



COUNCIL  
96th session  
Agenda item 3(b)

C 96/3(b)/1  
9 May 2006  
Original: ENGLISH

## RESOURCE MANAGEMENT

### (b) Accounts and audit: final accounts for the second calendar year of the twenty-third financial period

#### 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 second calendar year of the twenty-third financial period; as well as his Opinion on the IMO/UNDP accounts for the year ended 31 December 2005

**Action to be taken:** Paragraph 5

**Related document:** C 96/3(b)

#### Introduction

1 In accordance with the provisions of financial regulation 12.10 of the Organization's Financial Regulations and Financial Rules, the External Auditor has submitted to the Council, through its Chairman, the certified final accounts relating to the Organization's regular budget and its funds for the second calendar year of the twenty-third financial period 2004-2005 together with his Opinion thereon. The External Auditor has also provided a corresponding certification and Opinion on the final accounts covering IMO's activities in 2005 as a participating and executing agency in the United Nations Development Programme.

2 Both sets of accounts were distributed as annexes 1 and 2 to document C 96/3(b). The External Auditor's Report and Opinion on the IMO accounts may be found at annex 1 to this document and his Opinion on the IMO/UNDP accounts may be found at annex 2.

#### Opinions and Report

3 The Secretary-General appreciates the Opinions of the External Auditor and is pleased to note that no qualifications are contained in his Opinions on the Organization's financial statements for 2005. 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 covering the Organization's final accounts. The Secretary-General has been pleased to accept the External Auditor's recommendations, which will strengthen internal controls and further ensure the integrity of the Organization's financial information and accounts. Action has begun on the implementation of the External Auditor's recommendations.

For reasons of economy, this document is printed in a limited number. Delegates are kindly asked to bring their copies to meetings and not to request additional copies.

4 The External Auditor has provided, in an annexure to his long-form Report, a status report of Management's compliance with the External Auditor's recommendations accepted in the 2002, 2003, 2004 year-end and the 2003 interim audits, including the Internal Oversight Services' recommendation following an audit of the Organization's payroll. The Secretary-General welcomes the Auditor's expression of appreciation for the commitment which has been given by the Management to the implementation of these recommendations.

**Action requested of the Council**

5 The Council is invited, in accordance with financial regulation 12.10, to examine the financial statements and External Audit Reports annexed to document C 96/3(b) and this document, so that the Council can forward them to the Assembly with such comments as it may deem appropriate.

\*\*\*

ANNEX 1



**VIJAYENDRA N. KAUL**

भारत के नियंत्रक - महालेखापरीक्षक  
COMPTROLLER & AUDITOR GENERAL OF INDIA

No. <sup>530</sup>IR/55-2005  
April 27, 2006

**The Chairman  
The Ninety-sixth 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 2005, 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 SECOND YEAR  
ENDED 31 DECEMBER 2005  
OF THE TWENTY- THIRD FINANCIAL PERIOD**

**OPINION OF THE EXTERNAL AUDITOR**

To: The Assembly of the International Maritime Organization

I have audited the accompanying Financial Statements comprising Statements I to IX, Schedules 1 to 15 and the supporting Notes to the Accounts of International Maritime Organization for the year ended 31 December 2005. 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. These standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The 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 present fairly, in all material respects, the financial position as at 31 December 2005 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, which were applied on a basis consistent with that of the preceding financial period.

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

In accordance with 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

April 2006

**REPORT OF THE EXTERNAL AUDITOR  
ON THE FINANCIAL STATEMENTS OF THE  
INTERNATIONAL MARITIME ORGANIZATION FOR THE SECOND YEAR  
ENDED 31 DECEMBER 2005  
OF THE TWENTY- THIRD FINANCIAL PERIOD**

**INTRODUCTION:**

**Audit Scope:**

1. I have examined the financial statements of the International Maritime Organization (IMO) for the year ended 31 December 2005 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 2005, 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 as at 31 December 2005 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 Specialized Agencies and International Atomic Energy Agency. These standards required me to plan and carry out the audit so as to obtain reasonable assurance that the Organization's financial statements are free from material misstatement(s). The Organization's management was responsible for preparing these financial statements and I am responsible for expressing an opinion on them, based on evidence collected 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 2005.
6. I have also reported separately on the financial statements of the IMO International Maritime Law Institute for the year ended 31 August 2005; and on the financial statements of the World Maritime University for the year ended 31 December 2005.

**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 Management Letter, which included replies of the management and my comments thereon.
8. I appreciate the efforts made by IMO to consider the recommendations of the External Auditor for the financial year 2004 as per the decision taken by the Council at its 94<sup>th</sup> session. The follow-up status in respect of the recommendations under progress/ implementation is separately enclosed at **Annexure-I**.

## **Audit Findings and Recommendations**

### **Financial Statements - Revision in Accounts**

9. The management made several corrections in the Financial Statements, Schedules and Notes to the accounts based on audit observations (**Annexure-II**).
10. While I appreciate the efforts of the Management in preparing the Financial Statements as accurately as possible, the nature of errors noticed by Audit point to the need for a closer review of the Financial Statements so that arithmetical accuracy and internal consistency of the statements is ensured. The Management stated that due consideration would be given to strengthen the scrutinising process to minimize such errors in the future.

### **Management Issues**

#### **Implementation of SAP**

11. It was observed that there were a few line items e.g. expenditure on Conference and Meetings (Schedule 4) that did not flow directly from General Ledger (GL) accounts, and the accounting of ULO still remained largely a manual exercise outside SAP.
12. In so far as expenditure on Conference and Meetings is concerned, the management explained that the manual intervention arose due to raising expenditure obligations under two separate Work Breakdown Structures (WBS) within one source of financing i.e. the regular budget. However, from 2006-07 biennium, the WBS has been so planned that there would be no need for manual adjustment in the accounts for 2006-07. As for ULO process, it was informed that while the Organization would continue to refine and improve the mechanics of ULO process, it was not cost effective or practical to automate the process.
13. It was observed that the policies and procedures for change management, password security, etc. were not clearly documented. It was also noted that the Organization did not have a SAP user manual. The Management stated that they were conscious of the need for formalising and clarifying the arrangements for ongoing support of the system. They have assured that this would be addressed during 2006 and forward to the extent that the available resource allows.

#### **Accounts Manual**

14. It was observed that there was no Accounts Manual.



15. The Management replied that they concur with the requirement to develop an Accounts Manual, and work would continue during 2006 to develop and consolidate the various material available, identify gaps and produce material to close those gaps where possible.

#### **User Manual for SAP accounts module**

16. It was observed that there was no User Manual for SAP for Accounts Module. To the recommendation that a SAP User Manual be prepared, the Management replied that the work to develop a user manual for SAP accounts module would be taken up in tandem with preparation of the Accounts Manual.

#### **Rules of Operation for various Funds**

17. Presently the Rules of Operation of different funds are scattered over different Assembly Resolutions A.100 (IV), A.778 (18), A.837 (19) and A.906 (22) which established these Funds. These were complemented and updated by the subsequent Assembly Resolutions on Work Programme and Budget issued every biennium. The Management replied that the Rules of Operation for these funds will be incorporated in the Budget Manual to be developed.
18. I recommend that the Management consider putting Rules of Operation of all Funds in a single document.

#### **Savings and excess expenditure**

19. The Schedules 7, 8, 9, 10 and 11 show status of appropriations of Printing Fund, Termination Benefit Fund, Technical Co-operation Fund, Headquarters Capital Fund and Training & Development Fund respectively. The following table shows the variance between appropriation and expenditure.

(£)				
Fund	Appropriation	Total Expenditure (actual + ULO)	Variance (+) Savings/ (-) Excess over appropriation	% Variance
1	2	3	4	5=4/2
Printing Fund	4,640,700	3,882,406	(+) 758,294	16.34
Termination Benefit Fund	226,500	529,786	(-) 303,286	(-) 133.90
Technical Co-operation Fund	5,117,136	3,485,776	(+) 1,631,360	31.88
Headquarters Capital Fund	1,158,000	334,367	(+) 823,633	71.13
Training and Development Fund	193,000	40,243	(+) 152,757	79.15

The Management explained the variations as below:

20. The un-obligated balance in the **Printing Fund** appropriation of £758,294 for 2005 was firstly attributable to the staff cost savings of £315,000, which reflected the 41 vacant work-months including vacancies accrued from the Secretary-General's decision to close the Organization's Production Unit on 31 December 2005. The planned closure of the Production Unit also brought the increase in the level of the outsourcing of the printing publications which again reduced the expenditure on restocking the paper supplies (£198,000) and printing equipment (£130,000).
21. When compared with the revised budget of £485,200 in Termination Benefit Fund, the excess in expenditure amounts to £44,586 representing 9.2% of the revised budget. The overrun was due to the higher level of repatriation than estimates. Schedule 8 was corrected to show the revised budget in the appropriation column.
22. The total expenditure in the Technical Co-operation Fund for 2005 was £3,485,776, which in the Secretariat opinion is comparable to the average expenditure level over the last three years. In many cases, the allocation of funds from the TC Fund for Integrated Technical Co-operative Programme (ITCP) is set on the basis of the expectation of co-financing, partnership and other contribution. In this context, the actual delivery level of the ITCP is much dependant on the donor's participation and co-operation from the recipient countries.
23. The unspent balance of £823,633 under the Headquarters Capital Fund would contribute to the Secretariat's effort to save funds for the Headquarters Refurbishment, which was planned to commence in August 2006. The capital investment programmes reassessed and curtailed include: minimal spend in building repairs resulting in savings of £98,800; cut-back on IT investment including SAP of £485,000; non-replacement of digital printing equipment of £233,000; and non-replacement of official vehicles of £30,000.
24. Due to the shortfall in the cash surplus of the General Fund, transfers from the General Fund to the Training and Development Fund were made at much less level of £75,000 (£50,000 and £25,000 for 2004 and 2005, respectively) than the approved level of £400,000 (£200,000 for each financial year). Under that circumstance of reduced fund provision, the Secretary-General had no other option but to downsize the 2005 training programme and accordingly maintained the actual level of operating funds for the 2005 programme at £ 60,000 by setting the budget allotment only to that limit as against the original budget of £ 193,000.

### **Termination benefits**

25. Termination Benefit Fund was established to meet the costs associated with termination benefits to staff of the Organization. The scope of the fund was widened to allow the financing of the additional costs of temporary assistance required to replace staff on long term sick leave.
26. It is seen that in the Chart of Accounts, there are GL accounts for Repatriation Grants / Travel viz. 430240 and 430250, but none for other termination benefits.
27. I recommend that the Management consider introducing appropriate GL accounts for 'separation benefits'.

### **Payment of Separation Benefits**

28. Article IX of Staff Regulations lays down rules for separation from service. According to Regulation 9.3(b) 'the S-G may, where circumstances warrant ..., pay to the staff member terminated ... a termination indemnity payment not more than 50 percent higher than that which would otherwise be payable under the Staff Regulations.'
29. A scrutiny of records revealed that in the case of agreed separation of a staff member in 2005, he was paid 19 months salary [as against a maximum of 18 months i.e. 12 months prescribed by the Staff regulations and 50% higher as per Regulation 9.3 (b)] inclusive of post adjustment ( as compared to net based salary) amounting to £102,015. In addition, he was paid £10,000 in lieu of home leave. The above payment had been made by applying guidelines issued by the WHO in 1999 regarding separation by mutual agreement. The separation benefits as per the WHO guidelines stipulate that 20 months salary and salary inclusive of post adjustment may be paid. This has been disclosed in Note 17.3 to the Accounts for 2005, where it is stated that the agreed separation payments were made in accordance with the Staff Regulations and Staff Rules supplemented by the established practice within the UN common system.
30. The Management in its reply stated that the separation was not strictly a 'termination' as defined in the IMO Staff Regulations and Rules as it was an agreed settlement for the mutual benefit of the staff member concerned and the Organization, which made subsequent savings through a reduction in posts. As the terms laid down in the IMO Staff Regulations and Rules did not include payment of the post adjustment factor, guidelines from elsewhere in the UN common system (in this case WHO) were applied. This was acceptable to the staff member, and was offered by the Management because it provided an opportunity for savings to the Organization.

31. The Staff Regulations and Rules do not distinguish between separation to the mutual benefit of the staff member and the Organization or termination by the Organization. There is only one set of Rules under Regulation IX. The Staff Regulations and Rules lay down the entitlements and the relevant conditions for separation payments. They provide discretion to the Management to pay termination benefits only up to 50 percent higher than that which would otherwise be payable under the Staff regulations.
32. I recommend that Staff Regulations and Rules be invariably followed in all staff matters and that practices not currently included in the Staff Regulations be followed only after they are suitably incorporated in the Staff Regulations.

#### **Supply of warehouse and fulfilment of services**

33. It was observed that the arrangement with CMM Burnham International, Kent for warehousing IMO publications was without a contractual agreement. The Management replied that CMM Burnham was selected on the basis of the quality and its service offering. A tender for this work was currently in progress.

#### **Retailer Agreement for credit card sales**

34. A review of payments for credit card services revealed that the IMO continues to utilize the services of Natwest Streamline without renewing the agreement last entered into in 1998. The Management replied that the Chief Facilities Management is devising a more systematic approach to reviewing contracts with a renewable clause to ensure that the Organization's interests are reviewed and protected. This contract would be reviewed during 2006.

#### **Design and production of artwork**

35. It was observed that certain works have been repeatedly ordered on a firm without competitive tender. It was explained that artwork is by nature creative and related decisions tend to be subjective. The relationship with the said firm evolved over a period and the work was found acceptable. It was, however, agreed that the initial selection should have been done through a competitive tender. In order to regularize the relationship, it has now been proposed that this be reviewed and formalized within next 18 months. Audit appreciates the efforts underway and proposed to be taken for reviewing contracts.
36. I recommend that all major activities be reviewed to ensure that there are no instances where the arrangement for receipt of goods or services is without a valid contract. In case of design of art work as well, the Management may consider framing some guidelines or having some arrangement for ordering the work on a single quotation basis so that the prices charged are transparent and fair.

### **Accounting of Education Grant and Travel Advance**

37. Staff Rule 103.8 provides for sanction of education grant to staff members in respect of dependent children in full-time attendance at a school, university or similar educational institution. Accordingly, staff members are paid annually education grant, which is accounted as recoverable amount in GL 122020. It is charged to expenditure once the final claim is submitted by the staff member. The amount outstanding as at the end of 2005 was £636,147.
38. Financial Rule 110.5.1 states that the travel advances may be made on request to officials to whom official travel authorizations have been issued. Pending submission of final claims the amount of advance is shown as recoverable under GL account 122040. The amount outstanding as at the end of 2005 was £121,744.
39. Audit pointed out that while it was acceptable to show education grant and travel advance as advances during the course of year for control purposes (to monitor submission of the claims), treating them as assets in Statement of Assets and Liabilities was incorrect because where the expenditure had been incurred, it must be booked to expenditure irrespective of whether or not a claim has been submitted. Further it would be incorrect to consider them as assets when they do not in reality represent any receivable.
40. The Management corrected the accounting of travel advance. As for education grant, the management stated that to change the approach would require significant input of resource to determine the exact position on each education grant application, and would also result in a significantly higher education grant expenditure reported in the year of change. As a consistent application of policy across a biennium is important, this would be reviewed during 2006 with a view to gathering data and assessing the impact of changing the approach for the 2006 accounts.
41. I recommend that the Management adopt the practice of adjusting the travel advance in respect of travel completed during the year. Same approach may be adopted in respect of education grant as well.

### **Outstanding Travel Advance**

42. Rule 110.5.1 states that the travel advances may be made on request to officials to whom official travel authorizations have been issued. Such advances are to be used in accordance with the provisions of the travel rules and must be accounted for when the travel is completed.

43. A perusal of G/L Account 122040- Travel Advance under General Fund has a closing balance of £121,744 as on 31.12.2005. As there were cases where travel had been completed almost a year back but claims were yet to be accounted and also some of the claims are pending from the retired employees, Audit sought to know the mechanism for monitoring receipt and settlement of claims.
44. The Management informed that the Financial Services regularly writes to the Directors detailing all outstanding missions for their staff which took place more than one month previously, and encourages them to ensure early submission of claims. The balance in the Travel Advance account was on account of temporary backlog in processing claims which had arisen because of revising SAP system. It was assured that the efforts to reduce the outstanding balance would continue in 2006. As for retirees, an additional control has been introduced for checking any outstanding travel advance before they depart.

#### **Accounts receivable - US Tax Refund**

45. The Organization pays US taxes payable by any of its staff members and seeks its reimbursement from the US Government in accordance with the 1995 USA-IMO Agreement on Tax reimbursement. The amount of US Tax awaiting reimbursement is reflected in GL account 123060 – US Tax Recoverable. As at the end of Financial Year 2005, it shows £47,388 to be recoverable (including US\$ 49,207 pertaining to 1998 and 1999).
46. The Management agreed to review the processes (for refund) and see if any improvement can be made to expedite reimbursement by the US Embassy on a more timely basis. This would address the future claims
47. I recommend that past cases be followed up for an early reimbursement.

#### **Accounts Receivable – Refund of Climate Change Levy**

48. The host government had introduced a charge on energy called Climate Change Levy with effect from April 2001. The matter regarding its applicability to the Organization was taken up with Foreign and Commonwealth Office (FCO) in March 2001, when the latter replied that they would recommend to FCO Ministers that the CCL be refunded to IMO. Since the introduction of CCL, the Organization has been paying the CCL and treating it as refundable. In the Statement of Assets and Liability (Statement III) for the financial period ended 2005, an amount of £72,555 (2005) and £74,928 (2004) on this account has been accounted as Account Receivable – tax refundable towards refund of CCL.
49. The Management have furnished a communication from FCO dated 14 March 2006 that necessary amendments to IMO Headquarters Agreement are under active consideration.

50. I recommend that the Organization pursue this actively till the necessary amendments to HQ Agreement are made by the UK Government.

#### **Publication Credit Card Accounts**

51. Credit Card Accounts 125031 to 125034 are used to record remittances from individual sales of IMO publications realized through credit card transactions. There are also some old balances on these accounts that require regular follow up.
52. The Management informed that the old balances are being reviewed and investigated and assured that they would continue the efforts to investigate such amounts, and would write-off irreconcilable items in due course.

#### **Travel Recoverable Account**

53. The Travel Recoverable Clearing Account – 125051, has some old outstanding balances (£ 44,050). The Management replied that this account was reviewed on a regular basis and that they would maintain the review and follow up regularly until the sums were received.

#### **Miscellaneous Receivable Account**

54. The Miscellaneous Receivable Account – 125080 showed balances that have been outstanding since 1998, with a majority of them after 2003. The Management informed that a significant exercise was undertaken in late 2005 to review all amounts and determine their recoverability. It was assured that they would continue to monitor the situation during the year and if and when found irrecoverable would write them off.

#### **Surprise check of cash in Cafeteria**

55. Audit suggested that cash may be verified without prior intimation and a report indicating cash balance as per cash book and physical cash in the vault be submitted to the Director, Administration.
56. The Management stated that they recognized the point made on random checks of the float maintained by the Cafeteria manager, and they would develop further controls in this regard during 2006.

#### **Follow-up action on Recommendations of Previous Audits**

57. The action taken on previous audit reports pertaining to years 2002 and 2003 and interim audit of 2003 and the year 2004 is given in Annexure.

**Fraud and Presumptive fraud**

58. The Management reported that there were no cases of fraud and presumptive fraud.

**Acknowledgement**

59. I gratefully acknowledge the assistance rendered to my audit team by the Management.



**Vijayendra N. Kaul**  
**Comptroller and Auditor General of India,**  
**External Auditor**

**April 2006**



Status of Compliance Report

**Response of the Management to the External Auditor's Observations  
Annexure-I**

Reference to Audit Paragraph/ Audit Report	Gist of Audit Observations	Management's Response / Action Taken/Additional Comments at the end of 2005	Comments – External Audit Year-end Accounts 2005
<b>Audit Report 2004 Recommendation 1 (Paragraph 12) – Contribution Incentive Scheme.</b>	Liability position may be clearly brought out in the Financial Report along with a report on the implementation of the action plan to the Assembly/Council every year.	In view of the Organization's major refurbishment project for 2006-2007, a detailed view of the forecast cash position for the coming year will be analysed before a recommendation to the Council is made.	<b>Compliance to be watched at the next year-end audit.</b>
<b>Recommendation 2 (Paragraph 18) – Status of SAP implementation in IMO.</b>	The recommendations relating to SAP implementation in IMO are as under:  (i) In order to have better data integrity, it is desirable that all the Financial Statements, Schedules and Notes to Accounts are generated through SAP system.	<b>Comments at year-end audit 2005:</b>  (i) The production of year end accounts direct from SAP in the format required by the Organization, while possible, would require significant customization of the package or significant work in the Business Warehouse tool. To write an algorithm to determine which journal postings to a WBS represented a ULO, for example, and which non-ULO journal, would be prohibitively complex. It is not proposed to undertake this work at this stage due to the expense, the staff resource required to specify, develop and test such a solution, the desire to maintain a 'vanilla' solution where possible to simplify upgrades, and the significant changes in the Organization's accounts format required with the move from UNSAS to IPSAS in 2010.	(i) It is seen that the only manual interventions are one in respect of conference and meeting expenditure and the other in respect of ULO. The former has been addressed as per the reply given to Audit Query 17. As for ULO, it is peculiar to UN system and it would be difficult to

Reference to Audit Paragraph/ Audit Report	Gist of Audit Observations	Management's Response / Action Taken/Additional Comments at the end of 2005	Comments – External Audit Year-end Accounts 2005
	<p>(ii) Provisions may be made in the SAP software for capturing Unliquidated Obligations as per the accounting policies of the Organization to completely eliminate manual working out of ULOs.</p>	<p>However, advances have been made in improving the audit trail from the system to the final accounts for 2005, with the goal of simplifying the production of the accounts and their auditability.</p> <p>(ii) A new policy on ULOs was developed and implemented successfully to reduce the manual intervention, improve the transparency and the audit trail from SAP. The determination of valid ULOs itself requires review and professional judgment, and consequently manual input could never be removed entirely. A number of processes involving several key groups were developed and a clearly defined time table was established to ensure smooth operation of the ULO policy to compliment the timely production of year end accounts from information directly generated from SAP. The new policy has further improved the purchase order reports available for the users such as budget holders and requisitioners to take timely action and has enhanced their knowledge of the correct treatment of expenditure.</p> <p>The Financial Services (FS) and Management Accounting Services (MAS) have jointly developed the procedures for accounting and tracking outstanding commitments from previous year which are to be liquidated in a following financial year. The process has been fully documented, tested in</p>	<p>customize SAP or any package. May be treated as settled.</p> <p>(ii) This will be reviewed in yearly audit.</p>

Reference to Audit Paragraph/ Audit Report	Gist of Audit Observations	Management's Response / Action Taken/Additional Comments at the end of 2005	Comments – External Audit Year-end Accounts 2005
	<p>(iii) Independent systems audit/review of the SAP application to ensure that processing of transactions, internal controls relating to roles/responsibilities, security controls, validations etc. are incorporated as per the financial rules and regulations.</p>	<p>SAP and applied in handling the 2005 ULOs. The ULO list for 2005 containing valid unliquidated POs was down-loaded from SAP electronically. Manual additions were made to cover for the activities which were commenced and contracted but not fully committed in the accounts as POs prior to the end of the year. The immediate benefits of the new procedures include the total expenditure figures in the Organization's financial reports automatically agree to SAP 24/7. Accordingly, all other reports for 2005, in particular, the budget status (Statement 4) and expenditure by cost objects (Schedule 4) including the expenditure statements in respect of extra-budgetary activities financed from other Funds of the Organizations were prepared using on line SAP enquiry screens. The FS and MAS will review the process based on the experience gained in handling the 2005 ULOs during 2006, and will amend the procedures where appropriate.</p> <p>(iii) MSA &amp; IOS will be auditing the implementation of SAP during 2006. In addition to this, an ongoing process of review and update of the system is being conducted, the first element of which, the update of the travel system, was completed in 2005. During 2006, the Purchase to Pay procedure will be reviewed and improved where necessary, taking into account external and internal audit comments.</p>	<p>(iii) IMO requested External Audit to review SAP during interim audit. May be treated as settled.</p>

Reference to Audit Paragraph/ Audit Report	Gist of Audit Observations	Management's Response / Action Taken/Additional Comments at the end of 2005	Comments – External Audit Year-end Accounts 2005
	(iv) Evaluation of SAP to assess the benefits accrued in terms of its objectives.	(iv) Council documents C 94/4(a), C 94(a)/Add.1, C 94/WP.3 and C ES23 4(a) refer, setting out progress on SAP implementation and the benefits realized.	(iv) May be treated as settled.
<b>Recommendation 3 (Paragraph 21) – Procurement procedures</b>	<p><b>To bring better internal control and greater transparency in the procurement system, following recommendations are made:</b></p> <p>a. Specifications suited to the organization's requirements must be brought out in the tender clearly and evaluation done thereon;</p> <p>b. For procurements of a technical nature, a two-part evaluation system (through two bids, viz, Technical and Financial bids) may be followed. Two separate committees viz; Technical Committee and Financial Committee may carry out evaluation of bids. The technical bids first may be evaluated by the Technical Committee on their technical merits. The companies meeting the required specifications/standards may be short – listed and the list passed onto the Financial Committee. The financial bids should not be opened by</p>	<p><b>Comments at year-end audit 2005:</b> The comments are noted but it is not advantageous to the Organization to have separate technical and financial bids for all tenders. However, the views of the auditors are noted and split bids will be used when it is considered, in the view of the Chief Office of General Services, to be in the best interest of the Organization.</p>	To verify the practice in audit.

Reference to Audit Paragraph/ Audit Report	Gist of Audit Observations	Management's Response / Action Taken/Additional Comments at the end of 2005	Comments – External Audit Year-end Accounts 2005
	<p>the Technical Committee. Bids of the short listed companies should be evaluated by the Financial Committee as per prescribed rules.</p> <p>This procedure would avoid a situation where a company first recommended on the basis of financial bid for a contract is not considered later on technical grounds. Further, this would also ensure a level playing field for all companies participating in the tender.</p> <p>c. Reasons for rejecting any competitive bid should be clearly placed on record.</p> <p>d. Members of the two committees should be independent.</p> <p>Negotiations entered into changes, if allowed by rules, should be minuted and placed on record.</p>		

Reference to Audit Paragraph/ Audit Report	Gist of Audit Observations	Management's Response / Action Taken/Additional Comments at the end of 2005	Comments – External Audit Year-end Accounts 2005
<p><b>Recommendation 4 (Paragraph 25) Internal controls in PUS (Publishing Services)</b></p> <p><b>Recommendation 5 (Paragraph 29) Inventory:</b></p>	<p>The Accounts receivables have reduced as compared to the previous year, the action taken to clear the old outstanding dues/unprocessed credits to the Organization may be closely monitored.</p> <p>Master Inventory data base of all items including IT items be maintained, which is based on the purchase and disposal records of all the inventory items. The physical verification of inventory may be carried out against this master database and differences, if any, may be reconciled.</p>	<p><b>Comments at year-end audit 2005:</b> The Publishing Service has made considerable efforts to recover the long outstanding dues from the customers as reported in their write-off memo to the Secretary General. However despite their efforts, the Secretary-General's approval had to be obtained to write-off unrecoverable dues totalling £29,589 as disclosed in the Notes to Accounts.</p> <p><b>Comments at year-end audit 2005:</b> It appears there has been some misunderstanding here. The database history was compiled on the previous manual system. Any additions to the record since computerization have been based on information from the purchase order records. However, in the course of physical inventory checks, which have been thoroughly carried out over the last few years, items have been found which were purchased prior to computerization of the records and which were not included in the manual data used in the change over. It is unlikely that any situation like this will re-occur.</p>	<p>In view of compliance, may be treated as settled.</p> <p>This has been verified. There is a master database, which is updated with every purchase and disposal. May be treated as settled.</p>
<p><b>Audit Report 2003 Paragraph 9:</b></p>	<p>In terms of UNSAS 31, only such amount of money or money equivalent received or accrued during the financial period which increases existing net assets can be recognized as Income.</p>	<p>It has been informed by the management this has been resolved and that from 2006 accounts onward they would show transfer below the line.</p>	<p>In view of action taken, may be settled.</p>

Reference to Audit Paragraph/ Audit Report	Gist of Audit Observations	Management's Response / Action Taken/Additional Comments at the end of 2005	Comments – External Audit Year-end Accounts 2005
<b>Paragraph 12:</b>	To record unprocessed credits as cash receipts (misc. income) with a creation of liability till they are processed.	The balances continue to be managed using the SAP system. Reconciliation of the Sales and Finance modules of SAP ensure that no further mismatches are processed, and that unallocated funds are investigated on a timely basis.	This is being done. May be treated as settled.
<b>Interim Audit 2003 Paragraph 6:</b>	According to Standard 40 of the United Nations System Accounting Standards, obligations unliquidated at the end of a financial period, which continue to represent a charge against the resources of the organization, should be maintained and shown as liability in the accounts.	Management replied (October 2005) to refer to response to the recommendation 2 of the report of the External Auditor of the financial statements for the first year of twenty third financial period – year ended 31 December 2004.	There were no instances where obligations at the end of financial period were not shown as an expense. May be settled.

Reference to Audit Paragraph/ Audit Report	Gist of Audit Observations	Management's Response / Action Taken/Additional Comments at the end of 2005	Comments – External Audit Year-end Accounts 2005
<p><b>The Internal Oversight Section (IOS) had made certain recommendations so as to strengthen internal controls in regard to the pay roll system.</b></p> <p><b>Paragraphs 2, 8 and 12</b></p>		<p><b>Comments at year-end audit 2005:</b> UNICEF has recently 'gone live' with the SAP HR &amp; Payroll system, modified to meet Common System requirements, and we understand that this is working effectively. SAP are developing this solution as a standard offering to all UN Organizations, and we understand that ICAO are considering implementing this, along with other aspects of SAP, during 2006/07. A recent JIU report (JIU/REP/2005/4 - A Common Payroll for the U.N System) on the possibility and desirability of a single UN payroll system has also raised issues, and has recommended a move towards standardising platforms and the possibility of larger organizations hosting the payroll function for smaller organizations.</p> <p>Management is conscious of the need for change, and of the risks associated with an out-of-date payroll system, and is considering the best way to proceed. No budget is available for such a major project during 2006/07 (costs to implement SAP HR &amp; Payroll might be expected to be in the region of £150,000 – £250,000), during which time the refurbishment of the building will be a priority. The undertaking of such a major project during a time of such upheaval would also be impractical, but a means of proceeding during 2008/09 will be laid before Council in due course.</p>	<p>May be verified by Audit during 2008-2009.</p>



Reference to Audit Paragraph/ Audit Report	Gist of Audit Observations	Management's Response / Action Taken/Additional Comments at the end of 2005	Comments – External Audit Year-end Accounts 2005
		Action has been taken on this and this was also followed up by MSA and IOS in the recent audit of payroll in February 2005. It was commented that there has been some improvement on this although there has been some lapses in the controls. The management will exert more effort to ensure compliance with the controls and procedures.	
<p><b>Audit Report – 2002</b></p> <p><b>Paragraph 45 - 46</b></p>	Setting up a Property Survey Board	<p><b>Comments at year-end audit 2005:</b> Having reviewed the situation the volume of write-offs and their actual re-sale value are of nominal amounts and therefore a Property Survey Board is not considered the most effective use of the Organization's resources. It has been decided, therefore, that authority to write off goods with a purchase value of less than £15,000 per item will be awarded to the Chief, Office of General Services and any items over this value will be done on the authority of the Director, Administrative Division.</p>	May be treated as settled.
<p><b>Paragraph 79 – 81</b></p>	<p><b>Trust Funds not closed – Inactive balances</b></p>	<p><b>Comments at year-end audit 2005:</b> Still awaiting the Government of Cyprus' instructions.</p>	To watch the progress in yearly audit

Reference to Audit Paragraph/ Audit Report	Gist of Audit Observations	Management's Response / Action Taken/Additional Comments at the end of 2005	Comments – External Audit Year-end Accounts 2005
Paragraph 96 – 97	<b>Budget Manual</b>	<p><b>Comments at year-end 2005:</b> The new budgetary structure for 2006-2007 biennium was approved by the Council at its 94<sup>th</sup> session. The new structure represents seven Major Programmes supported by a number of Programmes and sub-programmes. The design and tested new budgetary control and monitoring structure for the current biennium was launched on 1 January 2006. All procurement activities submitted through the new structure to date, producing consolidated budgetary reports 24/7. MAS continue to review the system capabilities which will be incorporated in the Budget Manual which will be prepared in 2007.</p>	In view of the assurance given that the Budget Manual will be prepared in 2007. It may be treated as settled.
<p><b>Other recommendations:</b></p> <p><b>Paragraph 33 – 34</b></p>	Non-reporting of income on gross basis (interest earned on contribution received from member states and interest payable to member states on account of early payment of contribution should be shown separately in the financial statements each year)	Amount payable in respect of contribution incentive scheme is being shown as a liability while interest is being shown as an asset.	May be treated as settled.

Reference to Audit Paragraph/ Audit Report	Gist of Audit Observations	Management's Response / Action Taken/Additional Comments at the end of 2005	Comments – External Audit Year-end Accounts 2005
<b>Paragraph 52 – 56</b>	Unliquidated obligation- <b>education grant</b>	The Management still maintains the view to continue with the existing practice with regard to the accounting for education grant advances. This has been applied consistently and there is no clear benefit of changing the practice which will result to the approximately the same expenditure figure every year.	This matter has again been raised in audit of 2005, in a slightly different manner. Management have agreed to consider changing the accounting of education grant in new biennium i.e. 2006-07. It may be treated as settled from here.
<b>Paragraph 59 –62</b>	Retirement benefits & other liabilities,	In preparation for the adoption of IPSAS, it is planned to review this matter in the current biennium and also obtain an actuarial valuation for after service medical insurance.	We may watch compliance in 2006 year-end audit.
<b>Paragraphs 63–64 &amp; paragraphs 65 – 67</b>	Bank reconciliation and non-write back of misc. deposits.	The carried forward figures were included in the balances, which were migrated to the SAP system in July 2004. These balances were audited during the interim 2004.	May be treated as settled



**Notes:**

- 1. Recommendations contained in External Auditors' long form report will be followed up through this report. Follow up on interim audit report recommendations, if any, will be pursued at the time of year end audit and if they are not resolved they will be included in the Auditors' report. External Auditors will furnish a soft copy (a word document) of the Compliance Report (after adding the recommendations of immediately preceding audit report) along with the certificate and long form report to FS.*
- 2. FS will update the Report by recording the latest status of compliance (in Column 3) and give it to External Auditors along with authenticated FS, S-G's representations when the auditors come for the next year-end audit. External Auditors will indicate their response (settle the matter if compliance is satisfactory or record their further remarks). The Compliance Report with current status will be supplied in soft copy (a word document) to FS along with submission of certificate and long form report on the accounts. The settled matters will be removed from the Report when FS furnishes the updated Report at the next audit.*

## Annexure-II

### Changes carried out in Accounts (2005) at the instance of Audit:

	<b>Particulars</b>	<b>Reported</b>	<b>Corrected</b>
1	Statement VI-Column-Printing Fund-2004 (a) Line item – (increase) decrease in inter-fund balance receivable	£-125,595	£-123,595
	(b) Net Cash from Investing and Financing Activities	£103,324	£105,324
2	Statement VI – Column – Termination Benefit Fund-2004 (a) Line item-(increase) decrease in inter-fund balance receivable	Blank	£-782,456
	(b) Net Cash from Investing and Financing Activities	£155,448	£-627,008
3	Statement VI-Column-Total (a) Line item- Net Cash from Investing and Financing Activities	£780,456	0
	(b) Line item – Net cash from other sources	£304,911	£321,863
4	Schedule 9 Column Variance Line item – TC/0051-15-2000-Develop STCW-F model courses	£22,642	£945
5	Notes to Account-5 – Separation Benefits-Last line	'...in 2004 these were £2,387,834 and £1,903,601 respectively'	'...in 2004 these were £2,387,834 and £1,166,781 respectively'.
6.	Note 8 Investment in stock of publication	Printing Fund (Statement II)	Printing Fund (Statement III)
7.	Note 18 Cash and Term Deposits	The details of total amount reported in Statement II by Fund and Location is shown in Schedule 6.	The detail of total amount reported in Statement III by Fund and location is shown in schedule 6.
8.	The Unliquidated Obligations figure shown in Statement III (Assets and Liabilities and Fund Balances) – General Fund - was corrected to tally with the Unliquidated Obligations figure in Statement IV (Status of Appropriations).		
9.	The figures shown in Note 25.2 Printing Fund as total 2004 and 2005 were corrected to tally with the totals.		

10.	In Statement IV, certain figures of Appropriations – ‘Original’ included ‘transfers’ authorized by the Council. These figures were revised to correctly reflect Appropriation – the ‘Original’ and ‘transfers’ as approved by Assembly/Secretary-General.		
11.	The Deposit with Alliance Leister (Schedule 6) was shown less by £336,696 because the amount was inadvertently shown under M/s Halifax Bank of Scotland. The discrepancy was corrected to reflect the correct amount of ‘Treasury’.		
12	(a) G/L Account 430510- External Audit (General Fund)	£82,164.05 (Included an item ‘2003/2004 audit fees amounting to £28,777.59, which has since been withdrawn)	£53,386.46
	(b) G/L Account 350010- Prior Period adjustment (General Fund)	£22,590.00 (An amount of £28,777.59 has been debited)	£51,367.59
13	(a) G/L Account 234030 – Travellers Cheques account (General Fund)	£14,376.75 (The balance under this G/L account was reconciled with Vendor account-300020-Europa European Express Ltd and an amount £13,640.92 was withdrawn from Travellers Cheques account)	£735.83
	(b) G/L Account 234410- Account payables Control others (General Fund)	£34,368.60 (An amount of £13,640.92 has been withdrawn)	£20,727.68
14	(a) G/L Account 420495 – IT – UN ICC (General Fund)	£25,542 (The expenditure booked under this G/L account consisted of ULO for 3 <sup>rd</sup> and 4 <sup>th</sup> quarters. It was seen that expenditure/ULO for 1 <sup>st</sup> and 2 <sup>nd</sup> quarter was booked in Head Quarters Capital Fund. As 1 <sup>st</sup> quarter actual payment had not been made, the Management created a fresh ULO and the 2 <sup>nd</sup> quarter payment ULO was shifted from HQCF to General Fund resulting in increase of expenditure under this G/L Account by £36,391)	£61,933
	(b) G/L Account 420420- Rent and maintenance – Office automation equipment (Headquarters Capital Fund)	£29,172 (The entire amount was withdrawn which was expenditure on UN-ICC pertaining to 2 <sup>nd</sup> quarter)	0.00

15	a) 122040-Travel Advance (General Fund)	<p style="text-align: right;">£121,744.43</p> <p>(An amount of £121,535.64 has been withdrawn from travel advance and correspondingly G/L account 220020-Unliquidated Obligations have been reduced by the same amount. This has resulted in reduction of Accounts Receivables on the asset side and accounts payables on the liability side)</p>	£208.79
	b) 122040-Travel Advance (Technical Cooperation Fund)	<p style="text-align: right;">£23,360.61</p> <p>(Similarly the amount £ 21,430.82 of in this head has been cleared by debiting the G/L account 220020-ULO.)</p> <p>In addition, some amounts have been withdrawn by debiting to G/L account 220020-ULO in respect of travel advance in other funds also.</p>	£1929.79
16	Disclosure in notes 8 and 9 of UNDP accounts	<p><i>Disclosure under notes 8 and 9 has been amplified as below:</i></p> <p><b>Note 8:--</b>          The prior year IOV referred to above represents net claims made by UNDP relating to the period 1997 to 2003 which are to be identified and settled by UNDP and IMO.</p> <p><b>Note 9:-</b>          The prior year IOV referred to above represents net claims made by IMO relating to the period 1998 to 2004 but not acknowledged and settled by UNDP.</p>	

\*\*\*



ANNEX 2



**P. R. ACHARYA**  
Principal Director  
International Relations

OFFICE OF THE COMPTROLLER AND AUDITOR  
GENERAL OF INDIA  
INTERNATIONAL RELATIONS DIVISION  
10, BAHADUR SHAH ZAFAR MARG  
NEW DELHI - 110 002  
TEL. : 91-11-2323-1613  
FAX : 91-11-2323-6818  
E-MAIL : pdir@cag.gov.in

No. <sup>528</sup>-IR/18-2006  
April 26, 2006

The Chairman,  
Ninety-sixth Session of the Council  
International Maritime Organization,  
4, Albert Embankment, London SE1 7SR  
United Kingdom.

**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 2005.

**Yours sincerely,**

**(P.R. Acharya)**  
**Principal Director (International Relations)**  
**for the**  
**Comptroller & Auditor General of India,**  
**External Auditor**

**INTERNATIONAL MARITIME ORGANIZATION**  
**AS EXECUTIVE AGENCY FOR**  
**THE UNITED NATIONS DEVELOPMENT PROGRAMME**  
**FINANCIAL STATEMENTS FOR THE YEAR**  
**ENDED 31 DECEMBER 2005**

**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 the supporting Notes to the Accounts of International Maritime Organization as Executive Agency for the United Nations Development Programme for the year ended 31 December 2005. 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. These standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement(s). The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The 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.

In my opinion, these financial statements present fairly, in all material respects, the financial position as at 31 December 2005 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 I 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.



**(P.R. Acharya)**  
**Principal Director (International Relations)**  
**For the**  
**Comptroller and Auditor General of India,**  
**External Auditor**

**April 2006**