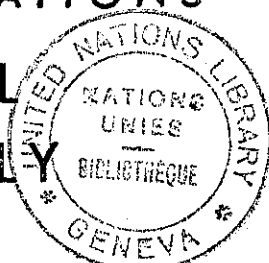




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JOINT INSPECTION UNIT

Report on trust funds of the United Nations

Note by the Advisory Committee on Administrative
and Budgetary Questions

The Advisory Committee on Administrative and Budgetary Questions has received the comments of the Secretary-General and the Administrator of the United Nations Development Programme (UNDP) on the report of the Joint Inspection Unit on trust funds of the United Nations (A/8840) and transmits them herewith to the General Assembly.

I. COMMENTS OF THE SECRETARY-GENERAL

A. Introduction

1. In the present report, the Inspector states the reasons for undertaking a general study of trust funds accepted by the United Nations and offers a total of 15 specific recommendations addressed primarily to the United Nations. The Secretary-General is indebted to Mr. Macy for his study of trust funds because, as is pointed out in the introduction to the report, the subject has become of increasing concern owing to the increasing level of resources being received from voluntary contributions to trust funds in the economic and social fields. Moreover, the Secretary-General feels that it would be opportune at this time to give consideration to the over-all implications of this form of financial assistance for the work programme of the United Nations. In this latter connexion, voluntary contributions can also be said to have an impact on the determination of priorities by the United Nations.

2. In focusing attention on the use of the trust fund as an important instrument of funding United Nations activities, Mr. Macy states that, although some of the reasons for the increasing reliance upon the trust fund method of funding are rather obscure, he would identify three reasons as included among the principal causes for the shift in emphasis away from the use of assessed contributions to the regular budget as a means of financing economic and social activities. In his view, they are essentially as follows:

(a) Many large contributors to the United Nations wish to avoid being bound by General Assembly decisions requiring increasing resources for economic development;

(b) Total revenues available to the United Nations family will be substantially larger if there are voluntary contributions to trust fund accounts; and

(c) Increasing reliance on multilateral planning, programming and co-ordination for bilateral programmes and the emergence of hybrid bilateral programmes administered by international organizations.

3. In considering a balanced response to the points made above by the Inspector, it may be well to recall that many Member States have expressed support for two fundamental principles, that is, (a) the collective responsibility of Member States for the discharge of Charter obligations in the economic and social field, and (b) the process of collective decision-making in determining priorities. For the better part of two decades, discussions in the Second Committee of the General Assembly and in the Economic and Social Council centered essentially on these principles and have led to the creation of the United Nations Development Programme (UNDP) and the establishment of the United Nations Capital Development Fund. As a result of the establishment of UNDP, the membership of the United Nations has

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accepted a weakened version of the first principle - to the effect that any sizable additional funds, at least for operational activities in the economic and social fields, must henceforth come largely from voluntary contributions rather than through assessed contributions for the regular budget. However, inherent in the acceptance of the idea of multipurpose voluntary funds has been the tacit understanding that decisions on the management of such funds, including the important question of sectoral priorities, should be subject to the second principle - the process of collective intergovernmental decision-making.

4. Needless to say, the setting up of single-purpose trust funds financed on a voluntary basis could negate this principle, since it could give to the donor countries concerned the right not only to make or withhold voluntary contributions, but also to attempt to influence the decisions taken in the specific field or sector for which the contribution is made. The point can be made, therefore, that the proliferation of single-purpose funds is a development which, bearing in mind the above point of view, is unlikely to be welcomed by all Member States.

5. On the other hand, the proliferation of trust funds does mean that the total resources available to the United Nations family is substantially larger than they would otherwise have been. Thus, considerable support could exist for increasing the number of trust funds, even though such funds might be limited to a particular sector of special interest to the donor.

6. On the whole, the Secretary-General feels that an in-depth review of the basic principles underlying the use of trust funds and the careful elaboration of an appropriate policy to guide the Organization is a worth-while endeavour. While at the same time it would appear that, in the present state of financial difficulties and the stringencies being applied to the regular budget, perhaps even heavier reliance than has been the case in the past may have to be placed on other sources of revenues. The Secretary-General plans to keep the subject of trust funds under review for the purpose of considering policies for their utilization.

7. Throughout the report, the Inspector emphasizes a number of points upon which the Secretary-General is in complete agreement. In the balance of this section of the present report, the Secretary-General's comments will cover (a) the Inspector's specific recommendations, and (b) future uses of trust funds and the necessary related procedures.

B. Comments on specific recommendations

1. Definitions

8. In his first recommendation, Mr. Macy has proposed that the Administrative Committee on Co-ordination (ACC), through its Consultative Committee on Administrative Questions (CCAQ), should clarify the meaning of trust funds. In this connexion, Mr. Macy offers a suggested definition of trust funds, perhaps as a starting point for CCAQ. While the Secretary-General would welcome the consideration

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of this matter by CCAQ, he does not feel that the Inspector's suggested definition adequately addresses the basic issue, since his definition deals more with what a trust fund might include rather than with what a trust fund specifically is. The Inspector also expressed reservations as to the use of the term "special account", which term in its precise meaning is exceptionally useful.

9. The Secretary-General welcomes the suggestion that CCAQ consider the question of a definition of the term "trust fund". The United Nations would be prepared to co-operate in this endeavour.

10. "Special accounts" and "trust funds" are both accounting devices used to record, control and report upon the receipt and disbursement of resources. Contributions in kind, whether for a trust fund purpose or special account purpose, must be accounted for, but, of course, are not recorded on the United Nations books as cash, since no cash resources are received or expended. To the extent practicable, special assets of this type which have been received are to be included in the reports made on the respective accounts. However, the Secretary-General's approval is also required prior to the acceptance of a contribution in kind.

11. A "trust fund" in United Nations terminology is an account set up for specific activities outside of the United Nations regular budget accounts to record the receipt and disbursement of voluntary contributions, usually from a limited number of Member Governments. Essentially, a trust fund connotes a fiduciary relationship whereby the Secretary-General is custodian of resources received for specific purposes which are consistent with the policies, aims and activities of the Organization and which do not directly or indirectly involve additional financial liability for the United Nations, except in those cases where the consent of the appropriate intergovernmental body has been obtained. In certain cases, additions may be made to a trust fund account from an appropriation by the General Assembly under the regular budget, that is, the United Nations Educational and Training Programme for southern Africa and the United Nations Fund for Namibia.

12. The purpose of a "special account" is to give a separate identification to items of major importance to a large number of Member Governments. Usually a special account is used for an activity approved by the General Assembly or is set up as a result of an Assembly decision. For example, special accounts have been set up for peace-keeping and humanitarian activities and for the construction of new buildings.

13. In the Secretary-General's view, it is possible to remove satisfactorily any ambiguity in the meaning of financial terms which concerned the Inspector. In United Nations usage and for further clarity, the following additional definitions listed below are suggested:

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(a) Regular budget - a budget covering the activities of the United Nations for which funds have been appropriated by the General Assembly and which are financed by assessed contributions against Member States and other income, as distinguished from activities financed from other sources;

(b) Extra-budgetary - all resources administered by the United Nations other than those provided by the regular budget;

(c) Voluntary contributions, grants and donations - resources made available voluntarily (not assessed or levied by the General Assembly) to assist in financing activities of the United Nations. Voluntary contributions, grants and donations may be made in cash or in kind. The essential difference in the three terms is mainly one of semantics and all three are considered as synonyms for the same concept or type of resources being made available to the United Nations;

(d) Reserves - a specific accounting term denoting the setting aside of financial resources to meet an expected occurrence. A reserve may be either a cash reserve or an accounting reserve. In the former, an actual amount of cash or securities is set aside, whereas in the latter case, an entry is merely made in the accounts to record transactions such as shrinkage in the cost of fixed asset, an estimated amount to meet a contingent obligation or to provide an allowance for estimated losses from receivables.

14. The other issue remaining under the heading of definitions is the Inspector's preference for the use of the term "non-monetary contributions" instead of the customary United Nations term "in-kind contributions". Here it would seem that both terms are easily interchangeable and the Secretary-General would prefer the continued use of the familiar United Nations term of "in-kind contributions".

2. Categories of trust funds

15. There are two recommendations under this heading: one recommendation proposes that the Board of Auditors look into various accounting matters disclosed by the Inspector with respect to accounting classification of and reporting on trust funds and related accounts by organizational units. Most of the items have since been explained to the satisfaction of the Inspector and, even before his report was received, the Office of Financial Services was reviewing the format of the 1971 trust fund schedule with the external auditors with a view to bringing uniformity to the data reported.

16. The Secretary-General would, however, wish to clarify the matters covered in paragraph 23 of the Inspector's report. The United Nations does not have a programme for refugees in East Pakistan nor has it had such a programme. The Secretary-General appointed the United Nations High Commissioner for Refugees as the "focal point for East Pakistan" refugees in India and he established the United Nations East Pakistan Relief Operation to assist the distressed people of that area. The name of this operation was changed after December 1971 (or prior to the issuance of the Inspector's report) as a consequence of the events in the area.

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There would also seem to be some ambiguity in the phrase "run from the 38th floor", since all of the Organization's activities are directed from the Office of the Secretary-General which is located on that floor in the Secretariat building, but, in this particular case, many parts of the Organization are necessarily involved in the various activities.

17. The second recommendation under this heading is that CCAQ take appropriate steps leading to the adoption of uniform classes and categories of trust funds. A considerable amount of very useful work on uniform classifications and categories has been completed by CCAQ. The Secretary-General feels that this is a worth-while proposal and he is prepared to support such CCAQ endeavours as a part of its regular programme of work.

3. Attitude towards trust funds

18. The Secretary-General believes that a complete treatment of the current United Nations method of budget presentation is dealt with in the following reports:

Form of presentation of the United Nations budget and the duration of the budget cycle (A/C.5/1335 dated 19 November 1970)

Form of presentation of the United Nations budget (A/C.5/1363 dated 18 October 1971)

Form of presentation of the United Nations budget and the duration of the budget cycle (A/C.5/1429 dated 20 April 1972)

19. The Secretary-General can also support the recommendation that ACC take appropriate steps to ensure that individual agencies co-ordinate their technical assistance type projects financed by trust funds with other UNDP funded projects in a given country.

4. United Nations budget

20. Under proposals which the Secretary-General has submitted to the General Assembly at its twenty-seventh session (A/C.5/1429), the substance of recommendation 6 would be met and, in future United Nations budgets, details on posts financed from extra-budgetary sources, in addition to corresponding data regarding posts funded from the regular budget, would be provided if the General Assembly accepts the Secretary-General's proposals.

21. At the present time, the Secretary-General does not feel it advisable to request the General Assembly to establish a percentage of total posts financed from extra-budgetary resources for which continuing appointments could be made. However, the recommendation will be kept in mind and, should the Secretary-General be subsequently convinced that this recommendation contains useful features which would be consistent with the Charter and principles of prudent management of the Organization's resources, he would be prepared to reconsider the justifications provided by the Inspector in support of his point of view.

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22. Regarding the Inspector's recommendation that the Administrative Management Service conduct a comparative study of centralized financial control of trust funds implemented by organizational units in the United Nations Office at Geneva, on the one hand, and decentralized financial control of trust funds implemented in UNIDO at Vienna, on the other, it is the Secretary-General's considered view that the utility of such a study might be enhanced if carried out after the Administrative Management Service has completed the manpower utilization surveys requested by the General Assembly and has undertaken other high-priority assignments in the fields of administration and management. Thus, it would be the Secretary-General's feeling that action on this recommendation could be deferred at this time.

23. Recommendation 10 proposed an amendment to Economic and Social Council resolution 1435 (XLVII) and General Assembly resolutions 2511 (XXIV) and 2514 (XXIV), which have only been operative for a short time. So far, these new procedures are working quite well and the Secretary-General would appreciate an opportunity to gain additional experience in the application of these procedures before they are changed again.

24. As noted above, the Secretary-General has submitted to the General Assembly (A/C.5/1429) proposals for presenting the United Nations budget along new lines, and recommendation 11 could possibly be considered in this context, since the intent of this suggestion would seem to the Secretary-General to be fully met in his report.

5. Planning and programming

25. In a series of three recommendations, the Inspector had dealt with the question of responsibility within the United Nations Secretariat for a "substantive review in depth" of all new or proposed trust funds prior to the acceptance by the Secretary-General of the related resources. He felt that the present procedures and arrangements in effect are uneven and applied in varying degrees of efficiency. The Inspector proposes that focal points be established at UNDP headquarters and in the United Nations Department of Economic and Social Affairs. The comments of the Administrator of UNDP are provided in paragraphs 37 to 40 below. The Secretary-General envisages that the eventual restructuring of the Department of Economic and Social Affairs will allow for adequate United Nations consideration of this question. Within the Department, the establishment of a programming and planning unit has been recommended by the Administrative Management Service and one of this unit's functions would be to oversee the Department's role in the co-ordination of extra-budgetary resources with regular budget resources in accordance with detailed policy guidelines established by the Assistant Secretary-General, Financial Services, in consultation with the Legal Counsel. Such a move, in the Secretary-General's view, is long overdue. At the same time, the United Nations policy in accepting new trust funds will be the subject of further consideration.

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26. In those cases where the activities are to be carried out in a specific country or countries and relate in even the most remote manner to the country's development plans or aims, those projects funded from extra-budgetary resources would have to be carried out in consultation and collaboration with the Resident Representative. Appropriate steps will be taken to develop the required co-ordination methodology.

27. The Secretary-General is of the opinion that it should be possible to ensure that extra-budgetary resources are properly utilized. The planned strengthening, from overheads, of those financial and substantive services involved in the acceptance of extra-budgetary resources and in the implementation of related activities should help in this matter. In addition, legislative approval of the Secretary-General's proposals concerning programming and budgeting procedure would provide additional assistance in improving the situation.

28. The Inspector also feels it would be possible for donors to gain special advantages, for political or other reasons, by providing contributions of funds to the Organization under trust fund procedures. The Inspector has proposed that proper safeguards be established to cope with these political and other matters. However, the Secretary-General is convinced that he is dealing effectively with such matters. Each proposal is carefully scrutinized. He also hopes, of course, that Governments will continue to exercise all due restraint in the proposals they make.

29. The Secretary-General welcomes the Inspector's recommendation that ACC should initiate the development of a system for overhead costs of trust funds which would be consistent with and related to procedures adopted for calculating and accounting for agency overhead costs under UNDP programmes. The Inspector has not suggested a time frame for consideration of this issue and the Secretary-General would suggest that the subject be afforded priority by CCAQ within the limits of its present level of resources. It is recalled in this connexion that CCAQ has recently approved a task force report on a cost measurement system, which was submitted to the UNDP Governing Council (DP/L.225/Add.1).

6. Preservation of trust fund advantages

30. In a fairly exhaustive treatment of this aspect of the subject, Mr. Macy has covered the important issue of whether there is a basic conflict between strengthening the management capability for trust funds and voluntary contributions and preserving the advantages to the United Nations family flowing from their continued acceptance and use. Given the classical dilemma of continually increasing demands coupled with a scarcity of resources, the Secretary-General believes that it is desirable to be as positive and forthcoming as possible in the obtaining of additional resources while ensuring that the contributions received are consistent with the policies, aims and activities of the United Nations.

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31. The various advantages of using trust fund procedures to account for voluntary contributions are listed by the Inspector as follows:

(a) The total resources to the United Nations family would be increased;

(b) Projects could be implemented faster by use of special donations;

(c) Over-all flexibility of action would be enhanced and a greater variety of activities could be undertaken, to the specific benefit of developing and developed countries.

32. The Secretary-General, for his part, does not feel that any disadvantages would arise from the full and complete reporting to the General Assembly on all resources utilized by the United Nations to accomplish its objectives. In the report of the Joint Inspection Unit on programme budgeting in the United Nations family (A/7822, annex), prepared by Mr. Maurice Bertrand, it was recommended that the United Nations regular budget should contain information on the totality of resources available to the Organization for each programme. The Secretary-General agrees with this proposition and, indeed, he has included such information as annexes to the document on the regular budget for the last several years. It should also be noted that, under the new proposals for presenting the United Nations budget on a programme basis (A/C.5/1429), the Secretary-General has given consideration to this point and, given the Assembly's approval, he intends to adopt such a practice in the future.

33. Of all of the recommendations contained in the Inspector's report, the only one concerning which the Secretary-General has certain misgivings is the last recommendation, which states:

"Only the recruitment of personnel for continuing appointments should be required to go through regular recruitment channels."

Here it is believed that the prescribed procedures, whereby all United Nations regular staff appointments for a period of one year or longer are subject to review by the Appointments and Promotions Board, are preferable to the Inspector's recommendations. This is a matter upon which considerable experience has been obtained. The safeguards to Member Governments and to the Secretary-General from following established procedures have more than demonstrated the importance of having a formal, standardized, impartial methodology.

C. Future use of trust funds and the necessary related procedures

34. The Secretary-General would wish once again to state his appreciation to the Joint Inspection Unit for its comprehensive and relevant study on such a pertinent subject as trust funds. The Secretary-General looks forward to receiving the views of Member Governments on this subject.

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35. Future practices and procedures applicable to trust funds will no doubt be influenced by developments over the next several years. An important question to be dealt with is whether future growth will be entirely through extra-budgetary resources or also by means of regular budget funds. It seems clear that the direction in which the Organization moves in the future will be determined to a large extent by the answers to the question of whether growth will come from voluntary contribution to extra-budgetary accounts or from regular budget funds.

36. The Secretary-General's views on certain aspects of trust fund developments are provided below under appropriate headings for the benefit of Member Governments:

(a) Centralized versus decentralized control of programmes

In the Secretary-General's view, there is nothing inconsistent between centralized policy control and decentralized responsibility and authority to implement action programmes. It is the Secretary-General's intention to maintain strong internal procedures for centralized policy control and reporting, while at the same time clearly fixing the responsibility for programme implementation on one senior official, who would be granted the necessary authority to carry out his task. This senior official will be fully responsible to the Secretary-General for all official acts performed in furtherance of his duties.

(b) Centralized control of resources

Much discussion has been going on both within intergovernmental bodies and the Secretariat on this issue. It is the Secretary-General's considered view that, if he is to carry out his responsibilities under the Charter, he must have the ability to decide upon the receipt and strategic use of all resources available to the United Nations. He proposes to do this as efficiently as possible taking into account, when practicable, currencies which are or which may be made available. Attempts to erode this ultimate authority of the Secretary-General under the Charter must, of course, be resisted.

(c) Increased use of voluntary contributions and trust fund accounting procedures

The Secretary-General has no apprehensions regarding the increased availability of voluntary contributions provided that the conditions attached by Member Governments making such contributions are not in conflict with the Financial Regulations and Rules of the United Nations. Decisions regarding the programming of such resources must be left to the Secretary-General, subject to the relevant financial regulations and rules and devoid of any undue influence. Necessary procedures and practices are developed and carried out by the Secretary-General to ensure the effective use of appropriate resources made available to the United Nations.

(d) Centralized programming activities

On this subject, the Secretary-General is quite convinced of the merits of centralized programming and planning. With assistance from Member Governments, special efforts will be directed towards strengthening the Organization's total programming and planning capability. The Secretary-General envisages a carefully constructed, fully co-ordinated and integrated programming and planning apparatus. The resources devoted to programming and planning will be kept as small as possible, but the Secretary-General is convinced that this internal activity can be improved. It is his view that this move is clearly in the best interest of all Member Governments and that it will greatly assist in his efforts to manage the Organization in the most enlightened fashion utilizing the most progressive and sophisticated techniques.

(e) Division of responsibility for implementing projections and the authority for approving the use of extra-budgetary resources

The Secretary-General has reviewed the operation within the United Nations system of various modalities for ensuring the most effective use of extra-budgetary resources. There exists in many systems a principle of not combining the responsibility for implementing projects and the authority for approving the use of funds to finance the project. Long experience has been gained in many situations on the application of this principle and the view is held that the two functions should be kept separate. It should be noted that UNDP follows essentially such a practice. The Secretary-General believes that in the United Nations system only the highest degree of integrity is acceptable. Colleagues in the United Nations and the specialized agencies are seeking ways to make the most useful contribution to development through their labours, and their efforts are on display to the world. It would therefore seem to be extremely wise to continue to maintain the separation of the "bank" from the "user of the bank", that is, separation of the authority for approving the funding of projects from the responsibility for implementing projects.

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II. COMMENTS OF THE ADMINISTRATOR OF THE UNITED NATIONS
DEVELOPMENT PROGRAMME

37. The report on trust funds prepared by Mr. Macy of the Joint Inspection Unit (A/8840) deals primarily with United Nations trust funds, on which the Secretary-General has presented a rather thorough technical review. The Administrator, therefore, wishes to make a few comments of a general nature particularly from the UNDP viewpoint.

38. With regard to paragraphs 50 to 59 of chapter III, which deal with a "weakening of UNDP" as a result of the proliferation of trust fund activity, the Administrator continues to believe that, whether or not such proliferation results in an absolute increase in the resources available for development assistance, the continual establishment of additional secretariats and reviewing bodies to deal with special-purpose trust funds is costly in terms of time, effort and brains, and is an unproductive use of scarce resources. The Administrator hopes that, as country programme exercises continue to develop, they can embrace and plan for this flow of assistance.

39. One of the Inspector's recommendations suggests the development of a system for overhead costs of trust funds which would be consistent with and related to the new system being developed for agency overhead costs for programmes financed by UNDP. Such a study has been initiated by CCAQ and a special task force of agency personnel, under CCAQ auspices, which combined technical and management skills, has produced a preliminary model on a cost measurement system. Development of the model and its application continues.

40. The Administrator welcomes the report in the belief that certain of the recommendations will be of value to him and his staff in avoiding present anomalies and pitfalls when UNDP actually begins to administer trust funds of its own. It is refreshing, and of future encouragement, to know that at least one member of the family of United Nations organizations will have a beacon when charting its future course in this area.



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JOINT INSPECTION UNIT

Report on trust funds of the United Nations

Report of the Advisory Committee on Administrative and Budgetary
Questions to the General Assembly at its twenty-seventh session

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report by Mr. Robert M. Macy, a member of the Joint Inspection Unit, on trust funds of the United Nations and the related comments of the Secretary-General and the Administrator of the United Nations Development Programme (UNDP) (A/8840 and Add.1). In his report, Mr. Macy makes 15 recommendations; some of them are concerned with basic principles, while others relate to points of detail. Several recommendations will be affected by the proposed introduction in 1974 of a new form of presentation of the United Nations budget. In its comments, the Advisory Committee has attempted to group the recommendations by subject matter, rather than deal with them in the numerical order in which they are listed in the summary.
2. As Mr. Macy points out, the voluntarily contributed extra-budgetary resources of the United Nations and the specialized agencies have grown considerably in the last decade. Several reasons were responsible for that development. In all likelihood voluntary contributions will continue to play an important role in multilateral co-operation in the years ahead. It is therefore highly desirable that the activities financed from voluntary contributions should be properly related to those under the regular budgets of the organizations of the United Nations system. Subject to its observations in paragraph 18 below, the Advisory Committee therefore agrees with the argument developed by the Inspector in chapter III of his report that voluntary funds should be shown in appropriate places in the budget document. Several specialized agencies already do so, and a step in that direction will be taken with the introduction of the proposed new form of presentation of the United Nations budget.
3. In paragraph 112 of his report, the Inspector refers to the "deep-seated concern" in many quarters that if trust funds and non-monetary contributions are clearly shown in the budget document "they will be looked upon not as a supplement to the

regular budget but as an alternative source of funds, and thus will be used as a means of holding down assessed contributions". The Advisory Committee shares the Inspector's doubts concerning the validity of that argument for, in the last analysis, the fact that individual Member States make voluntary contributions to particular activities reflects their feeling that those activities are inadequately funded from the regular budget.

4. A related problem is whether the provision of voluntary funds for programmes to which the donors attach particular importance could distort the order of priorities determined by the Membership as a whole. The Advisory Committee does not think that in the present situation - when there is no set hierarchy of priorities - that problem need cause undue concern. Such a conclusion is contingent, however, on the existence of controls to prevent the diversion of regular-budget funds from their primary purpose to the backstopping of activities financed from voluntary funds. For this reason the Advisory Committee agrees with the view in paragraph 96 (a) of Mr. Macy's report that trust funds should have ample provision for paying for necessary overhead costs.

5. In the same context, the Advisory Committee endorses Mr. Macy's recommendation 14 and the view expressed in recommendation 12 that the donor should not be able to dictate which individual projects in a given field of activity should be financed from his voluntary contributions.

6. The Advisory Committee shares the concern implicit in recommendations 5 and 13 that the activities financed from trust funds should be properly co-ordinated with those financed by the UNDP and the regular budgets of the agencies. The Committee notes that the Secretary-General is in favour of the integrated use of all the resources available to the United Nations.

7. A related question is that of the acceptance and, as the case may be, soliciting of voluntary contributions for specific activities. The report makes it clear that the offer of such contributions is sometimes the result, at least in part, of initiatives by individual organizational units. Some funds specifically linked with the field of competence of individual units exist by virtue of decisions of intergovernmental organs; the UNIDO General Fund is a case in point. But where that is not so, the Advisory Committee would see some disadvantages in active soliciting of voluntary funds by individual organizational units. The Advisory Committee believes that, subject to such arrangements as may be made by way of decentralization, control over funds solicited by individual organizational units should be vested in the Office of Financial Services and not in the organizational units concerned. The Committee notes that it is the Secretary-General's "considered view that, if he is to carry out his responsibilities under the Charter, he must have the ability to decide upon the receipt and strategic use of all resources available to the United Nations" (A/8840/Add.1, paragraph 36 (b)). The Committee endorses the separation of the authority for approving the funding of projects from the responsibility for implementing projects, which the Secretary-General advocates in paragraph 36 (c) of his comments.

8. In recommendation No. 9, Mr. Macy calls for a comparative study by the Administrative Management Service (AMS), in its next review of the Geneva Office, of centralized and decentralized financial control of trust funds in Geneva and Vienna, respectively.

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9. In the Advisory Committee's opinion the question of decentralization of financial control of trust funds must be viewed in the context of the reforms that will accompany the introduction of the proposed new form of presentation of the United Nations budget. Their objective must be to minimize delays while ensuring the effective and economical expenditure of resources, both budgetary and extra budgetary.
10. In paragraph 66 of his report, the Inspector states that "trust funds and non-monetary contributions are vulnerable to abuse unless subject to some central control". In this connexion, the Advisory Committee is pleased to note that the more stringent controls over travel on official business introduced by the Secretary-General in 1972 (ST/SGB/139, para. 3) cover travel financed from the various extra-budgetary funds administered by the Secretariat. The Committee trusts that the officials responsible for applying those controls will not relax them when the travel is financed from voluntary funds - for an inessential journey is wasteful in terms not only of the fares and subsistence actually paid out, but also of the time of officials; it should be remembered that, even where travel expenses are paid from voluntary funds, the salaries of the officials concerned may be charged to the regular budget.
11. In its report on the form of presentation of the United Nations budget and the duration of the budget cycle, the Advisory Committee recommended that the programme and budget document should include a detailed breakdown of the resources required for individual programme components and activities (A/8739, para. 50). The Committee believes that the same approach should be taken in budgeting the expenditure of voluntary funds. A properly costed and approved programme of work would go a long way towards improving accountability for the expenditure of trust funds. As the volume of voluntary contributions is determined by the donor or donors, it will be understood that the programme of work will be carried out to the extent that funds are made available by the donors. The Committee therefore agrees with the view developed by Mr. Macy in paragraphs 35 and 36 of his report that it is desirable to have projections of trust fund expenditure.
12. One area where the existence of voluntary funds may lead to abuse is in the recruitment of personnel. Appointments to extra-budgetary posts, their grading and related matters cannot be left wholly to the discretion of substantive divisions. Central control is essential to secure uniform compliance with the requirements of Article 101, paragraph 3, of the Charter of the United Nations. The Committee shares the Secretary-General's misgivings about recommendations 7 and 8, expressed in paragraphs 21 and 33 of his comments (A/8840/Add.1). At the same time, the Committee places particular emphasis on the need to speed up the recruitment process which is sometimes subject to considerable delays with consequential disadvantages for programme implementation.
13. The Advisory Committee endorses Mr. Macy's recommendation No. 6 which seeks to ensure that decisions involving changes in the established manning table are taken in the context of the total manpower resources, both budgetary and extra-budgetary, available to the organizational units concerned; in paragraph 20 of his comments the Secretary-General agrees with this recommendation.

14. In recommendation 10 the Inspector advocates amendment of Economic and Social Council resolution 1434 (XLVII) and General Assembly resolutions 2511 and 2514 (XXIV) dealing with the United Nations regular programme of technical co-operation and the related programming procedures. In his observations, the Secretary-General expresses the view that such an amendment is premature and that the current procedures are working quite well (A/8840/Add.1, para. 23). On balance the Advisory Committee agrees with the Secretary-General that the resolutions need not be reviewed at this stage, although it is concerned that under current procedures the estimates and expenditures under part V (other than for industrial development) are not subject to scrutiny by intergovernmental organs. The Committee recalled that, in its first report on the budget estimates for 1973, it expressed the view that the procedures governing part V should, to the extent possible, be adapted to the requirements of planning and programming related to a biennial budget cycle and a medium-term plan. 1/

15. The Advisory Committee agrees with Mr. Macy's recommendation No. 2 that in future audits the Board of Auditors should place more emphasis on trust funds. It notes the Secretary-General's comments in paragraph 15 (A/8840/Add.1) that steps have already been taken to improve data reporting on trust funds. The Committee believes that the Internal Auditors should also pay more attention to trust funds, careful auditing being one means of ensuring that decentralization does not lead to laxer controls over expenditure of voluntary funds.

16. In recommendation 15, Mr. Macy says that the Administrative Committee on Co-ordination (ACC) should initiate the development of a system for overhead costs of trust funds consistent with that being developed by UNDP. The Advisory Committee agrees that overhead costs should be calculated in a consistent manner. But it would not be in favour of ACC undertaking at this stage a separate investigation of overhead costs of trust funds and non-monetary contributions, before conclusions can be drawn from the application of the system prepared under the Consultative Committee on Administrative Questions (CCAQ) auspices for the Governing Council of UNDP. The Committee notes from paragraph 29 of the comments by the Secretary-General that, while welcoming the Inspector's recommendation, the Secretary-General does not suggest that it be implemented immediately.

17. The Advisory Committee does not consider that the questions of nomenclature, definition and classification raised by the Inspector in his recommendations 1 and 3 are matters of immediate concern. It notes that the Secretary-General welcomes these two recommendations and indicates readiness to co-operate in the proposed studies within the context of the work programme of ACC and CCAQ (A/8840/Add.1, paras. 9 and 17).

18. In recommendation 11, Mr. Macy states that trust funds for security forces and peace-keeping missions should be shown as extra-budgetary resources in section 17 - Special Missions, of the United Nations Budget Estimates. The Advisory Committee sees no compelling reason for this recommendation inasmuch as none of the security forces and peace-keeping missions in question is financed from both the regular budget and extra-budgetary funds; consequently, the inclusion of the information requested by the Inspector will not help Member States in assessing requirements under section 17 of the regular budget.

1/ Official Records of the General Assembly, Twenty-seventh Session, Supplement No. 8 (A/8708), para. V-1.

19. On the basis of the foregoing considerations, the Advisory Committee recommends that the General Assembly may wish to:

(a) Take note of the report by Mr. Macy (A/8840) and the related observations by the Secretary-General and the Administrator of UNDP (A/8840/Add.1) and by the Advisory Committee;

(b) Request the Secretary-General to ensure that financial, manpower and other relevant data on projected economic and social development activities to be financed from extra-budgetary resources and under the regular programme of technical co-operation are included, to the extent possible, in the programme and budget documents on the understanding that only global amounts need be shown for operational projects executed by the United Nations;

(c) Request the Secretary-General to strengthen as necessary his central control over the receipt and expenditure of voluntary contributions so that all proposals continue to be adequately reviewed, and that decentralization of authority under programme budgeting does not lead to the lessening of accountability;

(d) Invite the Board of Auditors to place more emphasis on trust funds in its future audits;

(e) Request the Secretary-General to ensure that the Internal Audit Service gives all necessary attention to voluntary funds;

(f) Take note of the Secretary-General's readiness to co-operate with ACC and its CCAQ in the studies of common nomenclature, definition and classification recommended by the Inspector.

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JOINT INSPECTION UNIT

Report on trust funds of the United Nations

Addendum

Comments of the Secretary-General of the Inter-Governmental
Maritime Consultative Organization (IMCO)

1. The report on trust funds of the United Nations (A/8840), prepared by Mr. Robert M. Macy, has been thoroughly and carefully studied by the Technical Co-operation Division of the Inter-Governmental Maritime Consultative Organization (IMCO). Although IMCO has no trust funds as yet, and although the report is basically concerned with the trust funds of the United Nations itself, most of the comments are of great interest to IMCO because they give very significant pointers to the direction in which the establishment of a generalized system of trust funds is envisaged.
2. It would be very useful for IMCO (and probably for all the other agencies in the United Nations system as well) if the question of definitions - to which chapter I of the report and recommendation 1 of the summary of recommendations refer - were to be studied by a working party of the Consultative Committee on Administrative Questions. It would be all the easier for IMCO to accept recommendation 2 of the summary of recommendations because, under article VII, regulation 7.3, of the Financial Regulations, the UNDP reimbursement to IMCO is shown in a separate account. Recommendation 3 should be accepted by IMCO, because it is likely to clarify slightly a subject which, as the report shows, is very complex.
3. With regard to that portion of the report which is devoted to the attitude of Member States towards trust funds, it must certainly be borne in mind, as the report emphasizes, that, if strict budgetary procedures (which will include, in particular, the prior authorization of expenditure by the legislative body) are applied before a project is implemented, this will mean losing most of the present

advantages of a trust fund. A certain degree of flexibility is therefore desirable, without consequential modification or impediment to the necessary controls. It is highly desirable for recommendation 5 of the summary of recommendations to be studied and appropriate decisions taken. The procedure mentioned in recommendation 6 has been followed ever since the inception of our technical co-operation programme under the auspices of UNDP, as far as the use of overhead costs is concerned, and the Secretary-General would continue this practice as regards any posts that might be financed from trust funds. The Secretary-General proposes to support recommendation 15 of the summary of recommendations, because its implementation would greatly clarify the management of trust funds.

4. The other recommendations are of less interest to IMCO and call for no special comment by the Secretary-General.
