



Report on the introduction of cost accounting in the Organizations of the United Nations family

by
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Joint Inspection Unit



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**Geneva and New York
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REPORT ON THE INTRODUCTION OF COST ACCOUNTING IN THE
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Chapter I

REASONS FOR THIS STUDY AND EXPOSITION OF THE PROBLEM

Present status of the study of the problem. Resolution of the Governing Council of UNDP

1. The introduction of analytical cost accounting is an important part of any general programme for modernization of the administrative machinery of the organizations of the United Nations family. It is, in particular, bound up with the introduction of modern programming methods.
2. The adoption of a system of this kind by all the agencies was proposed for the first time in a 1969 report (JIU/REP/69/2). Since then, after an initial series of reactions that were favourable in principle but were followed by a period of marking time in most of the agencies, the study of the problem has now made considerable progress. In July 1971 there appeared the special survey undertaken at the initiative of WHO and UNESCO on the problem of calculating the reimbursement by UNDP to executing agencies of overhead costs for extra-budgetary programmes. A Joint Inspection Unit note dated 17 September 1971 (JIU/NOTE/71/2) commented on this survey. In November 1971 (document E/5081), ACC reported favourably on this question; in December of the same year, the Advisory Committee on Administrative and Budgetary Questions formulated its observations (document DP/L.212/Add.1) and endorsed - as regards the larger organizations - the proposal that they should "undertake development work on general cost accounting, provided that such work is also needed for purposes other than calculating overhead costs". The Economic and Social Council and the Governing Council of UNDP (DP/L.225) also approved in principle the study of a system of this kind.
3. The Consultative Committee on Administrative Questions (CCAQ) accordingly decided in early 1972 to establish a specialized Task Force whose terms of reference were set out in the report of the thirty-fifth session of the Consultative Committee (CO-ORDINATION/R.930 of 11 March 1972). The objectives of the Task Force were to:
 - Classify the functions performed by the organizations at headquarters and in the field, paying particular attention to technical and administrative support services;
 - Identify precisely all elements of the total costs of these support services;
 - Propose methods of measuring the costs of these services;
 - Propose criteria for determining which support costs are actually in the nature of direct project costs and for distributing the remaining costs to the programmes financed by the various sources of funds.

The report prepared by the Task Force 1/ (April 1972) was issued on 29 April as document CCAQ/SS.1(72)/R.2(FB). The same Task Force, with a slightly different membership, 1/ met more recently to study in greater detail the methods for implementing phase I of the programme in the various agencies. This Task Force (which met from 4 to 15 September 1972 at Geneva) issued a report on 15 September under the symbol CCAQ/S.36/R.8(FB).

4. The Governing Council of UNDP, during its fourteenth session held in May 1972 at Geneva (336th meeting), "sought the advice and comments of the JIU and ACABQ in making its decision on the study of overhead costs". The Administrator of UNDP accordingly transmitted this request to the Joint Inspection Unit by letter of 12 July 1972, indicating that it would be desirable for the comments to be submitted by about the middle of November.

5. The purpose of the present report is to present the comments of one of the Inspectors on the reports of the CCAQ Task Force, together with a general review of the problem of analytical cost accounting in the organizations of the United Nations family.

Analytical accounting and overhead costs

6. It seems to me necessary first of all to dispel any confusion which might arise between the problem of calculating the overhead costs of extra-budgetary programmes and the problem of introducing analytical cost accounting. The two questions are undeniably interrelated, but they are separate, 2/ and the following points should be spelt out:

7. (a) The introduction of cost accounting is essential in order to ascertain the amount of the overhead costs (payable by the agencies) of programmes financed by UNDP.

8. (b) Once this amount is known, the choice of a method of partial or total reimbursement to the agencies of these overhead costs is a policy decision which is primarily a matter for the Governing Council of UNDP. Technical surveys may help in arriving at such a decision, but they cannot replace it.

9. (c) Lastly, the introduction of cost accounting will serve to solve many other problems besides that of calculating the amount of overhead costs. These other objectives must therefore be borne in mind by those who have to make the choice of an accounting system.

1/ The first Task Force was composed of representatives of the United Nations, WHO, the ILO and FAO. UNESCO, which sent an observer to the first Task Force, was not represented at the second.

2/ This point was already emphasized in note JIU/NOTE/71/2, para. 1.

Chapter II

OBJECTIVES AND METHODOLOGY OF COST ACCOUNTING IN INTERNATIONAL ORGANIZATIONS

Objectives, methods and general plan. Relationship to the budget format

10. In the interests of a better understanding of what this problem involves at the present time, it seems to me worth while to recall very briefly what the objectives and methods of cost accounting are. In general terms, it may be described as a technique whose:

Objective is to enable producers (manufacturers, farmers or suppliers of services) to know, at all stages of production, the cost of their "products" (and the components which make up that cost);

Principal method is to identify the components which make up the cost, on the basis of the figures obtained from the general accounts, and to distribute and attribute them to the various products by using a number of "distribution keys" or by calculating hours worked.

11. In the case of administrative services, the "product" is obviously less easy to define than in industry and agriculture, since the objectives of public services in general and of international organizations in particular are not always very easy to identify. However, it can readily be seen that in the economic and social fields, for example, the "project" (or, in the case of programmes the part of the programme which form a whole), such as a UNDP project, is a fairly easily identifiable "product". Identification, by objective, as precise as possible, of the activities as a whole is essential, however, if the calculations are to be meaningful. That is why there is a direct link between cost accounting and budget programming methods (or methods involving presentation by objective and related expenditure).

12. However, while such "projects" are, especially in the economic and social field, the "final products", information about whose cost (and cost components) is the most important, there are also a number of "intermediate products", or characteristic stages in the preparation of projects, the cost of which it may be important to know. This might be so in the case of the cost of a conference or a session (in fact, some conferences or sessions may at times be identified with a final product, the decisions taken at them being the main objective), the cost of a fairly large publication (especially if it is intended for sale), and so forth. Lastly, the calculation of standard unit prices (cost of recruiting an expert, average cost of one conference-day for conferences of a certain type, cost of typing, translating and distributing one document-page, etc.) is a means of directing, controlling and improving the productivity of major services.

13. The general plan for a cost accounting system may be described, very summarily, as follows:

The budget accounts provide, in the order of the parts, sections and chapters of the budget, the figure for expenditure (monthly, quarterly or annually) under each chapter. Thus, the raw material available depends on the format of the budget. If the budget is presented by type of expenditure (like the present United Nations budget: staff costs, equipment, travel, etc.),

practically all the basic components have to be redistributed among projects or programme components if one is to ascertain their costs. If, on the other hand, the budget is presented by programme, as is now the case with the large major agencies, the costs of expenditure relating solely to each project are identified in the budget. In order to obtain the true cost of each project, one must then add to the components already identified in the budget the figures resulting from redistribution of the other cost components included in the budget sections relating to general administration, finance, budget and control or in those relating to implementation of the programmes themselves, since the professional staff of organizational departments often have duties which pertain either to the programme itself or, in greater or lesser degree, to the direct support of the programme.

14. No budget format, however detailed, and even if it involves presentation by programme - in other words, by objective (or anticipated "product") - can determine in advance the exact cost of each objective. In the first place there are always some common services, and in addition many professional staff members in practice always have to be performing several functions simultaneously. Nevertheless, it is quite clear that a good cost accounting system, providing figures for "standard" costs, average costs, "norms", and so forth, can lead to a future improvement in budget presentation by increasing the number of components whose costs can be calculated in advance and which can consequently be "budgetized". A more "refined" budget format can in turn lead to improved cost accounting. There is in fact a constant interaction between the two systems which leads to continued improvements in administrative methods.

Analysis and distribution techniques

15. Thus, there is in any event a problem of redistribution or, in other words, of dividing up common costs and attributing them to a number of (programme or sub-programme) projects. This problem is usually dealt with by dividing the common costs (to be attributed) into a number of components (cost of rentals and buildings, office expenses, costs of personnel services, budget services, etc.) and distributing these components to the various products the cost of which one wishes to ascertain, using either "distribution keys" or time measurement methods.

16. The complexity or simplicity of a system therefore depends on two sets of factors:

The number of cost components used: one method is to assemble relatively disparate components into groups that are treated as homogeneous, and the other is to treat each of them as a separate group; for example, office supplies, telephone expenses, cleaning costs and transport or postal expenses may be grouped together as "office services", to which a single distribution key is applied, or, alternatively, each of the components mentioned above may be singled out with a view to determining the fairest method of attribution for each of them; the same applies to personnel costs, where one can either group together or distinguish between management costs and recruitment costs; similarly, within the category of recruitment costs, distinctions can be made between the recruitment of professional staff, of experts, of General Service staff, and so forth;

Distribution key method or time measurement method: here, the alternatives are either to adopt a few simple distribution keys or to try to find the most accurate method of distribution possible for each component. In particular, where the distribution of percentages of the working time of staff members is concerned, there is the option of either making very detailed and frequent calculations through the use of "time reports" or simply producing figures which are largely estimates, at infrequent intervals and covering only simple groupings. Obviously, the more complicated methods are also more expensive but are more likely to be precise and useful; the simpler methods are the reverse.

17. In order to use distribution keys and time reports (which are completed either for entire units or for a number of staff members singled out as having to divide their time among multiple activities the cost of which needs to be identified), it is, of course, necessary to determine in advance the type of "products" whose cost one wishes to ascertain.

The choice of a method of distribution of costs to the final (or intermediate) products of which it is desired to ascertain the cost is, in the final analysis, the most important feature of any system; the more precise the results expected from the system, the more complicated it will be as regards, among other things, the design of the time report forms distributed to staff members. The more "refined" the result that is sought, the greater will be the number of particulars called for in the forms; this will mean a heavier workload for the staff members who have to complete them and a larger number of steps in entering and processing the information obtained.

18. For instance, in order to calculate overhead costs for extra-budgetary programmes with a cost accounting system, it is possible to define the objective (the "product" whose cost one wishes to ascertain) in several ways:

(a) One can attempt to calculate for a single organization and for a specified period (one year, one quarter, one month) the total amount of overhead costs relating to a UNDP programme, to the regular programme, and to programmes financed by other fund sources. This involves a relatively simple total figure, for which all that is needed is the aggregate of the cost components (after elimination of components regarded as fixed costs) in three sectors of activity: the regular programme, UNDP projects, other projects.

(b) One can, on the other hand, attempt the infinitely more precise calculation of overhead costs relating to each project or each programme component. In this case, the time report forms to be completed by staff members who divide their time among different programmes or support activities for different programmes should call for the insertion of a code number to identify each project or each programme component in which they have participated. The processing of this information, which will ultimately be used for a distribution to several hundred projects or programme components, is of course more complicated than making a distribution to only three types of activity.

(c) Again, one can refine the type of information sought even more by calling for the singling out, with respect to each programme, of certain types of support activities, such as programme or project preparation, implementation and evaluation, or by singling out within the category of implementation activities those relating to personnel recruitment, procurement of equipment, financial administrative services, and so forth. This would mean quite a complicated operation, but it would provide overhead cost figures for each project in terms of each type of support activity.

(d) Lastly, one can choose any intermediate position between the two extremes represented by the type (a) approach and the approach represented by types (b) and (c) combined, seeking whatever kind of information seems most important by adapting the model time report forms precisely to the objective desired.

19. It is, of course, feasible to set other kinds of objectives (cf. paras. 9 and 12 above). If the information wanted is, for example, the average cost of recruiting an expert, the cost of a given publication or the average cost of one conference-day for conferences of a certain kind, it is possible to make flexible use of the time reporting method by including more detailed questions, for a given period, in the forms which certain categories of professional staff are asked to complete. This can also be used as a way of making still more detailed periodic sample surveys which can provide valuable information. If the system is to function correctly, however, it is of course essential that all staff members who will have to collaborate in making it work should have fully grasped the value and importance of the system.

20. Once the objectives have been selected, it remains to decide on a practical method of distributing costs to the cost groups taken from the general accounts and to the "products" the cost of which is to be determined. I do not think it necessary in this paper to describe in detail the techniques that are used. There is nothing mysterious about them, however; they involve applying distribution keys (consisting of a set of divisions and multiplications) and adding together selectively the components thus obtained and those produced from the information supplied by staff members who have completed time reports. The whole operation requires the preparation of large tables which make it easier to perform the various calculations that are required and which may be called "cost distribution matrices".

"Production structures" and UNDP projects

21. However, for a proper understanding of how these calculations are made and in what order, it should be borne in mind that any cost accounting system must take into account the administrative structure of an enterprise or organization or, more precisely, the sequence of operations leading up to production of the "product".

The "production structure" to be taken into account here is quite simple. Distinctions must actually be made between three sets of activities, which are distinct by their nature, and three types of services. However, services and activities do not always correspond exactly to one another. The production of a project or part of a programme involves:

- | | |
|---|--|
| (a) Programmes services and experts on field mission. | Responsible for implementation in the field of UNDP projects or projects under the regular programme, or for those parts of the programme which are carried out at headquarters. |
|---|--|

- (b) Direct programme support services which in practice are usually, in most agencies, an integral part of the same organizational units that are responsible for programme implementation at headquarters. Responsible for direct technical support (planning, project formulation, direct backstopping during implementation: reports, correspondence, liaison with the general administrative services, etc.).
- (c) General administrative services. Responsible for general servicing, working for the programme services, the direct support services and themselves. In practice, they are also responsible in some cases 1/ for direct support.

22. Accordingly, the calculation of the total cost of a UNDP project, for example, will have to take into account:

(a) The cost of the project itself, financed by UNDP, which is known once UNDP and the executing agency have agreed on the amount of a budget in accordance with the Plan of Operation; it usually includes all expenditure in the field;

(b) The cost of direct programme support: in order to identify this, it is necessary to have measured the time spent on the projects in question by professional staff members of the organizational units (or in some cases of the general administrative services) responsible for backstopping of the particular programme. This means aggregating the data provided in the time reports completed by the staff members concerned (plus, of course, the cost of the time of their subordinate staff);

(c) The cost of the activities of the general administrative services which have provided direct or indirect backstopping for the support activities (identified in sub-paragraph (b) above) and the programme activities (sub-paragraph (a));

(d) Lastly, in order to be even more precise, it is necessary to take into account the fact that each of the general administrative services works not only for the programme services and direct support services, but also for the other general administrative services; for instance, the work of the personnel service includes recruiting field experts and recruiting and managing staff members of the organizational units working at headquarters, but in addition it includes recruiting and managing staff members of the other general administrative services (budget, meetings services, etc.) as well as, of course, the members of its own staff.

23. The total cost of a UNDP project will therefore be arrived at by the following formula:

- Cost of the field project financed by UNDP
- + Cost of direct support activities (mainly in the organizational units at headquarters)

1/ For example, the United Nations Technical Assistance Recruitment Service.

+ Cost of general administrative activities relating to:

Field activities;

Direct support activities;

General administrative activities relating to the two preceding groups of activities.

Fixed costs and variable costs

24. Lastly, attention should be drawn to what is probably the most difficult problem encountered in almost all types of cost accounting, namely, the problem of distin-
guishing between fixed costs and variable costs. This problem, which is also known as the marginal cost problem, involves trying to make a distinction between expenditure which would have been incurred in any event, irrespective of the "volume" of production, and expenditure which is linked, more or less directly, to increased "production". This is the problem raised by the Advisory Committee on Administrative and Budgetary Questions, in connexion with the calculation of "overhead costs", when it expresses the wish (repeating a demand which it has been making for many years) that UNDP should be required to reimburse to the agencies only "clearly identifiable additional expenses". What this difficult problem really comes down to is, firstly, deciding that in identifying the cost of certain components (e.g. support costs for extra-budgetary projects) certain cost groups will not be subjected to any distribution because they will be regarded as "fixed costs", and, secondly, making a distinction between costs relating solely to a given project and those which must be subjected to distribution to all projects (direct costs and indirect costs).

General model

25. To sum up, the general plan of a cost accounting system for international organizations might be represented as follows:

Cost groups

The list of budget headings comprising all expenditure of the organizations (for all fund sources) assembled into a number of homogeneous groups (cost groups).

A. Costs pertaining solely to each project, identified by the budget or in extra-budgetary funds, or calculated on the basis of the components available.

B. Costs regarded as fixed costs.

C. Variable costs:

Direct project support costs (backstopping provided by the programme services).

Support costs of general administrative services. List of homogeneous groupings, more or less detailed, but including at least:

Costs of rentals and buildings;
Miscellaneous office expenses;
Costs of budget, control and general administrative services;
Personnel services costs;
Meetings services costs;
Costs of legal services, etc.

(The number of groupings varies according to the degree of precision desired.)

Methods of distribution

Direct attribution to each project or each group of projects or of major parts of the programme.

Not attributed to the calculation of the cost of extra-budgetary projects (should therefore theoretically be attributed to activities financed by the organizations' own budgets).

Distributed to projects or parts of programmes or, more simply, by major fund sources (budgetary funds, UNDP, other funds) with the help of time reports completed by staff members responsible for direct support.

Distributed according to a number of distribution keys and time measurement methods to:

The general administrative services themselves;
The direct project support services etc.;
The programme services;
in an order of distribution which makes it possible to arrive at the full cost for each group.

Results

The results obtained may vary in number and in precision. One can, for instance, obtain:

- (a) The distribution of total support costs to three sectors (regular programme, UNDP, other projects), or
- (b) The distribution of support costs to each programme, part of programme or project, or
- (c) The distribution of support costs to various groupings of such costs (planning, budget preparation, implementation, evaluation), or
- (d) Any combination of approaches (b) and (c).

One can also, by using more detailed time report forms distributed to categories of staff members to be singled out, obtain cost figures for any intermediate "product" or objective which one wishes to isolate, such as total cost of a publication, cost of a conference or a session, cost of one page of translation.

Chapter III

REVIEW OF THE PROPOSED SYSTEM

Description of the system proposed by CCAQ

26. This very simplified account will permit a more exact appraisal of the system proposed by CCAQ. The main features of this system are as indicated below. The proposals are:

27. To have two separate phases, the first of which would be inexpensive and fairly simple to implement (the minimum which should be adopted by all the agencies), while the second would make it possible, by progressive sophistication, to obtain more figures and more accurate ones. CCAQ considers that 1973 should be an experimental year;

28. To solve the problem of identifying "additional clearly identifiable expenses" by treating as fixed costs (not to be distributed) expenditure classified by the agencies as relating to "policy-making, direction and co-ordination, general management, etc." as well as the budget sections concerning amortization of, and interest on, borrowings such as the United Nations bond issue;

29. To classify components of the cost of various activities by assembling them into what are called cost groups. The list of proposed components comprises:

11 "non-technical support" components (general administrative costs in the broadest sense):

- (1) Office and meetings accommodation;
- (2) Office services;
- (3) Data processing;
- (4) Budget, finance and administration management;
- (5) Personnel administration;
- (6) Procurement;
- (7) Reports, publications and documents;
- (8) Meetings services;
- (9) Legal services;
- (10) Public information;
- (11) Revenue-producing activities;

3 "technical support" components (direct support activities provided by part of the organizational units - or part of the time of staff members of the organizational units):

- (1) Library services;
- (2) Regional and local offices;
- (3) Technical support units;

3 "operational programmes" components (programme activities proper, whether carried out at headquarters or in the field, distinguished according to their mode of financing):

- (1) Budgetary funds;
- (2) UNDP;
- (3) Other funds;

2 "policy-making and direction" components (expenditure for general policy-making regarded as "fixed costs", not to be treated as support costs for extra-budgetary programmes):

- (1) General management;
- (2) Policy-making organs and external audit;

30. To assign to each of these components a distribution key - for instance, floor space in the case of buildings and rentals, man-years of professional staff in the case of office services, and so forth. Such "keys" are proposed for seven of the "non-technical" support components, while the system of distribution by time measurement is proposed for six others (three "non-technical" support components and all the "technical" support components, also three in number). The other components are regarded as not being subject to distribution.

31. The procedures for calculating and distributing costs take account of these fundamental distinctions between operational programmes, direct technical support and indirect non-technical support.

Determination of the cost of direct expenditure under the programmes themselves, which is relatively easy in the case, for instance, of UNDP projects (the budget for direct costs being negotiated between the executing agency and UNDP and deriving directly from the Plan of Operation), is difficult in the case of operational expenses financed out of the regular budget (even where the budgets in question are presented by programme), since some programme activities proper are carried out at headquarters by professional staff who may either devote all their time to them or divide their activities among several programmes and sub-programmes, work part of their time in support of other projects, and so forth. The CCAQ system therefore proposes that the direct costs of operational programmes should be identified by asking staff members of organizational units who perform multiple functions to complete forms showing the breakdown of their working time.

32. The distribution of direct support costs to the different types of programme requires the same analysis as is made by means of these time report forms (cf. paras. 21-23 above). This direct support is in fact provided by professional staff members of organizational units who, whether employed in specialized units (such as the United Nations Office of Technical Co-operation) or in the administrative divisions responsible for implementation of the programmes themselves, are directly connected with the implementation of programmes but do not themselves participate in their implementation. Admittedly, in some cases, a distinction between programme or project support and direct participation in the programme or project concerned may be difficult to make. No doubt experience alone will enable one to determine exactly at what point a boundary should be drawn between these two kinds of activities. In any event, these direct support costs can be calculated from the time reports completed by certain professional staff members of the programme services and programme support services concerned.

33. These time reports should be completed only by professional staff members of organizational units who have to divide their time among several programmes. The number of such staff members in WHO, for instance, is at present 20 per cent of the total strength. The purpose of these forms, at least in phase I, is:

To identify the time spent in activities relating to operational programmes financed from one fund source (the organization's own programme, UNDP, other fund sources);

To single out, within the support activities, the cost of the various support functions performed: programme planning, project formulation, project implementation, evaluation and follow-up.

34. I believe it is necessary at this point to reproduce one of the model forms proposed by the Task Force for use as a time report:

WEEKLY OR MONTHLY ESTIMATE, BY PROGRAMME, OF HOURS WORKED				
Name	No.	Period from:	to:	
Department		Unit		
FUNCTIONS		Applicable to		
	Regular Programme	UNDP	Other	Total
OPERATIONAL PROGRAMME				
TECHNICAL SUPPORT:				
PROGRAMME PLANNING				
PROJECT FORMULATION				
PROJECT IMPLEMENTATION - TECHNICAL BACKSTOPPING				
PROJECT IMPLEMENTATION - NON-TECHNICAL BACKSTOPPING				
POST-PROJECT EVALUATION AND FOLLOW-UP				
POLICY MAKING, DIRECTION, AND CO-ORDINATION:				
EXECUTIVE POLICY MANAGEMENT				
POLICY MAKING ORGANS				
TOTAL HOURS WORKED				
ANNUAL LEAVE, SICK LEAVE, OFFICIAL HOLIDAYS, AND OTHER PAID ABSENCES				
TOTAL HOURS				

35. Lastly, the Task Force proposes a number of tables for use in grouping and aggregating the figures obtained either by the application of distribution keys to certain components or by having work report forms completed by a number of professional staff members. The methods proposed are traditional ones. The two reports of the Task Force, the symbols for which are indicated in paragraph 3 above, have annexed to them the model tables or "matrices" to be used. Attention is simply drawn here to two interesting features:

The main "cost distribution matrix" which is proposed makes it possible, by listing in a certain order the components whose cost is being calculated, to arrive as nearly as possible at the full cost of each component (i.e., to include in the calculation, for instance, of the "personnel costs" component the cost of the office accommodation, office services and budget services used by the personnel services). This is possible even when the matrix is used manually.

A suggested computer programme was prepared and annexed to the first report, to permit full inclusion of the services which the various "components" render to each other and thus to obtain the full costs for each of them.

36. Finally, the anticipated results of the system proposed by CCAQ are as follows:

In phase I, it is hoped actually to obtain 12 figures by distributing support costs to three categories (regular programme, UNDP, other funds) and, within each of those categories, distributing each amount to four function groups: planning, project formulation, project implementation, evaluation;

In phase II, the object would be to obtain more data by increasing the number of groups within the three original categories or, in other words, by making a more precise breakdown of the various types of support activities (about 40 groupings are envisaged for the most sophisticated phase);

Lastly, it is apparently intended that in phase II information will also be sought on the cost of a number of other components by varying the design of the time reports for some staff members (this seems to be the course which some agencies are in any event already taking).

37. The figures thus obtained are certainly not negligible and should be fairly precise, provided, of course, that the professional staff members who will have to complete "time reports" are prevailed upon to do so with the necessary care and accuracy. In this connexion, the problem of the intervals at which such reports should be completed is obviously very important. The Task Force recommended (paragraph 13 of the second report) that reports should never cover less than one week or more than one month. It now remains to consider, to the extent possible at the present stage, whether this system is the best possible plan for a cost accounting system and what methods could be used to facilitate, in any event, progressive improvements in the benefit derived from whatever system is ultimately adopted.

Systems proposed previously, especially by UNESCO

38. It seems to me worth while at this point to make a comparison between the system proposed by the Task Force and those proposed in July 1971 in the survey entitled "Special management survey on the reimbursement to executing agencies of overhead costs for UNDP-financed programmes", which was prepared by a study team

composed of professional staff members of WHO and UNESCO acting as consultants to UNDP. ^{1/} The value of such a comparison lies in the fact that it gives a better picture of possible variations in the methods used. The above-mentioned survey actually contains proposals for two systems which are quite substantially different, namely, the one set out in the body of the report and the one described in annex 4 to the report, submitted by UNESCO under the name "itemized cost accounting system".

39. The essentials of the two proposals can be summarized as follows:

Proposal in the report itself

The report suggested four options, of which the first two actually amounted to work measurement systems, while only the last two constituted a genuine cost accounting system. The more sophisticated system is based on the technique of time reports to be completed - daily - by professional staff members. These reports indicate the total hours spent on each project (with a code number). The anticipated results are a breakdown of support costs by project. The methods for distributing general administrative costs are only outlined.

Proposal in annex 4: system proposed by UNESCO

40. Identification of the costs relating solely to each project or "programme unit" of the regular programme is made directly in the budget accounts of the organization, which, following the layout of the budget, assigns a code number to each programme unit.

Fixed costs (not to be distributed) are deemed to include, in addition to policy-making expenses, capital expenditure including construction costs and repayment of loans.

Direct support costs for projects, being the cost of personnel in the programme sectors, are distributed to each programme unit by means of a time reporting system. The time reports show, for each specialist in the programme sectors, the time spent as a percentage (and not by number of hours) per quarter (a report form to be completed every three months) on each programme unit or project identified by a code number. Thus, the report actually consists of two columns and is designed as follows:

Name	Sector or Department	Period covered	Identification No.
Budget code of the programme unit ^{2/} on which you worked during the period		Percentage of your time spent on each programme unit	

^{1/} Unnumbered document which I considered and commented on in document JIU/NOTE/71/2 of 17 September 1971.

^{2/} Since UNESCO has an "integrated" budget showing both UNDP projects and the regular programme, the term "programme unit" means either a part of the regular programme or, for instance, a Special Fund project.

The costs of direction, supervision and internal administration in each programme sector are distributed in proportion to the dollar amount of each programme unit, and the costs of salaries for General Service staff in the proportion indicated by the professional staff members completing the questionnaires. Two cost components which in UNESCO are included in the programme sectors, namely, library services and statistical services, are distributed, the former according to the personnel costs attributed to each programme unit and the latter according to an estimate made by the head of the statistical services.

Indirect support costs for general administrative services are distributed according to a few simple distribution keys:

In proportion to the total amount of expenditure for each programme unit in the case of budget services, office expenses, legal services, general administrative services, Office of the Controller, and so forth;

In proportion only to the amount of personnel costs relating to each programme unit in the case of personnel services;

In proportion only to headquarters personnel costs attributed to each programme unit: supplies and equipment, cafeteria subsidy, and so forth;

In accordance with costings made by the heads of units responsible for documents and publications service, computer service, meetings service and supply division for field projects.

The figures obtained by the system are the total cost and the amount of support costs for each programme unit, under either the regular programme or UNDP projects; this represents several hundred usable figures and a considerable degree of detail. Margins of error are estimated to be 10 per cent more or less.

41. Thus, the system proposed by UNESCO in 1971 differs from that proposed by CCAQ Task Force only in its choice of methods that are more simple in some respects (notably as regards distribution keys) and in calling for time reports to be made only every three months and to indicate percentages (instead of hours). On the other hand, the information called for relates to each project or programme unit, which results in many more, and much more precise, figures. ^{1/} However, the activities of staff members in the programme sectors are not broken down by type of activity; in particular, the distinction between support activities and programme activities proper cannot be made very easily in the case of organizational departments.

Comments on the current experiment

42. It now seems to me possible to offer a number of comments on the current experiment.

There seems to me to be no doubt that the major agencies - both those which actually participated in the CCAQ Task Force (the United Nations, FAO, WHO, the ILO) and UNESCO - have now arrived at a consensus on the general principles and basic design of a cost accounting system.

^{1/} See para. 46 and the related foot-note.

The achievements of the Task Force included proposals for methods that were sufficiently detailed to permit consideration to be given to a period of practical experimentation on the basis proposed for all the major agencies. The other agencies can easily be guided by the essential principles of the system and can, if they so desire, adopt a simplified method, at least initially. Even though this system seems to me to call for some reservations on certain points which will be spelt out in the following paragraphs, the proposals in question are in any event such that they can be improved on with experience. Provision has been made for any necessary amendments, and I believe that all who have contributed to this effort can be commended for having succeeded in producing so rapidly proposals that are coherent and precise, for having reached such broad agreement on methods of implementation and for having provided for the possibility of continuing to work together.

43. The systems proposed by UNESCO and by the other four agencies respectively show some differences of detail but are based on the same fundamental plan. It seems to me essential at this stage to indicate the points on which attempts at methodological reconciliation should be made with a view to arriving at an improved system. Generally speaking, of course, it is essential to aim at both maximum simplicity and maximum benefit. In trying to achieve this, however, it must be borne in mind that an apparently sophisticated proposal may be inexpensive and easy to apply while, conversely, an apparently simple proposal may be difficult and costly.

Number and importance of the objectives sought. Design of the time reports

44. As will have been seen, the most important document - in fact, the real linchpin of any cost accounting system - is, the time report. On this form may depend the success or failure of a system and, in any event, its accuracy and the profit derived from it, since it is the only document which requires the active collaboration of a large part of the professional staff and since the number and quality of the data it contains directly governs the number and quality of the data obtained. This makes it difficult to decide how complicated it should be and how often it should be completed.

45. With regard to the latter point, I personally believe that the views of the Task Force (between one week and one month) are reasonable; quarterly returns (as in the UNESCO plan) do not seem to permit the collection of sufficiently precise data. It seems to me that, by way of experiment, it would be reasonable to decide on a monthly return, with the option of making it more frequent in certain well-defined cases. The content of the form raises more difficult problems: should one call for data expressed in hours (like CCAQ) or as a percentage of time worked (like UNESCO)? Should one ask for a distribution of time worked for each project or programme unit (UNESCO) or only by major fund source (CCAQ)? Should activities be broken down between programme support activities (in four groups) and programme activities proper (CCAQ), or not broken down (UNESCO)?

46. I believe that these problems must be considered in terms of how complicated the work of the professional staff member having to complete the form would be; the fact that the form looks complicated does not matter very much if it is easy to complete. The point is that it will be processed by specialists, and the methods used can easily be made automatic. This leads immediately to the thought that it is feasible to arrange for the forms to specify what are the projects on which each of the specialists concerned has been working (indicating the name of the project and a code number, as in the UNESCO system). This does not require any special effort by

the professional staff member, since he obviously knows the names (and numbers) of the projects on which he is working and, in fact, it is simpler for him to indicate the names of those projects or the programme unit than to classify them by fund source. Such an indication is absolutely fundamental, in that it enables the number of figures obtained to be multiplied in each agency approximately a hundredfold (300 or 400 projects or programme units per agency per fund source). In addition, this method has the merit of providing detailed information in connexion with implementation of the regular programme (or of programmes financed out of special funds) as well as of UNDP projects. This meets the oft-repeated desire to apply the benefits of cost accounting to all management problems which arise in the agencies and not only to the calculation of overhead costs. It therefore seems to me that there should be no possible hesitation on this point. 1/

47. On the other hand, it seems essential at the same time to retain the distinction between the different functions performed which is provided for in the form proposed by the Task Force. In this respect, I would suggest that:

Technical support activities might be reduced to three major categories, so that no distinction would be made between planning and evaluation. We should thus have the following categories: programme planning and evaluation, project formulation, direct technical backstopping;

A clear distinction should continue to be made between project support activities and programme activities proper;

The form should show clearly - because this is also part of the activities of the professional programme specialists - the time spent by them not only on direction, policy-making or co-operation with the policy-making organs, but also on general administrative activities (participation in working groups, helping in the recruitment of staff members for their own unit at headquarters, miscellaneous administrative activities). Lastly, with regard to the choice between absolute time (number of hours) and percentage of time spent, my personal preference is for a percentage estimate (which is much simpler and raises fewer accounting problems). In the experimental phase, however, the choice between the two methods might be left to the professional staff members completing the form.

48. In view of the foregoing, the standard model time report which (at least for experimental purposes) would appear to me to be both the simplest and the most effective might be designed as follows:

1/ The Task Force did not expressly provide for such a breakdown by project or programme unit. However, it did not exclude it, as may be seen from one of the appendices to its second report (appendix III). It must also be admitted that such an analysis will be easier for some agencies than for others. Firstly, the breakdown of the programme into sub-programmes and projects or programme units is not effected in all budgets in the same way. Terminology is not uniform, and there is not the same precision everywhere in defining objectives. Secondly, indicating the code numbers of projects will not be easy, or even possible, everywhere. Lastly, analysing the dual breakdown, first by project and programme unit, and second, in a detailed manner, by type of activity as proposed for phase II and later, may present some added difficulties. However, it should be possible to overcome these difficulties during the experimental period, and this would have a very great effect on the improvement of budget formats in the future, as is pointed out in paragraph 14 above.

The design of this form is more complicated than those proposed by the CCAQ Task Force and by UNESCO. I do not believe that such a form is in fact any more difficult to complete for specialists in the programmes concerned. It should be borne in mind, in particular, that of all the entries for which space is provided probably only four or five at most will apply to each professional staff member filling in the form.

Name	No.	Period		
Department:		Unit:		
Breakdown of your activities during the period covered between	Code No. of Programme unit or project	Percentage of your time <u>1</u> /	Number of hours spent <u>1</u> /	For use only in processing the data
<u>Operational programme</u>				
Regular programme of the organization				
Names of programme units or projects in which you participated directly				
.....	No.			
.....	No.			
.....	No.			
.....	No.			
.....	No.			
<u>Technical support for regular programme projects or programme units</u>				
Names of projects or programme units for which you provided technical support (indicate for each project or unit the time spent on each type of support activity)				
Name of project:	No.			
Programme planning and evaluation				
Project formulation				
Technical support				
Other support activities				
Name of project:	No.			
Programme planning and evaluation				
Project formulation				
Technical support				
Other support activities				
<u>Other activities</u>				
Policy-making, direction and co-ordination				
Co-operation with policy-making organs				
Participation in general administration at headquarters				
General co-ordination				
Personnel matters				
Financial matters				
Other matters				
Total		100%		

Comments, if any:

1/ Complete either column, at your option

Choice of distribution keys for general administrative costs

49. The problem of choosing distribution keys for general administrative costs also requires the same kind of study. It is undoubtedly true that, whenever the basic data for a distribution key can be easily ascertained without doing any special work, it is highly desirable to choose that key. I might add there does not seem to me to be any very great differences between the proposals of the Task Force and those of UNESCO on this point. The keys proposed by UNESCO relate either to known amounts of expenditure or to costings made by heads of units. The Task Force proposed a more sophisticated system of keys. In the first place, some components do not come under the system of keys proper, but under the time reporting system; this is so in the case of the budget service, the public information service and the legal service; however, since time worked is measured by unit and not by individual staff member, it may be agreed that this system is in fact equivalent to that proposed by UNESCO, involving costings by heads of units (which applies to the statistical services and the documents and publications services). The recording of the number of purchase orders by the competent unit follows the same technique. Taken as a whole, however, the system proposed by UNESCO seems at first sight to be much simpler.

The experimental period should therefore be used to try out several systems of distribution keys for a number of services with a view to comparing their relative accuracy and making a fully informed final choice. On one particular point, the cost of accommodation, it does not seem by any means certain that the UNESCO system (costs of headquarters staff attributed to each programme unit) is not as precise as the relatively sophisticated system (floor space) envisaged by the Task Force (especially bearing in mind that in most agencies many units are required to move quite often). ^{1/}

It would appear that the experimental period should permit considerable improvement and simplification in this respect.

General Service staff and time measurement for repetitive tasks

50. In the various systems that have been proposed, it is envisaged that the working time of General Service staff will be distributed to programme sectors in proportion to that of the professional staff members for whom they work (cf. appendix X to the second report of the CCAQ Task Force and page 7 of annex IV to the UNESCO proposal). The activities of General Service staff in other sectors, including general administrative services, will be distributed according to distribution keys which, as we have seen, are in some cases based on costings by heads of units. Such methods are perfectly acceptable for determining programme costs or programme support costs. However, they could be easily and usefully supplemented by other kinds of measurement and calculation in the case of certain repetitive tasks; this would facilitate the determination of "standard costs" - costs of typing, printing, reproduction, translation of one page of a given type of document, cost of producing a recruiting document, a payslip, a purchase order or a travel authorization, costs of one hour of interpretation, and so forth.

^{1/} Perhaps a mixture of the two systems could be considered, distinguishing between traditional administrative services, on the one hand, and meetings accommodation and administrative services occupying more space because of their special functions, on the other hand.

For these repetitive tasks, statistical methods of measuring working time in the case of most General Service staff members are the most efficient. In some cases, but more rarely, they may involve professional staff when the repetitive tasks - for instance, translation or interpretation - constitute a strictly mental activity. A comprehensive cost accounting system cannot ignore either this kind of information on standard basic costs or the simple statistical methods by which it may be obtained. It therefore seems to me extremely desirable that the organizations should forthwith consider initiating studies of how supplementary methods of this kind could be introduced in the future and that they should lay down a time-table for applying them. It seems to me that the advantages of having this additional information (allowing detailed comparison between agencies and providing an "X-ray picture" of all services) would be out of all proportion to the cost of obtaining it, which should be quite small.

Control of the system: UNDP participation and full calculation of overhead costs

51. I must confess that I was rather surprised to note that no UNDP staff members had participated in the CCAQ Task Force. 1/

Inasmuch as one of the main objectives of a cost accounting system is to facilitate the calculation of the amount of overhead costs to be reimbursed by UNDP to the agencies it seems obvious to me that it is essential for some UNDP unit to maintain close collaboration with the agencies in order to know what methods will be used in arriving at the figures that will be submitted. UNDP is somewhat in the position of a client to the agencies who has a bill to pay, and it would be natural for it to exercise some control over how the bill will be made up. The only way of understanding the detailed functioning of so complicated a system is to participate in its formulation. For that reason alone, it would be clearly desirable for the UNDP administration to take part in future Task Forces dealing with this problem.

Moreover, I do not see any valid reason why UNDP should not itself consider applying a cost accounting system. After all, the work done by UNDP in formulating projects and negotiating with the agencies is only an extension of one and the same work; the activities of UNDP are, in the final analysis, part of the overhead costs.

It is therefore essential, if the introduction of such an accounting system is to provide full information, which alone can be truly meaningful, that the UNDP administration should provide its Governing Council with the same kind of data as are provided by the agencies (amount of the costs pertaining to each project, breakdown of those costs by type of activity, etc.). It is only in this manner that the Governing Council will be able to form a valid idea of the true cost of all support activities and thus have the necessary basis for policy decisions relating to the improvement of administrative methods.

Necessity of an experimental period

52. The Task Force proposes in its second report that the first quarter of 1973 should be regarded as an experimental period (para. 44). It suggests that the

1/ The UNDP administration followed the proceedings but did not participate in them.

CCAQ time-table, under which the figures for the first quarter of 1973 could be communicated to the UNDP Governing Council at its June 1973 session, should be reconsidered. It expresses the view that the nature and timing of the first information to be given to the Governing Council should be determined at a meeting which it suggests should be held in November 1973 (following an initial review session in May).

I feel bound in this respect to express very strong support for the Task Force's suggestions; 1/ it is essential, when devising so complicated and difficult a system, to have an experimental period which should actually be longer than one quarter and might in fact cover the whole of 1973.

The adoption of a cost accounting system is destined to bring about such changes in the administrative and financial methods of the agencies and of UNDP that it seems to me infinitely more important to devise a reliable system than to have immediately available mathematical data which might well be very far removed from what will be provided when the system has been finalized. I therefore believe that submission of the first usable figures should be deferred until the June 1974 session (cf. time-table given below in the chapter relating to methods of reimbursement, para. 64). However, the Governing Council should of course be kept regularly informed of the progress of the experiment.

Permanent improvement of methods and inter-agency consultation

53. Paragraph 46 of the second report of the CCAQ Task Force states that reviews of the experimental system should be made in May and November 1973. Such adjustments will be essential. Indeed, I believe it ought to be agreed forthwith that the Task Force, which has already held two sessions in 1972 and is scheduling two for 1973, should be formalized and should hold two regular sessions each year in the future; for, after the experimental period proper in 1973, there will be a continuing need for constantly improving the machinery, exchanging experience and harmonizing whatever methods are devised. Cost accounting introduces machinery that is sufficiently important, delicate, useful and evolutive to be placed under constant supervision and to be the subject of regular consultation between the specialists responsible for making it work.

54. There are also a number of sound reasons for establishing an information system on the subject of cost accounting in international organizations. This will be something entirely new, applied simultaneously and in accordance with the same principles by all the major agencies; the technique involved, which is particularly complicated, must be thoroughly understood not only by those responsible for making the cost calculations but also by all the professional staff members who will be collaborating by completing time reports, by all the general budget and personnel administrative services which will have to use the figures produced, by organizations such as UNDP which will have to pay the resulting bills (irrespective of the amount of reimbursement decided upon) and, lastly, by the members of the policy-making bodies responsible for appraising the resulting figures submitted to them.

^{1/} With which CCAQ apparently agreed at its last session (18-22 September 1972). See document CO-ORDINATION/R.960 of 23 September 1972, para. 29.

55. It therefore seems essential to prepare as soon as possible a "manual of cost accounting in international organizations", which should be brought up to date at very regular intervals as the system develops. The manual should be common to all the agencies. It is out of the question in this paper to suggest the detailed table of contents, but it may at least be noted that the manual could draw on all the work which has been done on this problem during the past two years. It should be written as clearly as possible so as to be easily readable by the layman, although it could of course have annexes setting out the detailed technical problems. The subjects covered should include the objectives, rationale and advantages of a cost accounting system in international organizations and public services in general, the principles of the methods generally used, a description of the common system chosen by the agencies (cost components, method of distributing costs, method of making calculations, results), with a special section on the problem of methods of analysing working time; lastly, it should provide as soon as possible, at least by way of illustration, examples of the figures obtained and the use which has been made of them in improving the functioning of services. There could perhaps be annexes explaining the relationship between the cost accounting system on the one hand and the budget structure and general accounting figures on the other, the use of computers in obtaining and centralizing the results, a comparison between the systems adopted for public services and those used in industry, and so forth. An incidental advantage of issuing such a manual is that, for many Member States, it would facilitate a knowledge of this technique by their public services (which it seems to me would meet a genuine need, even for the administrations of the more developed countries).

56. Information of this kind is all the more necessary in that very broad technical training is essential for all who will have to interpret the figures obtained. The raw data are meaningless in themselves. They might be open to the most serious errors of interpretation unless those who will be using them have both a sufficient knowledge and a sufficient understanding of the method by which they were obtained, of the acceptable margins of error in the figures and, in particular, of the general context of the administrative structure of which they are only a very partial reflection. A special point is that, while it appears extremely desirable that all the agencies should use the same accounting methods so as to provide results that can be compared, care should be taken to avoid any hasty interpretation of comparisons between figures which might show considerable differences in costs for a given type of activity. It must be borne in mind that the lowest cost can never be regarded as the best unless and until it has been compared with the quality of the data obtained.

Chapter IV

THE PROBLEM OF METHODS OF REIMBURSING OVERHEAD COSTS

Definition of the problem and review of the proposals of the Capacity Study and of the CCAQ Task Force

57. The problem of methods of reimbursing overhead costs seems to me to present itself in the following terms:

In the absence of a cost accounting system, which is the situation that has prevailed until now, the amounts to be reimbursed by UNDP to the agencies for this type of expenditure were calculated empirically; as a compromise between various sets of considerations, the final choice was a percentage of project costs. Actually, some sample surveys made by various agencies, particularly FAO and UNESCO, disclosed true costs of the order of 20 to 22 per cent, but the argument advanced especially by the Advisory Committee on Administrative and Budgetary Questions was that only "clearly identifiable additional expenses" should be reimbursed; in addition, the "special situation" of certain technical agencies was taken into account. Accordingly, overhead costs are at present being reimbursed, after many variations, on the basis of 13 per cent of project costs in the case of the large major agencies and on a more liberal basis in the case of the technical agencies (DP/L.212 of 20 December 1971).

58. Once there is a cost accounting system applied according to common principles and common methods in most of the agencies, the choice of a method of reimbursement can be made on a new basis.

In this connexion, attention should be drawn to the proposals of the Study of the Capacity of the United Nations Development System and to those of the CCAQ Task Force. The proposals in chapter IX, concerning financial resources, and recommendations 4 and 7 in the same chapter may be summarized as follows:

Overhead costs should for the most part be "budgetized" in the project budgets;

Project budgets should include, in addition to expenditure for the implementation of the project in the field, overhead costs of executing agencies related to project formulation, technical and administrative backstopping and general supervision, and attempts should be made to identify and standardize such overhead costs;

Consultative services of a more general character provided by the agencies to UNDP should be organized and reimbursed under an arrangement similar to that which exists between the World Bank and certain agencies (i.e., by formal agreement);

In addition, "UNDP should encourage all moves towards common budgetary and accounting practices, including cost accounting".

It may be recalled that the Governing Council of UNDP, at its June 1970 session, approved these proposals in paragraphs 33 and 34 of the Consensus.

59. The CCAQ Task Force, for its part, tried to determine which support costs were in the nature of "direct project costs", or, in other words, which costs could be included in the project budgets. Its answer may be summarized as follows

(distinguishing between the two phases of implementation of the cost accounting system which it proposes):

Programme planning and evaluation costs

As regards these two categories, for both phase I and phase II, it is proposed that they should be reimbursed by means of a specific allotment independent of the level of current expenditure but calculated on the basis of the figures provided by the cost accounting system.

Project implementation costs

It is proposed that in phase I this category should be treated as direct costs to be budgeted for. With regard to phase II, four options are proposed:

- A. Treat the totality of costs in this category as direct costs to be budgeted for (as under phase I).
- B. Distinguish "technical backstopping" from other costs in this category; treat technical backstopping as a direct cost and reimburse the rest on a percentage basis.
- C. Treat the totality of support costs (all categories) as direct costs by the inclusion of standard costs (figures obtained from the analytical accounting system) in the project budgets.
- D. Treat everything as indirect costs to be covered by reimbursement.

Thus, the general inclination common to all who have studied the problem seems to be towards the "maximum budgetization of overhead costs".

60. Actually, the first necessity is to acknowledge that the extent and the number of possible choices of methods of reimbursement which might meet the needs of sound administration will depend on the number and quality of the data provided under the cost accounting system.

61. For instance, the information which the CCAQ Task Force envisages being provided at the end of phase I - namely, for each agency the total amount of overhead costs of UNDP projects during one year, distributed to four cost categories ^{1/} - will furnish gross figures which will have to be compared to the volume of the projects implemented or prepared during the year in question. They will make it possible to determine orders of magnitude, but it will be difficult, on the basis of such simple data, to formulate any very novel method of reimbursement. The Task Force's proposals set out above do indicate various possible kinds of approach, but in fact the essential decision to be taken on the basis of so summary a breakdown is simply whether it is desired to reimburse all or part of the overhead costs and which part of the total bill presented in that connexion.

^{1/} Planning, project formulation, implementation, evaluation and follow-up (cf. para. 34 above).

62. If the data obtained could be set out as indicated in paragraphs 47 and 48 above, it would be possible to begin making distinctions between the various types of projects and classifying them by average overhead costs. Information of this kind might begin to provide more precise ideas for the formulation of a policy of administrative co-operation between the agencies and UNDP. Only when there is a truly analytical accounting system will it be possible to obtain still more detailed information, including, in particular, a reasonable breakdown by type of activity of the overhead costs of each project in all the major agencies.

Standard cost calculations will then permit comparisons, by type of project and by agency, of, for instance, the cost of recruiting an expert, the absolute and relative weight of costs of preparation, technical backstopping costs, and so forth. This type of accounting, in conjunction with a system for evaluating the profit derived from it, will then make it possible to establish, on a genuinely new basis, rules for co-operation between UNDP and the agencies. As one particular example, the third option indicated by the Task Force (cf. para. 59 above, option C): "Treat the totality of support costs as direct costs by the inclusion of standard costs in the project budgets", is perhaps the most attractive from the technical standpoint, but it is pointless unless one has data not only on the various categories of support costs but on the types of projects.

Possible solutions

63. This inclination towards budgeting for overhead costs seems to me personally to be a move in the direction of what is most rational and most desirable. Before one can proceed, however, a number of precautions must be taken; it is necessary to have detailed information on the breakdown of overhead costs by agency and by type of project, to have digested what is to be learnt from comparisons between the figures obtained, to have found the reasons for any differences that may have appeared and, lastly, in particular, to have compared costs with results. If one takes, for example, the function "recruitment of experts for projects", which is a basic function among support operations, it is obviously much more important to the over-all efficiency of the system to satisfy oneself that this activity is equipped with everything that is needed in order to achieve the best possible results than to aim at the lowest possible cost. Such attempts to strike a proper balance between the cost of and the profit derived from a given function will benefit from the results of cost accounting; however, the latter information will have to be supplemented by studies on the best possible way of organizing the function in question. The management offices of the various agencies should be able to carry out extremely useful studies on these questions. A point should be made of obtaining such studies before any final decisions are taken on how the various project support functions are to be progressively budgetized. Policy decisions will also have to be taken on which types of function can or should be budgetized - or, in other words, financed by UNDP at the same time as the projects - and which types can continue to be financed by the agencies when they normally form part of their regular work (I would suggest as examples over-all planning and, perhaps, evaluation functions).

64. The implementation of so sophisticated a system as has been outlined above will therefore require some further time. Accordingly, it seems to me to be necessary to amend the time-table originally envisaged for putting new methods of reimbursement into effect and at the same time to supplement it by introducing the idea of progressive implementation.

In the first place, it seems to me to be necessary to postpone for at least a year the initiation of any system capable of using the first results of cost accounting, inasmuch as 1973 will necessarily be an experimental period (cf. para. 52 above). From 1 January 1975 ^{1/} onwards, however, the first figures that are known might be taken into account in fixing the new rate of reimbursement, distinguishing for the first time between functions continuing to be financed by the agencies and those that would be reimbursed in part or in full by UNDP (with figures that might vary according to project category).

In the following year, 1976, provided that it had been possible to complete a certain number of the supplementary studies referred to in paragraph 63 above, the - progressive - introduction of project-by-project budgetization of those overhead costs which UNDP agreed to finance might be initiated.

This would mean some delay in relation to the rather optimistic forecasts made previously, but the quality of the results anticipated seems to me to justify the acceptance of such an additional delay.

Possibility of establishing a "modernization fund"

65. I proposed in my note JIU/NOTE/71/2 of 17 September 1971, which was intended primarily for the members of CCAQ, that UNDP should consider the establishment of a small "modernization fund" through the setting aside, out of the sums reimbursed for overhead costs, of a very small percentage of the total amount to be used for modernizing the administrative machinery of each agency. The justification for this proposal was expressed as follows:

"This would lead to the establishment of a small 'modernization fund', and a list of the studies to be undertaken could be drawn up by a small group of consultants selected solely on the basis of their competence from among specialists in modern management methods (including university professors specializing in the subject). This system would greatly facilitate the adoption by the United Nations and the major agencies of the most modern and most effective techniques (cost accounting, programming, management by objectives, computerization), and it would have the additional advantage of supplying UNDP with means of encouraging efforts to reduce administrative costs in general."

This idea was not, for the time being, taken up by the representatives of the UNDP secretariat or by the members of CCAQ for whom it was intended. However, it seems to me essential to stress the advisability of action of this kind for the reasons indicated below.

66. One of the major concerns of all States, members of the various international organizations, is to obtain maximum efficiency combined with maximum economy. The only realistic response to this concern is to devise a programme for modernizing the administrative machinery. Great advances are of course in progress in this respect, among which mention may be made of the large steps already taken by many agencies in improving their programming systems, the current testing by agencies of a cost accounting method, improvements in the methods of recruiting personnel, and so forth.

^{1/} This date could be advanced to 1 January 1974, in the event of retro-active application of the decisions taken by the UNDP Governing Council.

Yet with all this there is undoubtedly a bottle-neck as regards the studies and experiments that must be made before new methods are adopted. The resources made available to the various management offices in this connexion are generally very limited. It might provide a decisive impetus if a very small part of the overhead costs could be earmarked for an operation of this kind. For a fund of a few hundred thousand dollars, all that would apparently be needed would be 0.4 per cent of the amounts now paid in reimbursement each year or, within the present over-all figure of 13 per cent of project costs, 0.05 per cent of project costs. This may seem a paltry figure, but it would have a considerable effect in providing an impetus for modernization. I therefore believe that this proposal should be taken up at the very next session of the UNDP Governing Council with a view to considering whether it could not be implemented as soon as possible.

It might also be laid down that the fund would be empowered to receive voluntary contributions from any Member State wishing to encourage such a development.

Chapter V

SUMMARY OF THE REPORT AND LIST OF THE PRINCIPAL RECOMMENDATIONS

Summary of the report

67. The preceding chapters may be summarized as follows:

Cost accounting system

The process of devising a cost accounting system common to all the agencies seems to be well under way; the CCAQ Task Force, which was composed of representatives of the United Nations, the ILO, WHO and FAO, proposed a comparatively simple system, with a sufficient degree of precision to become immediately operational. By and large, this system is very comparable to the one proposed by UNESCO. It can therefore be stated that the United Nations and the four largest agencies have reached a de facto consensus on the principles and methods of such an accounting system.

The purpose of a system of this kind is, of course, to enable one to know the cost of various "products", which are actually, in the case of an international organization, the results obtained in achieving the final or intermediate objectives assigned to it; this may mean the completion of a project or a programme unit, a conference or a session, a publication, and so forth. The methods consist of identifying and classifying the various cost components for the various activities which contribute to the achievement of the objectives in question. These components can be ascertained from the budget accounts, but they have to be redistributed on the basis of an analysis of the various "production structures" and of the "products" the cost of which is to be ascertained, through the use of a number of "distribution keys" or "time measurement" methods. This is necessary because, irrespective of the administrative structure, there are inevitably a number of units or individual staff members engaged in multiple activities which contribute to the achievement of more than one objective. The working time of such staff members 1/ (or units) must therefore be analysed by means of a "time report", a form which must be completed at regular intervals and which, according to its greater or lesser detail, will govern the number and quality of the data ultimately obtained. The general plan of such a system for an international organization is summarized in paragraph 25 above.

68. Improvements to the system as envisaged

It seems to me that whatever improvements should be made to the systems proposed both by the CCAQ Task Force and by UNESCO relate mainly to the design of the model time report form; the changes indicated in the body of the present report (paras. 46-48) would multiply the data obtained approximately a hundredfold without increasing the workload of professional staff members or the cost of the system. 2/ Secondly, some simplifications could perhaps be introduced in the various distribution keys.

1/ Primarily a number of professional staff members belonging to the programme sector and apparently constituting 20 to 25 per cent of the total professional staff of each agency.

2/ See foot-note to para. 46.

Thirdly, the initiation of studies of statistical methods for measuring working time in the case of repetitive tasks, as a supplement to the system envisaged, might permit even greater improvements in the finishes and quality of the results obtained. In any event, it seems necessary to provide for an experimental period of some length (approximately one year seems essential) if a reliable system, harmonized among the various agencies, is to be devised. Lastly, it would be worth while to provide for machinery to ensure that there will be permanent improvements in methods and that those using the system or collaborating in it will receive information or training.

69. Methods of reimbursement

The existence of a cost accounting system would provide a completely new basis for determining methods of reimbursing overhead costs. It must be borne in mind, however, that the formulation of a method of reimbursement which meets the concern for maximum economy and maximum administrative efficiency requires the availability of sufficiently precise data based on a breakdown by type of support activity provided for each project or programme unit. Consequently, after a necessary experimental period, it seems reasonable to make provision for progressive implementation of a new system of reimbursement which might lead from a system of selective reimbursement of the true costs of a number of functions performed by the agencies to a system of project-by-project budgetization on the basis of known standard costs. An immediate step might, however, be taken forthwith to facilitate the modernization of the administrative machinery of the agencies, in the form of the establishment of a small "modernization fund", by setting aside a very small percentage of the amount of the reimbursements now being made.

List of the principal recommendations

Concerning the organizations which participated in the CCAQ Task Force and UNDP

70. Recommendation 1: Consideration should be given to whether it is not possible immediately to increase the anticipated profit from a common cost accounting system, without increasing its cost, by using "time report" forms similar to the model suggested in paragraph 48 of the report.

71. Recommendation 2: Consideration should also be given to whether simplifications of a kind which would not be detrimental to the accuracy of the system might not be effected in the choice of "distribution keys", as indicated in paragraph 49 of the report.

72. Recommendation 3: Studies should be undertaken forthwith with a view to considering the possible use, as a supplement to the cost accounting system, of statistical methods of time measurement for repetitive work (cf. para. 50 of the report).

73. Recommendation 4: Measures should be taken to facilitate the provision of information and training for the various persons who will have to participate in the functioning of a cost accounting system and for those who will have to appraise its results. In this connexion, consideration should be given to the issuance at an early date of a "manual of cost accounting".

74. Recommendation 5: With a view to permanently improving the methods used, the existence of the inter-agency Task Force to study cost accounting should be formalized and regular sessions should be scheduled.

Concerning UNESCO

75. Recommendation 6: UNESCO, which last year proposed a cost accounting system very close to the one proposed by the CCAQ Task Force, should consider joining the other agencies as soon as possible with a view to co-operating in the joint experiment now in progress.

Concerning UNDP

76. Recommendation 7: UNDP should similarly participate in the current studies, so that professional staff members of its secretariat may familiarize themselves with the methods envisaged and may exercise some control over the methods applied by the agencies. It should also itself apply a cost accounting system to its own activities, as an essential complement to the system now being instituted by the agencies.

Concerning the Advisory Committee on Administrative and Budgetary Questions and the UNDP Governing Council

77. Recommendation 8: The year 1973 should be regarded as an experimental period to permit improvements in the system.

78. Recommendation 9: The time-table for the introduction of a new system of reimbursement should be amended. The fixing of new differential rates of reimbursement based on the first figures provided by cost accounting could not begin before 1 January 1975, or before 1 January 1974 in the event of retroactive application of the decisions of the UNDP Governing Council, and the progressive introduction of project-by-project budgetization of overhead costs could not begin before 1976.

79. Recommendation 10: The establishment of a small modernization fund financed by the setting aside, out of overhead costs at present being reimbursed, of a very small percentage of the reimbursements should be considered as soon as possible with a view to expediting the process of modernizing the administrative machinery of the agencies.