

**General Assembly**Distr.
GENERALA/41/649/Add.1
23 October 1986

ORIGINAL: ENGLISH

Forty-first session
Agenda item 114

JOINT INSPECTION UNIT

Cash management in the United Nations and four specialized
agencies (FAO, ILO, UNESCO, WHO)AddendumNote by the Secretary-General

1. The Secretary-General has the honour to submit to the General Assembly the comments of the Administrative Committee on Co-ordination on the report of the Joint Inspection Unit entitled "Cash management in the United Nations and four specialized agencies (FAO, ILO, UNESCO, WHO)" (A/41/649).
2. The Secretary-General has no additional comments on behalf of the United Nations on the recommendations of the Joint Inspection Unit.

ANNEX

Comments of the Administrative Committee on Co-ordination on
the report of the Joint Inspection Unit on cash management
in the United Nations and four specialized agencies (FAO,
ILO, UNESCO, WHO) (A/41/649)

I. INTRODUCTION

1. The comments that follow have been the subject of discussion within the framework of the Administrative Committee on Co-ordination and reflect the common position of the organizations to which the report of the Joint Inspection Unit was addressed, namely, the United Nations and four specialized agencies (the Food and Agriculture Organization of the United Nations (FAO), the International Labour Organisation (ILO), the United Nations Educational, Scientific and Cultural Organization (UNESCO) and the World Health Organization (WHO)). Certain other organizations, not specifically addressed in the report, participated in the preparation of the comments and wish to be associated with them in so far as they are applicable to the organizations concerned. It is understood that, in accordance with established practice, the executive heads of the organizations addressed in the report will also provide their governing bodies with their own observations on the report and the recommendations contained therein.

2. The report of the Joint Inspection Unit on cash management in the United Nations and four specialized agencies comes at a time when issues related to effective cash management are receiving high-priority attention throughout the organizations of the United Nations system. Accordingly, the executive heads welcome the report, which contains a very complete analysis of the cash management functions in the organizations. They are impressed with the professional approach taken by the Inspector and are pleased to note the generally positive conclusions he has reached.

3. It is apparent from the report that the problems faced by cash managers in each of the organizations reviewed are substantially the same. The Inspector has analysed these problems carefully and has concluded that, although each organization handles its cash resources rather well, there are a number of areas with scope for improvement. These are addressed in the recommendations calling for strengthened cash management and closer co-operation among organizations. The executive heads generally endorse the approach taken by the Inspector, noting his comment that the weaknesses identified do not detract from the overall quality of performance. As instrumentalities for money management become increasingly sophisticated, it is important that techniques of management, including computerization and inter-agency consultation and co-operation, be kept under close review, having regard to the needs of each organization and the costs and benefits involved. The report of the Inspector is a valuable instrument in this regard.

4. The report also addresses issues relating to the receipt of resources, including the collection of assessed contributions, which have been a matter of concern to the organizations for many years. While the recommendations on these issues are addressed to member States, the executive heads wish to record their general agreement with them, since they are made with a view to improving the flow of cash.

II. SPECIFIC COMMENTS

Recommendation 1. The Governments which have met all their financial obligations concerning the payment of contributions should benefit from any surpluses to be credited to them, proportionate to the scale of contributions and in accordance with the timing of their payment during the previous budgetary period

5. As noted by the Inspector, each organization has financial regulations specifying when assessed contributions are due and payable. The widespread disregard of these provisions by member States has been a major factor contributing to the cash-flow problems being experienced by most organizations. A number of governing bodies are currently considering the question of timely payment of assessed contributions, and consideration has been given to possible measures designed to improve the flow of cash. While there is a direct relationship between the amount of interest earned and the timing of payment in many organizations, it should be borne in mind that there are many other circumstances under which budgetary surpluses can arise that are not necessarily related to the timing of payments by member States. The executive heads consider the recommendation of the Inspector to be an interesting proposal. Should it be endorsed by governing bodies, it would be necessary for most organizations to amend the provisions of their financial regulations relating to the disposition of surpluses.

6. The organizations note that, while the recommendation relates exclusively to incentives to pay assessed contributions promptly, delays in payment of voluntary contributions also have a negative effect on cash flow in programmes funded from extrabudgetary sources. This aspect is addressed in paragraphs 33 to 36 of the Inspector's report.

Recommendation 2. All Governments should inform the Treasuries concerned in advance about the time, amount and method of forthcoming payments

7. While this recommendation is addressed to Governments, the executive heads fully endorse it, since reliable information on expected contributions is vital. The organizations confirm that they regularly seek information of this kind; however, experience has shown that many Governments either have not responded to requests to provide the required information or have not made their payments at the time indicated. As a result, treasuries have had to implement their short-term investment policies prudently, giving primary regard to contributions actually received. Advance information on likely amounts and dates of payment is an important element in cash management, since treasuries can function much more effectively when they are in a position to estimate their short-term resource positions with confidence. The co-operation of member States would be of great benefit in this regard.

Recommendation 3. Organizations should, independently or in collaboration with their bankers, develop a programme to produce the automated bank reconciliation of their major bank accounts

8. Paragraph 42 of the Inspector's report, from which this recommendation is drawn, reflects the thoroughness with which this aspect of cash management has been addressed. The organizations view the Inspector's findings with considerable interest, since they provide a useful survey of current agency practice. Those organizations that use automated methods of bank reconciliation do so only in those accounts that have a large number of transactions of a relatively simple nature. While several organizations feel their present manual methods to be cost-effective, they have expressed interest in following developments in those organizations that are introducing automated methods.

Recommendation 4. Organizations should, more frequently, review their bank accounts systematically so as to close inactive accounts

9. In some organizations, the review of bank accounts has taken place on an ad hoc basis. The organizations see merit in performing these reviews more systematically and, accordingly, will implement the recommendation of the Inspector, as appropriate to their circumstances.

Recommendation 5. FAO and ILO, which maintain large petty cash funds to make payments to staff members, experts and delegates, should arrange for a greater number of these payments to be made by the banks on the premises and thus reduce the petty cash funds to an absolute minimum

10. FAO and ILO agree in concept with this recommendation but wish to emphasize that both organizations periodically review the type and amount of imprest fund transactions to determine whether changes should be made in the light of conditions at the time.

Recommendation 6. The organizations that have not yet established investment advisory committees should do so

11. The need for investment advisory committees is related to the amount of money involved, the duration of the investments and the availability of investment advice. For longer-range investments, involving large amounts of money, periodic policy reviews are very valuable. But in those cases where the amounts involved are not large, or where investments are generally made on a short-term basis, the need for periodic policy advice is less pressing, especially in those locations where highly professional investment advice is widely available on an informal basis. However, in the light of the Inspector's recommendation, those organizations without formal advisory mechanisms will keep the situation under review to determine whether alternative arrangements would be beneficial.

Recommendation 7. Organizations should attempt to improve their ability to forecast their cash position by:

- (i) Introducing a system, preferably computerized, which would facilitate the gathering of financial data by programme managers on past expenditure patterns and current and future needs; and
- (ii) Introducing a monitoring procedure which would compare, for management review and decision, its cash flow forecasts with the actual cash flow for the period under review

12. The executive heads regard the ability to forecast cash flow as basic to efficient cash management. At times of financial crisis, this factor becomes critical. By far the most important element in any cash forecasting process is the organization's ability to project the timing of the receipt of contributions from member States and other contributors, since this is the area in which, traditionally, the greatest uncertainty reigns. As indicated in the response to recommendations 1 and 2 (see paras. 5-7 above), delayed and uncertain collections have contributed to cash flow problems in most organizations. Advance information on the timing and amount of payments of contributions by member States is therefore very important.

13. Forecasting expenditures, as noted by the Inspector, comes more directly under the control of the organizations. In the regular budget a certain continuity can be anticipated. However, in the case of extrabudgetary funds where patterns and trends are less easily forecast, there should be a flow of information between programme managers and money managers on actual and projected expenditures.

14. As regards monitoring of actual experience, the organizations are aware of the need for timely internal reporting and analysis of financial data to give early warning of trends, especially in times of financial difficulty. It is anticipated that more attention will need to be given in this area.

Recommendation 8. The Consultative Committee on Administrative Questions (Financial and Budgetary Questions) should take the initiative to establish a standardized method of calculation of investment returns in order to make information on the investment performance of the organizations comparable

15. In paragraph 76 of his report, the Inspector has outlined many variables that could affect the rate of return on investments. These include the currency and country of placement, amounts and types of investment, timing and duration of placement and prevailing market conditions. The organizations also consider that safety of investment, although not mentioned by the Inspector, is a crucial factor. Indeed, safety should and must be the primary consideration in all investments, even at the risk of a lower return. The Consultative Committee on Administrative Questions will study the feasibility of introducing a standardized system of measurement of investment return and will consider whether the results so derived would be of practical value on an interorganization basis. This would be one of a number of steps being taken to improve communications among treasuries through exchanges of views on matters of common interest. In view of the variables mentioned above, however, the organizations question the value of comparative reporting to Governments on investment performance, since such reports may well tend to be more misleading than informative.

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Recommendation 9. Treasuries should have appropriate technical equipment in accordance with their specific needs. The United Nations (Headquarters and Geneva office) is particularly affected and should take appropriate measures promptly. The matter should be given high priority by administrations when programme budgets are prepared

Recommendation 10. Every organization should develop a fully computerized treasury information system to be used in an interactive and on-line manner

16. The dynamic nature of financial markets makes it highly desirable that organizations have easy and timely access to information on investment opportunities. External and internal communication and electronic computing facilities all have a major role to play in this regard. However, the extent to which organizations equip themselves to take advantage of the opportunities available will be governed in large measure by the scale of the investment activity in each organization and by the availability of budgetary resources to enhance existing systems.

Recommendation 11. The centralization of cash management should not be considered for the time being

17. This recommendation follows a very useful discussion by the Inspector on the nature and scope of inter-agency consultation and co-operation on cash management questions. The executive heads consider that the arguments made by the Inspector against the centralization of cash management are particularly persuasive. At the same time, they are convinced of the importance of inter-agency consultation and co-operation on cash management. This subject is already on the agenda of the Consultative Committee on Administrative and Budgetary Questions (Financial and Budgetary Questions). As a result of these discussions, the organizations are confident that the range of informal co-operative activities can be extended.