auditors report. I refer to the statement in paragraph 62 in which UNICEF's position is said to be "that the relevant General Assembly resolution would be adhered to as far as practicable". This wording does not reflect the spirit of responsibility and accountability in which UNICEF conducts and wishes to conduct its work. It also may convey an arrogance that is totally unacceptable not only to the members of this Committee but also to UNICEF, damaging the building and maintenance of that fundamental confidence and trust

which is needed both for our ongoing work towards child survival and development and for the process of constructive scrutiny and criticism by the appropriate bodies required to improve that work. It is without any reservations whatsoever that I deplore and regret that formulation and UNICEF's failure to correct it.

Mr. Chairman, this is not said to argue that the critical observations by delegations ought to be explained away as a result of unfortunate language. UNICEF has made mistakes and in a few instances also repeated mistakes. In other areas, explanations have been less than clear, and there are also items on which interpretations differ and for which I hope - with the same frankness that I have spoken so far - that it will continue to be accepted as an honourable stance for UNICEF to explain and provide argument to support its interpretation.

I shall address all these three types of concerns in the following:

I would first like to respond to the comments and queries raised in the interventions of the distinguished delegates. Where possible, my responses will follow the order in which the issues are discussed in the report of the ACABQ. If I do not mention all delegations who have raised questions on these points, I apologize from the outset.

1. Presentation to Executive Board

Let me first respond to one of the observations of the distinguished delegate from Canada. UNICEF does indeed, as it has for many years - present both the Board of Auditors Report and the Report of the ACABQ to its Executive Board for analysis and action. We were among the first within the U.N. System to initiate this practice.

2. Authority to transfer between budget categories and budget lines
(Austria, Brazil, Canada, Egypt, India, Israel, Japan, Morocco, USA, U.K.)

Under current established procedure, the Executive Director is authorized by the Executive Board to administer as a unit the total provisions under categories 1 and 2, where category 1 denotes all budget codes relating to staff costs and category 2 denotes all budget codes relating to general operating costs. The Executive Director may, without further authorization from the Executive Board, transfer, between categories 1 and 2 an amount not exceeding 5 per cent of each category and report to the Executive Board on such a transfer.

However, with regard to UNICEF's actual performance concerning the transfer of budget funds, it should be noted that against a total budgetary allotment of \$115 million in 1985, there were no transfers of funds between categories.

During 1985, transfers of budgeted funds occurred only between budget line items within the same category, which, of course, is within the authority of

the Administration as noted in paragraph 26 in the Report of the Auditors. We wish to correct the claim that transfers were made between categories for the acquisition of computer and other capital equipment. Indeed, the Administration achieved significant savings in both category 1 and category 2 costs during 1985.

3. Budget Controls and Savings

Mr. Chairman, comments have been made by the same delegations as under the previous item in relation to the method by which UNICEF effects savings against its authorized budgetary allotments. In order to maintain proper management control of budget expenditures and also to provide flexibility to protect the Organization against unforeseen or unavoidable expenditures, the Administration withholds a portion of the full yearly allotment from established allotments within the Organization. In other words, the sum of the allotments within the Organization is less than the total appropriation for the Organization. We have, in the past, termed this withholding to be a "reserve". This was an imprecise choice of wording and we regret if this terminology has led to a misunderstanding of what this procedure is and what it is meant to accomplish. The procedure is created to allow management to impose self-restraint in order to achieve savings within a budget year. These savings do not constitute a "reserve" in the traditional United Nations definition. This is where misunderstanding has arisen.

In terms of the Administration's efforts to effect budget savings, the ACABQ Report does not note that, for 1985, this targeted savings amount was set at \$3.8 million by UNICEF management and that, at the end of 1985, the full planned amount was returned to General Resources. This savings consisted of \$2.3 million in staff costs (category 1) and \$1.5 million in operating costs (category 2).

With specific reference to computer equipment, there was a transfer (and, again, I stress that this transfer was within category 2 and not between categories) of \$243,000 to the allotment for computer equipment. However, as noted in the Report of the Board of Auditors in paragraphs 25 and 28, the total acquisition cost of computers for 1985 was \$1,029,945 against the original allotment of \$1 million, which is an actual overexpenditure of only approximately \$30,000.

4. Acquisition of computers (Austria, Brazil, Canada, India, Japan, USA)

With respect to these computer purchases, I feel that further clarification of the Administration's procedures is warranted. As noted in the Report of the Board of Auditors in paragraph 24, UNICEF's Budget Review Committee in 1985 approved a plan for the purchase of up to \$5.0 million worth of computer equipment. Included in this plan was the decision to begin to amortize the value of these acquisitions over five years, which is the estimated economic life of the asset. This issue has been the focus of interventions by several delegations. Let me say, first, that this decision

by the Budget Review Committee was merely a management plan for the orderly and efficient acquisition of computer equipment for field offices. It was never the intention of the Committee to bypass or exceed the appropriations contained in the approved budgets of the Organization. The implementation of a procedure of amortizing the cost of these assets would allow for proper accounting treatment for assets whose useful economic lives span several accounting periods.

It should be noted, however, that we remained - as the auditors have pointed out - more conservative than we planned to be, and that this procedure was not implemented in 1985. As stated in the Report of the Board of Auditors in paragraph 28, all but \$16,000 worth of computer equipment was fully paid in 1985. The Administration remains firm in its belief that amortization of computer purchases should be our accepted accounting practice. However, in view of the concern raised by the Board of Auditors and the ACABQ, we will undertake further dialogue on this matter.

5. Acquisition of field office buildings (capital assets)

With regard to capital assets, the Administration and the auditors have had several meetings on this important subject. This ultimately resulted in a letter from the Executive Director to the Director of External Audit dated 20 May 1986 which clarified our understandings.

UNICEF is authorized to acquire and hold property under General Assembly Resolution 57(I). Over a period of years, buildings for staff housing as well as office space have been acquired and their cost amortized by equivalent earned rent or yearly charges to the budget.

With respect to the acquisition of field office buildings, the Administration accepts the accounting view taken by the ACABQ that the Administration does not have a separate enabling document which authorizes expenditures in this area. However, the Administration would like to point out that our intention to make expenditures in this manner has been clearly presented to the Executive Board by virtue of its inclusion in the financial plan, the relevant budget documents and the yearly financial reports which have been subject to external audit. Unfortunately, the two cases identified in the Board of Auditors Report for 1985 were not included in the revised budget estimates for the year 1985. We regret this oversight. In the future, the Administration will ensure that any such planned acquisitions will be submitted to the Executive Board, for prior approval, in the appropriate Board document.

6. Unliquidated obligations

With respect to the transfer of budgetary obligations to other accounts, we would like to reconfirm our position as stated in our reply to the audit Management Letter dated 14 August 1986 that the remaining unliquidated obligations pertaining to 1983 and prior years have been cancelled.

7. Payment of travel costs to the Executive Board
(Brazil, Japan, USA, USSR)

Several delegations also raised the issue of payment of travel costs for some delegates to the Executive Board in 1985. As explained in the Executive Director's response, paragraph 9, management felt that this expenditure was justified for purposes outside the Board context in relation to our efforts to rapidly strengthen our support for Africa. Having said that, the audit observation is correct in stating that UNICEF did indeed disburse approximately \$20,000 in travel expenses for some delegates. Regardless of the good intent indicated, this was not in compliance with the provisions of General Assembly Resolution 1798 (XVII) of 11 December 1962. The Administration will, in the future, strictly adhere to the provisions of this General Assembly Resolution.

8. Entitlement of travel on home leave and on education grant

Home Leave

In the case of excess payment of home leave entitlement, the excess entitlement has already been recovered.

The second case is an advance to a staff member for the purchase of an additional air ticket to cover additional routes; this entitlement was within that provided by UN Staff Rules. As recommended by the Auditors, staff members will be instructed in advance to pay directly to the travel agent for any additional cost for air fare. This is, in fact, in line with established UNICEF procedure.

The third case was in relation to travel combining official and home leave. Action has been initiated in order to recover the excess entitlement.

Travel on education grant

In regard to the two cases of excess entitlements (two round-trip flights), action is being taken to recover the excess payments.

In the two cases where business class rates were used instead of economy class, action is being taken to recover the excess payments.

I regret these errors and oversights and have taken steps for improved control in order to prevent recurrence of this and similar errors.

9. Consultants

Mr. Chairman, I have already touched on the unfortunate wording by which UNICEF's response on this matter was summarized (paragraph 69 in the Board of Auditors Report).

I want to state that, in one case, UNICEF simply made a mistake. The overpayment was minor (\$600) which, however, does not diminish my regret for

this action. In the two other cases, UNICEF entered into the consultancies in order to acquire unique and otherwise unavailable expertise in order to speed the finalization of certain consolidation requirements in Copenhagen, and in order to rapidly perform research and prepare documents on the proposed UNICEF Financial Regulations as recommended by the ACABQ and requested by the Executive Board which were required at a time coincident with major personnel changes in the leadership of UNICEF's fiscal management. In addition, any other solution would have been much more costly to UNICEF. It is important for me to state that the arrangements, which were openly reported to the External Auditors, were made by UNICEF Administration and no shadow whatsoever should fall on the individuals concerned. However, notwithstanding these explanations, we have understood the seriousness which this Committee has attached to this audit observation. We have, therefore, with immediate effect, discontinued the one remaining arrangement.

10. Rental subsidies

(Austria, Brazil, Canada, India, USA, USSR)

With regard to the mentioned cases of four field offices with excess rental subsidy payments, these payments are, as pointed out by the auditors themselves (paragraph 53), not rental subsidies for individual staff members; they represent costs for maintenance and repairs and/or security guard services. In other words, these were incorrect accounting entries which result in the actual charges being coded to the wrong budget line items. As recommended by the auditors, the field offices have now been reinstructed to charge the correct budget lines. Therefore, no refunding of those payments is required.

In accordance with the auditors observations, stricter controls have been instituted in respect of approvals, of raising Miscellaneous Obligation Documents (MODs), and the use of proper coding for the accounts.

11. Repatriation grants and final settlements

(Austria, Brazil, India, Japan, USA)

With regard to repatriation grants and final settlements, we have been pursuing this matter vigorously. As pointed out to the auditors, one case of overpayment was already recovered in 1985; another case has since been recovered. The Administration confirms that the acceptable evidence of relocation, as established by the United Nations, has since been obtained and sent to the United Nations for confirmation. The Administration will strictly adhere to the established United Nations procedure in this respect.

Mr. Chairman, the Spanish philosopher Ortega y Gasset has said "those countries are kept alive that have a programme for tomorrow". The new president of the World Bank recently reminded us that the same applies to institutions. UNICEF has a strong and viable programme for tomorrow. Good management and clear and effective controls are not goals in themselves, but tools, for that programme. I pledge that we will continue to work hard to improve those tools honouring the pledge made by our first Executive Director,

that every penny guided by existing regulations and resolutions and given to UNICEF is a penny in trust.

Additional Questions and Responses

[The following additional replies were made by Mr. Knutsson on 8 October 1986]

- i. Explanation of term 'further dialogue' as it relates to amortization of computer equipment
(United Kingdom)

As part of the continuing evolution of the UNICEF Financial process, the issue of amortizing the cost of computer equipment has now been reviewed by both the Board of Auditors and the ACABQ. Obviously, there has been a difference of opinion between ourselves and the Auditors in this matter. The next step in this evolutionary process will take place when the Report of the Board of Auditors and the Report of the ACABQ are presented and reviewed by the UNICEF Executive Board. We expect that, at that time, a clear resolution of UNICEF policy in this matter will be formulated.

- ii. Transfers of reserves
(New Zealand)

As I noted in my response yesterday, there has been some confusion regarding the so-called 'budget reserve'. This is not a reserve in the sense that it is money held somewhere to be used if needed. It is merely an amount which is withheld from the allotments within the Organization so that, should each division or office expend exactly their allotment (that is, the allotment reduced by a margin of preliminarily authorized savings) we would still effect savings against that year's total budgetary appropriation. As UNICEF noted to this Committee last year, UNICEF has not exceeded the total budget allotments approved by its Executive Board in any of the previous 23 years. This was again the case in 1985, where as has been previously noted, we established a withholding of \$3.8 million in the revised Budget estimates for 1985, and we achieved this savings. Thus, in the sense that the money was never spent, this amount was 'returned' to General Resources, but we must restate clearly that this sum was not, and never was, a 'reserve' which was drawn upon to cover overexpenditures.

I must also re-emphasize that, during 1985, there was no transfer of funds between budget categories. There were, however, transfers between budget line items within the same category as per established UNICEF procedure. For example, year-end data confirms that there was a transfer of US\$243,000 to the budget line item for computer equipment, but, at the same time, we effected a savings of fully US\$1,680,000 against our approved allotment for travel on official business.

- iii. Rental subsidy estimates
(Portugal)

With regard to the 24 cases where there was apparent over-expenditure in the area of rental subsidies, it is very important to note that, in this case,

the fact that a particular office exceeded its original allotment for rental subsidies does not actually mean that they have 'over-spent' or that there is a lack of budgetary control in this area. Given the nature of this type of budget cost, it is difficult to know in advance what the estimated actual costs to a particular office will be. At present, we use an estimation methodology which is based on the number of staff in a particular office. Then, as the actual costs to the organization are identified, based on the actual experience of the office (i.e. with staff turnover, transfers, recruitment, etc.) the Budget section effects transfers between offices in this Budget line in order to better reflect the reality of the situation.

This is one example where transfers are made not to defray overexpenditures, but, rather, to better reflect our actual situation as it exists. We recognize that there are some shortcomings in our forecast methodology in this area and we are currently working towards improving our estimating techniques for the upcoming biennium for 1987-88.

[The following additional replies were made by Mr. Knutsson on 9 October 1986]

iv. Manner of Executive Board deliberations
(Canada)

As I stated yesterday, the UNICEF Executive Board gives full consideration to both the Report of the Board of Auditors and the Report of the ACABQ. These are the first agenda items of the Committee on Administration and Finance which is, after all, a committee of the whole.

v. Transfers
(Austria)

The wording of the ACABQ report implies that some transfers between categories were considered. This unfortunately has led to Austria's question in this matter. In actual fact, there were no transfers between categories in 1985 but only within budget lines as previously stated.

vi. Executive Director's authority

To respond to this inquiry, I can only restate the appropriate Executive Board resolution which states:

(c) That the Executive Director should be authorized to administer as a unit the total provisions under each of categories 1, 2 and 3. The Executive Director may, without further authorization of the Committee on Administration and Finance, transfer, if necessary, between categories 1 and 2 an amount not exceeding 5 per cent of each category and revise the amount of category 3 upward or downward in line with the volume of the throughput and report to the Executive Board accordingly.

vii. Consultants

The consultant in question was employed in an emergency situation as it related to our ability to make our final closure of the accounts for 1985. As noted yesterday, this was one of the instances where unique expertise was required. The overpayment in question was \$3,225. We have not been able, in this short time, to determine which date he was hired or the exact period of the contract. We can state that the work done was of the highest quality and that we feel UNICEF received good value for its money.

viii. Use of the word "minor"

With regard to the overpayment of \$600, I would refer to my response to the delegate from Kenya on this issue. I did not mean to imply that by the use of the word "minor" we felt the offense was minor. On the contrary, as I stated in the next sentence, I regret that this was the case. We meant to give only the size of the infraction for the Committee's information. Our meaning was that the amount, not the offense was small. As I have previously noted, UNICEF considers that every penny given to us is a penny in trust.

ix. Greeting Card Operation

For 1985/86, for each dollar raised by the sale of greeting cards, fully 40.19 cents is returned to general resources. For 1988, the Executive Board has established a goal of 42 cents, and the medium term target is 50 cents. In addition, National Committees receive 25 cents per dollar to support their costs and fund their very important programmes.

x. Questions by The United States

1. Yes, such reports exist and we share this information with the Auditors. We will make this report available to any Delegation which requests it.
2. Yes, we informed the ACABQ that this targeted savings was planned. Yes, ACABQ was aware of our practice in this area; No, there was only one amount targeted for savings. We report all savings to the Executive Board by way of the Financial Report which summarizes by category. Yes, there is a standard procedure for UNICEF.
3. The allocation for 1985 in the revised Budget was \$ 1 million. The over expenditures on computers were covered by savings made on other budget lines within category 2.
4. Because of the concerns raised by the Board of Auditors and the ACABQ, we decided to take the conservative accounting approach for 1985 and then refer this issue of amortization to the Executive Board for final decision.
5. Normally, office acquisitions are outlined and explained in the relevant budget documents. However, for 1985, this was omitted in the revised Budget estimates. The offices in question were in Haiti and Niger.

6. We felt our arrangements were outside of the actual Board proceedings and thus we made the Management decision to pay for their travel. As we have already noted, we will strictly conform to UN policy in this matter in the future.

7. UNICEF always cooperates with the ACABQ and is always willing to undertake a dialogue. In 1985, we were not asked to comment.

xi. Questions by Belgium and the United Kingdom

Question:

Both delegations noted that the total commissions and direct expenses of field offices for the Greeting Card operations were equivalent to 25.7% of gross sales, and make reference to the variances in commissions from 10% to 40.1% (in one major market). The board notes that if these expenses had been kept within the targeted maximum of 25%, an additional revenue of 1.4 million would have accrued to the Organization.

Answer:

GCO is making every effort to keep expenditures, including commissions, at its field offices at 25% or below. As regards national committee retentions, an understanding has been reached with the national committee in question to reduce the 40.1% to 25% by 1988.

xii. Questions by Belgium

Question:

What are the ways in which UNICEF can compare the net overhead (unspent monies from commissions returned to UNICEF) of the various national committees, and what amounts could be saved to UNICEF if the average net overhead was brought down to the lowest one now observed?

Answer:

As stated by the distinguished delegate from Belgium, national committees are granted a 25% commission on sales of greeting cards in accordance with the Recognition Agreements signed with UNICEF. This commission is expended by the national committees in accordance with their individual needs and eventual "refunds" to UNICEF from the commissions are not credited to GCO specifically, and overall savings can therefore not be determined.

Question:

What is the accountability of the national committees to UNICEF and to their governments?

Answer:

National committees are obliged to provide UNICEF with audited annual financial reports on their activities including greeting card sales in accordance with the Recognition Agreement and the legal requirements of their respective governments.

Question:

What are the ways in which cost-effective methods and expenses can be shared between the various national committees in order to increase UNICEF's net revenue?

Answer:

A close working relationship exists between national committees and UNICEF. The GCO workshops and possibly the national committees' standing group may be fora for discussions on additional ways to increase UNICEF's net revenues.