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29 May 2003
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RESOURCE MANAGEMENT

(b) Accounts and audit: accounts for the first calendar year of the twenty-second financial period and transfers within the 2002 budget

Note by the Secretary-General

SUMMARY

Executive summary: This document presents the External Auditor's Opinion and Report on the Organization's accounts for the first calendar year of the twenty-second financial period and his Opinion on the IMO/UNDP accounts for the year ended 31 December 2002.

Action to be taken: Paragraph 11

Related documents: C 90/17(b)/Add.1

1 In accordance with the provisions of financial regulation 12.10, the External Auditor has submitted to the Council through its Chairman, the certified final accounts relating to the regular budget and funds for the first calendar year of the twenty-second financial period 2002-2003 and the accounts relating to IMO's activities in 2002 as a participating and executing agency in the United Nations Development Programme together with his Opinions thereon.

2 Both sets of accounts were distributed as annexes 1 and 2 to document C 90/17(b)/Add.1. The External Auditor's Report and Opinion on the IMO's accounts may be found in annex 1 to this document and his Opinion on the IMO/UNDP accounts may be found in annex 2.

3 By way of background, the Secretary-General would note that the External Audit comprised, on this occasion, three elements:

- The Audit of the Organization's financial statements for the year ended 2002, undertaken in accordance with the Common Accounting Standards of the Panel of External Auditors of the United Nations, Specialized Agencies and the International Atomic Energy Agency;
- A compliance testing of the Management's implementation of External Audit recommendations which had been accepted in 2000 and 2001;
- A performance review of two functional activities – Technical Co-operation and Publishing.

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Financial Audit

4 The External Audit Team carried out its work during the period 24 February to 4 April 2003. During that period, some 57 written Audit queries were raised and fully responded to, concerning accounting, financial management, control and reporting, on all the Funds of the Organization including Technical Co-operation and Publishing, which, as noted, were subject to a separate performance review.

5 The Secretary-General benefited from certain comments and suggestions of the External Auditor during the Audit, mainly concerning the presentation of the accounts and ensuring full compliance with UN Accounting Standards. The Secretary-General was able to take account of these in the financial statements for 2002. Against this background and the extensive management effort which was made to present full, timely and transparent explanations to the External Auditor, the Secretary-General appreciates the Opinion of the External Auditor which contains no qualifications on the financial statements for 2002.

6 The Council will note that, in accordance with Article XII of the Organization's Financial Regulations, the External Auditor has also issued a long-form Report. As the Report reflects, the Secretary-General has been able to accept and implement most of the recommendations, which further enhance transparency and secure conformity with UN Accounting Standards. It will be noted that some recommendations overlap the initiatives which the Secretary-General has in hand as part of the Change Management Programme; these therefore cause no problem. However, it will be noted that some of the proposals have not been accepted and others will be reviewed.

7 To take forward the matter, the Council might again invite the Intersessional Working Group on Accounts and Audit to review the recommendations in the External Auditor's Report, in order to advise the Council at its forthcoming extraordinary session in November 2003. The Secretary-General would provide a written response, as on previous occasions, to each of the recommendations.

Compliance

8 The Secretary-General has reported to the Council and the Intersessional Working Group on Accounts and Audit on the progress made in implementing prior years' Audit recommendations which had been accepted. The Secretary-General therefore welcomes the Auditor's expression of appreciation for the commitment which has been given by the Management to this process.

Performance reviews

9 The Secretariat provided full and extensive oral and written briefing to the External Auditor on the two functional areas which were selected by the Auditor for review, namely, Technical Co-operation and Publishing. The time-scale for these reviews was very compressed and provided a very short period for the Secretariat to provide the necessary background material which, to avoid duplication of effort, included full briefing on the initiatives in hand within the respective Divisional functional areas for improving delivery and service standards as part of the Secretary-General's Change Management Programme.

10 The External Auditor's reviews generated a number of observations which Management responded to. Subsequently, the Secretary-General provided, as the Auditor notes, a full response to the various recommendations made in his draft Management Letter to the Secretary-General. The External Auditor notes that he will continue to study further these activities during

the course of the year, taking into account the work-in-progress on which the Secretariat had provided extensive briefing.

Action requested of the Council

11 The Council is invited, in accordance with financial regulation 12.10, to examine the financial statements and audit reports annexed to document C 90/17(b)/Add.1 and this document, and to decide whether it would wish to reconvene the Intersessional Working Group on Accounts and Audit to advise the Council at its twenty-second extraordinary session, so that the Council can forward them to the Assembly with such comments as it may deem appropriate.

ANNEX 1

Vijayendra N. Kaul

**No. 493-IR/22/2003
May 28, 2003**

The Chairman
The Ninetieth Session of the Council
International Maritime Organization
4 Albert Embankment
LONDON SE1 7SR

Dear Chairman,

In accordance with Article XII of the Organization's Financial Regulations, I have the honour to submit to the Council for onward transmission to the Assembly, the Financial Statements of the International Maritime Organization for the year ended 31 December 2002, together with my Report and Opinion thereon.

Yours sincerely

(Vijayendra N. Kaul)
Comptroller and Auditor General of India
External Auditor

INTERNATIONAL MARITIME ORGANIZATION

**FINANCIAL STATEMENTS FOR THE FIRST YEAR ENDED 31 DECEMBER 2002, OF
THE TWENTY-SECOND FINANCIAL PERIOD**

OPINION OF THE EXTERNAL AUDITOR

To: The Assembly of the International Maritime Organization

I have audited the accompanying financial statements, comprising the Statements I to VII, Schedules 1 to 10 and the supporting Notes to the Accounts of the International Maritime Organization for the year ended 31 December 2002. These financial statements are the responsibility of the Secretary-General. My responsibility is to express an opinion on these financial statements based on my audit.

I have conducted my audit in accordance with the Common Auditing Standards of the Panel of External Auditors of the United Nations, Specialized Agencies and the International Atomic Energy Agency. Those standards require that I plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Secretary-General, as well as evaluating the overall presentation of financial statements. I believe that my audit provides a reasonable basis for the audit opinion.

I have obtained all the information and explanations, which, to the best of my knowledge and belief, were necessary for the purpose of my audit.

In my opinion, these financial statements, which were significantly revised after my audit, present fairly, in all material respects, the financial position of IMO as at 31 December 2002 and the results of operations and cash flows for the period then ended in accordance with the Organization's stated accounting policies set out in Note 2 of the financial statements and which were applied on a basis materially consistent with that of the preceding financial period.

The transactions of the Organization, which I tested as part of my audit, have in all significant respects been in accordance with the Financial Regulations and Legislative Authority.

In accordance with the Article XII of the Financial Regulations, I have also issued a long-form Report on my audit of the Organization's Financial Statements.

(Vijayendra N. Kaul)
Comptroller and Auditor General of India
External Auditor

**REPORT OF THE EXTERNAL AUDITOR ON THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2002,
OF THE TWENTY-SECOND FINANCIAL PERIOD**

INTRODUCTION

Audit Scope

1. I have examined the financial statements of the International Maritime Organization (IMO) for the year ended 31 December 2002 in accordance with Article XII of the Financial Regulations of the Organization and the Additional Terms of Reference Governing External Audit, appended thereto.
2. The main objective of the audit was to enable me to form an opinion as to whether the expenditure recorded in 2002 had been incurred for the purposes approved by the Assembly, whether income and expenditure were properly classified and recorded in accordance with the Organization's Financial Regulations; whether the financial statements presented fairly the financial position at 31 December 2002 and whether the expenditure conformed with the authority which governed it.

Audit Standards

3. My audit was carried out in accordance with the Common Auditing Standards of the Panel of External Auditors of the United Nations, the Specialised Agencies and the International Atomic Energy Agency. These standards require me to plan and carry out the audit so as to obtain reasonable assurance that the Organization's financial statements are free of material misstatements. The Organization's management was responsible for preparing these financial statements, and I am responsible for expressing an opinion on them, based on evidence obtained in my audit.

Audit approach

4. In accordance with the Common Auditing Standards, my audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence, as considered necessary, to form an opinion on the financial statements and to ensure that the expenditure conformed to the authority which governed it.

Related audits

5. I have provided a separate opinion on the financial statements that show the Status of Funds advanced to the Organization by the United Nations Development Programme (UNDP) for the year ended 31 December 2002.
6. I have also reported separately on the financial statements of the IMO International Maritime Law Institute for the year ended 31 August 2002; and on the financial statements of the World Maritime University for the year ended 31 December 2002.

Reporting

7. During the course of audit, I sought such explanations, as were considered necessary on matters arising from the examination of the internal controls, accounting records and

financial statements. My observations on the same, which I consider should be brought to the attention of the Council and the Assembly, are discussed in this report. Management was also kept apprised of my original observations followed by a Draft Management Letter, which included replies of the management and my comments thereon.

8. I appreciate the efforts taken by IMO to consider the recommendations of the External Auditor for the financial years 2000 and 2001. The follow-up status in respect of the recommendations under progress/implementation is separately enclosed at **Annexure**.

FINDINGS AND RECOMMENDATIONS

Financial Statements

A. Changes to Financial Statements of year 2002 as a result of Audit

Non-exhibition of income in the Fund

9. In case of Training and Development Fund, there was an excess expenditure of GBP 88754 over income at the end of December 2002. As approved by the Council at its 89th Session held in November 2002, the deficit was met by transferring GBP 88754 from the accumulated reserves of General Fund. While the amount transferred is shown as a deduction from the surplus of General Fund, the same was not shown as income (allocation from other funds) in Training and Development Fund but exhibited as adjustment in the transfer column.
10. *The Secretary General accepted the incorrect exhibition and amended statement I of Financial Statements for the year 2002 showing GBP 88754 as income in Training and Development Fund.*

Retirement benefits and other liabilities - Non-disclosure as per Accounting Standards

11. According to Standard 58 of the United Nations System Accounting Standards, organizations participating in the United Nations Joint Staff Pension Fund (UNJSPF) should disclose the fact, in the Notes to the Accounts, using the text given in the standard. IMO had not given such disclosure.
12. *The required note has been included at Note 2.5 in the Notes to the Accounts.*
13. In Note 2.5 to the Accounts a disclosure has been made regarding non-provision of estimated liability of GBP 2 million towards cost of accrued annual leave, repatriation grant and termination indemnity. Audit observed that liability disclosed does not include liability towards accrued annual leave.
14. *The liability of GBP 1.1 million on account of accrued annual leave has now been disclosed at Note 2.6 in the Notes to the Accounts.*

Inadequate disclosure in Notes to Accounts

15. In the Notes to the Accounts, IMO has given disclosure relating to the objective of each fund, the date and authority for establishment of the fund, widening of scope of the Fund, if any, and the status of balance of the Fund as at the end of the accounting year/period. Audit,

however, observed that disclosure given in two Notes to Accounts was inadequate to the extent that:

Note 7: This note discloses the widening of the scope of the Technical Cooperation Fund but does not disclose the objective of the Fund established by Assembly Resolution A.593(14)

Note 8: This note discloses the original objective of the Termination Benefit Fund. It does not disclose the fact that the scope of the Fund had been widened by Assembly Resolution A.906(22) to allow the financing of additional cost of temporary assistance required to replace staff on long-term sick leave.

16. *The management has accepted the observations and corrected the Notes 7 & 8 in the Notes to the Accounts.*

Non-compliance with the United Nations System Accounting Standards

17. According to United Nations System Accounting Standard 8, a complete set of financial statements, inter alia, includes Appendix V (Statement or schedule of appropriations). Audit observed that

- i. Project expenditure financed from the Technical Cooperation Fund (Schedule 9)
- ii. Expenditure on projects relating to Funds-in-Trust during the year 2002 (Schedule 10)

is given, without indicating the amount budgeted for the year as required in Appendix-V.

18. *The management has accepted the audit observation and indicated the budgeted figures for the year 2002 in Schedules 9 and 10.*

Statement I

19. The entry in the 'total' column for transfers from Accumulated reserves for 2001 should be £160,000, which was omitted to be shown.

20. *The management has accepted the omission and corrected the accounts for 2002.*

21. The total income displayed for 2001 should read as GBP 27,122,517 and not GBP 26,962,517 and therefore excess (shortfall) of income over expenditure should be GBP 3388716 and not GBP 3228716. Consequently, display of Net excess shortfall of income over expenditure should be GBP 3,388,716 instead of GBP 3,228,716 and finally surplus for the year 2001 should be £3,538.464 and not £ 3,378,464.

22. *The mistake has been rectified in the accounts for 2002 and the correct figure of GBP 27,122,517 shown as the total income for 2001. Corresponding corrections have also been made in Net excess shortfall of income over expenditure as well as the surplus for the year 2001.*

23. There should be an entry for (-)£160,000 for transfer in the total column for 2001.

24. *The management has accepted the omission and corrected the accounts for 2002.*

Statement of Expenditure (Schedule 4)

25. In the Statement of Expenditure (Schedule 4) £555,500 was shown as 'Reimbursement of direct costs' under printing fund for the year 2002. The same was omitted from the column

for 'total' but was added to the total of previous column i.e. Benefits and Allowances resulting in incorrect exhibition of total of benefits and allowances and non-exhibition of total of Reimbursement of Direct Costs.

26. *The management has corrected the accounts for the year 2002, properly exhibiting both Benefits & Allowances and reimbursement of Direct Costs.*
27. The amounts of £34,496 and £52,550 shown under Reimbursement of indirect costs under Technical Cooperation Fund for the years 2001 and 2002 respectively should be shown under 'Miscellaneous'.
28. *The management has corrected the accounts for the year 2002 duly showing the amounts under 'Miscellaneous'.*

Schedule – 9

29. The total of schedule 9 should be £3,005,027 plus £298,933 = £ 3,303,960 and not £3,005,030 plus £298,935 = £3,303,965 as mentioned.
30. *The management has incorporated suitable corrections in the relevant project totals.*

Schedule – 10

31. The expenditure shown under unliquidated obligations i.e. USD 15,200 against UNDP project budget code U00106SIL00010 should have been shown against budget code U00103SIL02838. Consequently, the totals against these two projects and the project support cost would also require correction.
32. *The management has carried out suitable corrections in the accounts for the year 2002.*

B. Changes assured by the Management and Recommendations

Non-reporting of income on gross basis

33. IMO commenced Contribution Incentive Scheme in the year 1988 providing for interest earnings on contributions received, to be returned to member states, that made early payment of their current year contributions. At the end of each year, from the total interest earned/accrued to the organization, interest earnings payable to member states is deducted and net interest accrued/earned is only shown in the financial statements. This treatment has the effect of not only reporting interest income on net basis but also non-reporting of reimbursement of interest accrued and payable to member states as an item of expenditure in the financial statements of each year. The magnitude of income/expenditure not reported in financial statements during the five years ended December 2002 was GBP 1,173,416. Further this practice goes against Financial Rule 103.1.1, which requires reporting of miscellaneous income and expenditure on gross basis.
34. IMO is required to present the interest income on a gross basis and introduce an expenditure item "reimbursements", due under Contribution Incentive Scheme in the appropriate section of the Work Programme and Budget.
35. *The Secretary General agreed to account for both interest income and interest payable to member states on gross basis in the final budget proposals for the biennium 2004-2005.*

Netting of income from expenditure in Catering Services

- 36.** Financial Rule 103.1.1 requires reporting of miscellaneous income and expenditure on gross basis. However, in the Work Programme and Budget (sub-programme 9.4.4) only subsidy i.e., net expenditure on catering services (difference between expenditure on catering and income generated from it) was incorporated. This is in violation to the Financial Rule mentioned above.
- 37.** *The Secretary General accepted the audit observation and agreed to incorporate full cost of catering services in the Work Programme and Budget and project income from catering service on a gross basis as an item under 'miscellaneous income' for the biennium 2004-2005.*

Inventory

- 38.** According to the United Nations Accounting Standard 49, "At the end of the financial period the inventory value at the beginning and end of the financial period of non-expendable equipment, furniture and motor vehicles should be disclosed and the method of valuation (cost or valuation) should be clearly stated in a note to the financial statements. Where possible and to the extent required by the financial policies of the organization, additions and disposals made during the financial period should also be disclosed". The disclosure was not being made in the Note to Accounts as required by UNSAS 49.
- 39.** The Secretary General has replied that the management will examine the practicality of this recommendation taking into consideration the relative costs and benefits in accessing and holding this information.
- 40.** *I recommend that a full disclosure be made in accordance with the provisions of UNSAS 49.*
- 41.** The audit had observed that no inventory is being maintained for the gifts to IMO.
- 42.** The Secretary General in his reply has stated that work on inventory of gifts to the organization will be completed by the end of 2003 (and held in digital-picture format) with a view to valuation by the organization's insurers.
- 43.** In the year 2002, 154 items having the stock value of £174,958.82 were sold for £1320.00. As IMO property was sold for a price less than its acquisition price (or the price at which it is disclosed in Notes to Accounts under UNSAS 49), the related sale transaction had resulted in a loss which required formal write-off under proper sanction, in accordance with the provisions of Financial Regulation 10.4 a statement of which is required to be submitted to the Auditors with the accounts. The same has not been done.
- 44.** *I recommend that the procedure of formal write-off in cases where the sale price is less than the acquisition value be adopted by IMO and statement of the same be provided to the auditors with the accounts.*
- 45.** The audit had raised the issue of setting up a Property Survey Board in IMO to
- i. Provide orderly management of property including laying down of norms for provisioning of property.
 - ii. Establish criteria for the purchase of property/equipment on replacement basis.
 - iii. Review facts concerning loss, destruction, or theft of property, and
 - iv. Recommend disposal of property that is surplus or beyond repair.
- 46.** *The management has decided to set up a Property Survey Board and is consulting other UN bodies with such machinery, with a view to defining the Board's scope, terms of reference*

and criteria for membership of the Board and reporting arrangements. The Secretary General has informed that the Board will be established before the end of 2003.

47. In the Note 5.3 to the Accounts for the year 2002, the Current Assets – investment in stock of publications have been valued at selling prices even though the maximum realisable value was only 70% of the selling price. Thus the disclosure of value of publications in the financial statements was not fair, based on generally accepted accounting principles.
48. The management has stated that it will review the UN policy and practice, taking account of the Auditor's recommendations, advice of IOS and bearing into mind that the discount of 30% applies only to distribution.
49. *It is my opinion that since neither cost value nor realisable value (70% of sale price) was being shown, the disclosure of value of publications in the financial statements was not fair, based on generally accepted accounting principles. I recommend that disclosure of value of publications should be done at cost value or realisable value, whichever is less.*

Setting off Inter-Fund balances

50. According to paragraph 24 of United Nations System Accounting Standards (Revision V) significant items should not be included or off set against other items, without separate identification. However, the inter-fund balance of GBP 69,898 payable by General Fund to Training and Development Fund was not shown under liabilities of General Fund in Statement II but was netted against inter-fund balances receivable by General Fund i.e., other than Training and Development Fund resulting in non-exhibition / short exhibition of inter fund balances.
51. *The Secretary General agreed to show the inter-fund balances without setting off.*

Unliquidated obligations

52. Paragraph 2.2 of Notes to the Accounts (Significant accounting Policies) states that the accounts of IMO are presented on an accrual basis modified to reflect unliquidated obligations at the year end
53. IMO makes budgetary provision for Education grant based on estimated fees payable to educational institutions by the eligible staff members in respect of their dependent children for the scholastic year (September to August). Educational grant is paid as an advance in the beginning of the scholastic year and accounted for as expenditure when the staff members submit claims at the end of the scholastic year. This has the effect of accounting for expenditure on cash basis and is not in line with the accrual basis of accounting.
54. Audit observed that Educational grant advance of GBP 13,123 given to 3 staff members during the period January 2001 to September 2001 for the scholastic year 2001-2002 was outstanding adjustment till December 2002 as detailed claim were not submitted. Similarly GBP 4,41,265 given as Educational grant advance during the year 2002 for the scholastic year 2002-03 to various staff members will be accounted for as expenditure when the claim will be submitted.
55. The Secretary General stated that the present practice adopted has been consistently applied. As the Education Grant is a committed expenditure, *I recommend that unliquidated obligation should be created both in respect of education advances given in the previous year but pending settlement as well as in respect of advances given in the current financial year, if necessary by allocating the expenditure on the basis of scholastic terms.*

56. *I further recommend that the practice followed by other sister UN organizations may be ascertained for future compliance.*

Unliquidated obligations over provided

57. The unliquidated obligation towards Willis Corroon Accident and Sickness insurance premium settlement for the year 2002 in respect of staff of IMO was provided in excess by GBP 7,775 due to incorrect adoption of pension contribution amount and the United Nations average exchange rate.

58. *The Secretary General accepted the over provision and stated that the savings will be credited to savings on prior years obligations.*

Retirement benefits and other liabilities - Non-disclosure as per Accounting Standards

59. According to paragraph 57 of United Nations System Accounting Standards, liability for after service medical benefits should normally be determined by actuarial valuation. IMO has not determined the liability on actuarial valuation basis.

60. The Secretary General stated that the long-standing financial policy of IMO is to provide liability for after service medical insurance, in the appropriation for each biennium, which complies with the United Nations System Accounting Standards. *As the UNSAS could be said to be complied with only when the liability is determined by actuarial valuation, I recommend that the UNSAS be complied with.*

61. IMO classifies payments towards accrued annual leave, in the respective Programme Budget, for employees expected to retire in the ensuing biennium. The costs of repatriation are not included in the Programme Budget but are paid directly from Termination Benefit Fund. Though both are terminal benefits given to staff, there is differential treatment that requires correction, for a better reflection of personnel costs in each programme.

62. *The Secretary General agreed to examine the differential treatment in the light of UN common practice and make necessary changes to the current practice.*

Bank Reconciliation Statement

63. The Bank Reconciliation Statement with Nat West Bank as on 31 December 2002 for the Printing Fund showed remittances of GBP 54,496.37 into bank by various agencies for purchase of publications of IMO during the period of four years from January 1999 to December 2002 which were not accounted for in the Cash Book as the payments were received on the basis of pro forma invoices without firm orders for which invoices were not issued and the payments were not identifiable to the customers. As the amounts constitute receipts into the Bank Account of IMO, they require to be accounted for in the Cash Book by creation of a liability until the receipts are identified to the customers.

64. *The Secretary General agreed to record unprocessed credits as cash receipts with a creation of liability till they are processed and credit the items relating to the years 1999 to 2001 to 'miscellaneous income' of the Printing Fund in 2003, if the items still remain unprocessed.*

Non-write back of miscellaneous deposits

65. The Printing Fund has miscellaneous deposits of GBP 160, 495.85 as on 31 December 2002 representing amounts received from customers, other than deposit holders against pro forma invoices and direct orders during the period prior to 1999 to December 2002.

66. As the policy of IMO is to review and credit balances held in the accounts for more than three years to the 'miscellaneous income' of Printing Fund, these amounts are required to be adjusted in accounts.
67. *The Secretary General agreed to credit to 'miscellaneous income' all deposits that remain open and held for the year upto 2000.*

Additional debit to expenditure

68. A cheque for GBP 3,489.75 was prepared on 14 June 2002 towards the salary of a translator. This cheque was subsequently cancelled since it was prepared for GBP 3,489.75 instead of USD 3,489.75. Payment was authorized through bank on 29 July 2002 for GBP 2,373.03 (equivalent to USD 3,489.75). Though the earlier cheque for GBP 3,489.75 was cancelled, the journal already processed debiting expenditure was not cancelled leading to additional debit to expenditure.
69. *The Secretary General agreed to adjust the omission during the year 2003.*

Trust Funds

Non-creation of Unliquidated obligations for education grant

70. In respect of five staff members of three Funds in-Trust projects, Education Grant Advance of USD 71,150 was given during the years 2001 and 2002 (2001:USD 24,467 and 2002:USD 46,683. In respect of advances given in 2001, detailed claims were not settled till December 2002. As the expenditure for both the years is committed, unliquidated obligations should have been created for USD 71,150.
71. The Secretary General stated that no unliquidated obligations are established in respect of Education Grant Advance and claims settled during the year for the full scholastic year is charged to project expenditure and this practice has been applied consistently by the organization.
72. *As the practice followed by the organization is resulting in accountal of expenditure on cash basis, which is not in line with the accrual system of accounting being followed by IMO, I recommend that unliquidated obligations be created for the Education Grant Advances.*

Unliquidated obligations under provided

73. In respect of Temporary Life Insurance Policy and Personal Accident Insurance policy taken with M/s. Willis Corroon London Limited for the consultants who carried out assignments on behalf of IMO for various Technical Co-operation and Donor Fund Projects, liability for GBP 16,063 towards insurance premium for the period October 2001 to December 2001 and April 2002 to December 2002 was not provided for as the invoices were not received.
74. *The Secretary General agreed with the audit observation and stated that action has been taken to obtain necessary invoices and that procedures are in place to avoid recurrence of such non-provision.*

Expenditure not captured by financial procedures

75. In respect of expenditure authorized by IMO to the Resident Representatives of United Nations Development Programme (UNDP) in various countries for various projects of IMO an expenditure of GBP10,044.28 and USD 7,379.21 for the year 2002 was not reported up to cut-off date and was accounted for in the following year. Similarly expenditure not accounted for in the year 2001 was USD 2,632.13.
76. The Secretary General stated that prior to the closure of accounts, estimates of expenditure were obtained from UNDP country offices and expenditure details received upto the cut-off date, were captured in the financial statements.
77. *As non-receipt of complete expenditure details before the cut-off date is resulting in non-accountal of expenditure in the relevant accounting year, I recommend that the expenditure details be obtained before the cut off date and accounted for in the relevant year of account.*
78. *Alternatively, suitable disclosure be made in the Notes to Accounts regarding non-capturing of such expenditure in Financial Statements after cut-off date.*

Inactive balances

79. In respect of the following three funds, there was no expenditure during the year 2001 and 2002.

		Balance
DO 72	Cyprus	USD 4,401
DO 27	Denmark	USD 1,8971
U004 UNDP	Sectoral support	USD 3,4520

80. Though the project activities were completed these funds were not closed,

81. *The Secretary General agreed to review these funds.*

Budgets, Appropriations and Funds

Introduction

82. The budget process in IMO is regulated by Article III of the Financial Regulations, which lays down the rigour and discipline of the Programme Budget. Financial Rules 103.1.1 to 103.1.7 bring out the essential administrative procedure that must be followed for bringing up the budget process to the level of the Secretary General. Thereafter, Article IV of the Financial Regulations covers the passage of budget proposals before the Assembly, the emergence of the appropriations voted by the Assembly and the limited powers available with the Secretary General for making changes to the voted appropriations under report to the Council. Since the Assembly meets only once in a biennium and the Council meets more frequently during the biennium, powers with the Council are in the nature of residual powers and it is authorized to review appropriations voted by the Assembly and permit changes thereon, during the period the Assembly is not in session.

83. Article VI of the Financial Regulations containing the regulations 6.1 to 6.8 refer to the constitution of the General Fund, the Working Capital Fund and other trust, reserve and special funds. Financial Regulation (FR) 6.7 permits the establishment by the Secretary General of trust, reserve and special funds subject to a subsequent report to the Council. FR 6.8 refers to the definition of the purpose and limits of each trust, reserve and special fund by the 'appropriate authority', without specifying the authority entrusted with this responsibility. Since FR 6.7 permits the establishment of such funds by the Secretary General, a natural interpretation would be that the Secretary General has the responsibility to clearly define the purpose and limits of each such trust, reserve and special fund. FR 6.8 expressly prescribes that unless otherwise provided by the Assembly, all trust, reserve and special funds shall be administered in accordance with the Financial Regulations.

84. Article X of the Financial Regulations prescribes the responsibilities of the Secretary General regarding Internal Control. Under FR 10.1, the Secretary General is expected to *establish detailed financial rules and procedures in order to ensure effective financial administration and the exercise of economy*. Rule 110.8 prescribes the responsibility of the Director of Administration to the Secretary General for establishing and maintaining an adequate internal control over financial transactions and such other matters as may be determined by the SG.

85. Article XI of the Financial Regulations prescribes the maintenance of Accounts including General Accounts, programme budget accounts and the treasury accounts from which the periodic financial statements of the interim calendar year and the biennium shall be prepared. Financial Rules 111.3 prescribe the manner in which programme accounts shall be maintained, and further *oblige the Secretary General to establish and keep updated a uniform*

system of classification to regulate the recording of expenditure and obligation in the programme budget accounts.

Audit Objective and Scope:

86. In the previous biennium 2000-01, we had highlighted the incidence of '*Net*' basis of budgeting as compared to the '*Gross*' basis of budgeting prescribed in the Financial Regulations. It was also pointed out that as a close corollary to this practice, budgets of Income were not being presented fairly by the IMO Secretariat before the Assembly, thereby providing a cushion for extra expenditure.
87. An audit was carried out in the current audit year to examine whether the budgetary practices and guidelines, program formulation and accounting processes, in IMO, were in accordance with the Financial Regulations and whether the same were in the best interest of member states. We felt it was particularly relevant to carry out a review of the existing budgetary practices as IMO is currently embarking on a transition to *zero based budgeting* with effect from the biennium 2004-05. Incidentally, in the wider UN system, programme budgeting has been replaced by results based budgeting for some years and there are already Joint Inspection Unit (JIU) critiques of the results based budgeting process available for guidance.
88. from which the periodic financial statements of the interim calendar year and the biennium shall be prepared. Financial Rules 111.3 prescribe the manner in which programme accounts shall be maintained, and further *oblige the Secretary General to establish and keep updated a uniform system of classification to regulate the recording of expenditure and obligation in the programme budget accounts.*

Audit Objective and Scope:

89. In the previous biennium 2000-01, we had highlighted the incidence of '*Net*' basis of budgeting as compared to the '*Gross*' basis of budgeting prescribed in the Financial Regulations. It was also pointed out that as a close corollary to this practice, budgets of Income were not being presented fairly by the IMO Secretariat before the Assembly, thereby providing a cushion for extra expenditure.
90. An audit was carried out in the current audit year to examine whether the budgetary practices and guidelines, program formulation and accounting processes, in IMO, were in accordance with the Financial Regulations and whether the same were in the best interest of member states. We felt it was particularly relevant to carry out a review of the existing budgetary practices as IMO is currently embarking on a transition to *zero based budgeting* with effect from the biennium 2004-05. Incidentally, in the wider UN system, programme budgeting has been replaced by results based budgeting for some years and there are already Joint Inspection Unit (JIU) critiques of the results based budgeting process available for guidance.
91. Financial Rule 101.1.2 categorically states that the Financial Rules are applicable to all officials and, irrespective of the source of funds, to all financial transactions of the organization. Flowing from this provision, the Financial Rule 103.1.5 applies to the all the Funds, which *inter alia*, states that a statement of the estimated expenditure shall be provided under each Major Programme and Programme; for purpose of comparison, the appropriations for the current financial period shall be indicated alongside the estimates for the ensuing financial period.
92. *The Secretary General has stated that the management recognizes the need to present the activities under these funds in a programme structure and intends to build these developments into the Work Programme and Budget for the biennium 2004-2005.*

93. *The Secretary General has also stated in his reply that it is also planned that the relevant schedules of appropriations against the out-turn level under each fund will be included in the final accounts although timing will depend upon the prospective acquisition and implementation of new financial planning and accounting system.*
94. The Secretary General has stated that these five funds were established directly by the Assembly and form part of the General Fund and are administered within the scope of Organisation's Financial Regulations and Rules. The Secretary General has also stated that scope and limits of the funds is defined in the Assembly Resolutions establishing the various funds. The audit, however, observed that although the Technical Cooperation Fund has formal rules of operation, none of the other four funds (PF, HQCF, TBF and TDF) have formal rules of operation attached to them.
95. *Considering that the separate funds have been created through Assembly Resolutions, I recommend that formal Rules of Operation be framed for the Printing Fund, Headquarters Capital Fund, Termination Benefit Fund and Training & Development Fund.*
96. The audit observed that IMO does not have any Budget Manual to regulate the preparation of the Work Programme and Budget in a consistent manner. A written guidance in the form of a duly documented Manual is an essential precondition for financial administration of the budget, as it permits the definition of important components like programme, sub-programme, output etc and the identification and development of control objectives for each operational segment so that the same are appropriate, reasonable, comprehensive and integrated into the overall organisational objectives. Audit also felt that the definition of important concepts needed to be introduced in the Manual so that arbitrariness in interpreting them could be avoided.
97. *The Secretary General has agreed to the formulation of Budget Manual by the end of 2003 and a glossary of terms would be included in the Budget Manual*
98. The concept of direct and indirect costs was introduced into the programme budget by showing direct costs on staff in the General Fund and by showing indirect costs under the five other Funds, which have been created by transfers of resources from the General Fund. While the Direct Costs follow the rigour and regimen of the Work Programme and Budget, the indirect costs are being excluded from the same. Rule 3.017 of the UN Finance Manual permits for purpose of information, the apportionment of common costs across all substantial programmes. This could be undertaken separately for the purpose of management information with respect to the sub-programme 'General operating expenses and headquarters premises' and the apportionment of such overheads to all major programmes.
99. The management in its reply has stated that the process of apportionment has not been possible largely because of the weak functionality of the Organization's current accounting system as the apportionment and distribution of indirect costs would require a more agile accounting system. *The management has stated that it is envisaged that the prospective new financial planning and accounting system would provide the necessary functionality.*
100. In response to the audit observation on non-compliance with disclosure requirements under UNSAS 8 while reporting in the financial statements, the Secretary General has replied that a detailed commentary on budgeted expenditure and out-turn for the Printing Fund and Headquarters Capital Fund is in the Financial Report of the Secretary General.
101. *Since the information is already available with the management of IMO, I recommend that the same could be made a part of the Financial Statements of IMO instead of the Financial Report of the Secretary General. In addition, the expenditure details from the Training & Development Fund and Termination Benefit Fund should also be disclosed in accordance with UNSAS 8.*

- 102.** Under the provision 6(c)(iii) of the Additional terms of reference governing the External Audit, the External Auditor should bring to the notice of the Assembly expenditure likely to commit the Organisation to further outlay on a large scale. *This issue was raised with the Management for the year 2001 in relation to MANNET Recommendations. The issue was, however not brought before the Council in the year 2001.* In the current year, as several matters raised by Audit are expected to be resolved by the Secretary-General's 'Change Management Programme' consequent upon the MANNET and Deloitte & Touché reviews and also considering that a replacement of the existing EDP systems by a more modern and robust EDP system is an integral component of such changes, we are of the opinion that these measures are likely to entail substantial expenditure, and should be brought within the due process of financial administration set out in the Financial Regulations. Presently this expenditure is being variously met from the Headquarters Fund and the Training and Development Fund, and is kept outside the formal process of Work Programme and Budget.
- 103.** *I accordingly recommend that the management may consider including the 'Change Management Programme' as a distinct Work Programme with clear sub-programmes in the Budget for the biennium 2004-2005.*

Performance Reviews of Technical Cooperation Division and Printing & Publishing Activities of IMO

Printing and Publishing Activities

- 104.** The major areas of concern, which were addressed in the performance review of Printing & Publishing Activities, were costing of publications, pricing policy, cost-effectiveness of in-house printing and the non-maintenance of Trading and Profit & Loss accounts on a commercial basis. In the absence of any recent evaluations regarding the performance of Printing & Publishing Activities of IMO, some reliance was placed on the report of a study conducted in 1997 by an external consultant, which had suggested that there were some serious problems with the Division. Management is of the view that since the report was now six years old and pre-dates radical changes implemented in the working practices of the Organization's printing and binding unit, the report was not an appropriate reference point for the Publishing Services' activities in 2003.

Technical Cooperation Division

- 105.** The major areas of concern, which were addressed in the performance review of Technical Cooperation Division, were stewardship of the ITCP, reliability and fairness of reporting to the legislature, financial administration of the TC fund, definition of target groups, areas at risk and programme delivery.
- 106.** The performance audits were conducted during the course of the external audit and audit observations and recommendations were issued to the management as a part of the Draft Management Letter.
- 107.** The Secretary General has stated that the research of the external audit had not taken full account of the 'work in progress' consequent upon the MANNET and Deloitte and Touché reviews. Considering the comments of the management, I propose to study further the Technical Cooperation Division and Printing & Publishing Activities of IMO during the course of the year, taking into account the 'work in progress'.

Frauds and Presumptive Frauds

- 108.** The Secretary General in his Letter of Representation has stated that there were no cases of fraud and presumptive fraud in the year 2002 in IMO.
- 109.** In my audit report for the financial year 2001, I had recommended that suitable procedures be introduced so that a reasonable assurance is available on these matters to the governing legislative bodies and external agencies. In response, IMO management have stated in their compliance report that a fraud-risk assessment will be incorporated into the IOS work programme.

Acknowledgement

- 110.** I gratefully acknowledge the assistance rendered to my audit team by the Management.

(Vijayendra N. Kaul)
Comptroller and Auditor General of India
External Auditor

Annexure

Follow-up on the recommendations of the External Audit for the years 2000 and 2001.

For the year 2000

1. Recasting Financial Statement III (Paragraphs 34 – 36)

Audit had requested that the action taken by Management may be conveyed at the earliest. Management in their additional comments stated that allotment against the appropriation, expenditure and balance of appropriation can be displayed, but it would serve very little value in the presentation since the Secretary General issued allotments to incur expenditure during the first 10 months of the year based on 85 per cent of the appropriation for semi fixed costs/controllable cost items and 100 per cent of the appropriations are issued for fixed costs such as running cost of the building, staff costs under established posts etc.,

2. New Schedule for major objects of expenditure (Paragraphs 37-38)

Audit had stated in the Draft Management Letter that this action appears to be incomplete, since the schedule containing expenditure is bereft of the appropriations for major objects of expenditure, thus not affording a comparison.

Management in their additional comments have stated that contrary to the audit comment, action has been completed since 2000 and reflected in the following documents.

C 86/8(a)/Add.1	page 8, annex 1	year 2000 final accounts
C 88/18(b)	page 10, annex 1	year 2001 final accounts
C 90/17(b)/Add,1	page 14, annex 1	year 2002 final accounts

3. Investments (Paragraphs 41-43)

Audit had stated that the Action taken by Management is sufficient and accepted. But the interest income in the year 2002 has fallen by over 50% in cases of General & Printing Fund. Management may like to appreciate the reasons for this and obtain views of consultant/Advisor.

Management in their additional comments have stated that the interest income in the year 2002 have fallen by over 50% due to low level of funds available for investments coupled with continued reduction in interest rates in the UK economy.

4. Trust Funds (Paragraph 46)

Audit had requested that the Action taken by Management may be conveyed to Auditors on completion.

5. Technical Co-operation projects (Paragraphs 50-51)

Audit appreciated the action, however budget details would also be required to be presented to facilitate comparison as per format of App V read with UNSAS 8.

Management has complied with the observation and amended the Schedules 9 and 10 of accounts for 2002 including budgeted figures.

6. Need for Transparency in fixed term posts (Paragraphs 64-65)

Audit observed that the consistent adoption of this recommendation was not observed. This action with respect to canteen staff recently made permanent or given fixed terms is pending since their salary component is getting camouflaged in the overall subsidy provided for canteen. Salary is a fixed cost and should be reflected at the programme level of Work Programme and Budget under Administrative services.

Management in their additional comments stated that the salaries of cafeteria staff are not 'Camouflaged' in the overall subsidy provision for the canteen. These costs have been displayed for 2002 and will be included in the 2004-2005 appropriation.

7. Absence of classification procedure (Paragraphs 76-77)

Action taken by Management is accepted. But the delays in completion dilute the levels of assurance regarding adherence to administrative procedures. The residual action may be planned for completion in a time-bound manner.

Management in their additional comments stated that the Auditor's remarks concerning the "dilution of levels" of assurance seems a disproportionate response to the commitment made by the Management to implement Audit recommendations.

8. Non-applicability of Appointment and Promotion Boards to senior posts (Paragraphs 78-82)

Audit stated that the Secretariat may consider introduction of a clause in the Staff Rules in line with the endorsement obtained by the SG, which is a relaxation in procedure in regard to the extension of APB process, as stated in Rule 104.9, to posts above P3 level.

Management in their additional comments stated that the proposed closure is unnecessary. The provisions of Rule 104.9 apply expressly to appointment and promotion upto and includes P3. By extension, the rules do not apply to P4 and above.

9. Extra overtime payment (Paragraphs 129-131)

Audit observed that the Secretariat had not proposed necessary amendments to the Staff Rules in pursuance of the recommendation of the Group. Therefore, compliance to the recommendation has not been secured. Necessary action expected of Secretariat is, therefore, pending.

Management in their additional comments stated that the management has advised the Auditor that the Secretariat had received the Council's approval to a change in the Staff Regulations and Rules. Contrary to the Auditor's statement, this action has been completed (CES/21/10/Add.1 and Admin.101/90)

10. Unintended benefits in respect of night differential (Paragraphs 132-133)

Audit observed that the Staff Rules do not reflect the desired clarity recommended to be introduced by the Group. Action in compliance with the recommendation is, therefore, pending.

Management in their additional comments stated that an administrative memorandum has now been issued to Publications, Conference Division giving administrative effect to the practice.

11. Inventory management (Paragraphs 145-148)

Action completed. The Auditor was provided with the necessary records and the Final Accounts including the valuation.

For the year 2001.

1. Trust Fund activities excluded from the Budget (Paragraph 16)

Implementation of the recommendation by management may be reviewed at an appropriate time in the future. Management has included the budget information for each project in Schedule 9 and 10 of the Financial Statements.

2. Maintenance of property records (Paragraphs 18-19)

The management informed that the physical verification took place in January 2002 by contractors from the external firm Requisoft and that all discrepancies had been fully rectified. The list of the inventory was made available to the external audit. Although the physical verification had been done for the assets, it had not been done for supplies, materials- in- hand and for gifts.

Management has stated that the work on inventory of gifts to the organization will be completed by the end of 2003 (and held in digital-picture format) with a view to valuation by the organization's insurers.

3. Disclosure of stores and cash losses (Paragraphs 22-23)

According to Financial Rule 110.6.4 the Secretary General may declare property to be surplus if it is of no further use to the organisation. We did not find any evidence of such a declaration by the Secretary General for the property sold in the year 2002. As IMO property was sold for a price less than its acquisition price (or the price at which it is disclosed in Notes to Accounts under UNSAS 49) the sale transaction had resulted in a loss which required formal write-off under proper sanction, according to the provisions of Financial Regulation 10.4, a statement of which is required to be submitted to the Auditors with the accounts. The same was not done.

4. Payment of medical insurance premium (Paragraphs 45-48)

Audit stated that the management may consider reviewing the decision to separate IMO from the world-wide UN insurance scheme.

The Secretary General reported to the Council that the Management will continue to look for ways of reducing the organization expense including the possibility of re-entry into the world-wide plan.

ANNEX 2

No 500 -IR/17/2003
May 28, 2002

The Chairman
The 90th Session of the Council
International Maritime Organization
4 Albert Embankment
LONDON SE1 7SR

Dear Chairman,

I have the honour to submit to the Council for onward transmission to the Assembly, the Status of Funds Statement together with External Auditor's Opinion thereon, of the International Maritime Organization as Executing Agency for the United Nations Development Programme for the year ended 31 December 2002.

Yours sincerely,

(Narendra Singh)

**INTERNATIONAL MARITIME ORGANIZATION
AS EXECUTING AGENCY FOR THE
UNITED NATIONS DEVELOPMENT PROGRAMME
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2002
OPINION OF THE EXTERNAL AUDITOR**

To: The Assembly of the International Maritime Organization

I have audited the accompanying financial statements, comprising the Status of Funds Statement (Statement I), and supporting Notes of the International Maritime Organization as Executing Agency for the United Nations Development Programme for the year ended 31 December 2002. These financial statements are the responsibility of the Secretary-General. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with the Common Auditing Standards of the Panel of External Auditors of the United Nations, Specialized Agencies and the International Atomic Energy Agency. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Secretary-General, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for the audit opinion.

In my opinion, these financial statements present fairly, in all material respects, the financial position as at 31 December 2002 and the results of operations and cash flows for the period then ended in accordance with the Organization's stated accounting policies set out in Note 1 of the financial statements, which were applied on a basis consistent with that of the preceding financial period.

Further, in my opinion, the transactions of the Organization, which we have tested as part of my audit, have in all significant respects been in accordance with the Financial Regulations and Legislative Authority.

I have no further observations to report as a result of my audit.

**NARENDRA SINGH
PRINCIPAL DIRECTOR
INTERNATIONAL RELATIONS
for the
COMPTROLLER AND AUDITOR GENERAL OF INDIA
EXTERNAL AUDITOR**