



United Nations

**United Nations Habitat and Human
Settlements Foundation**

**Financial report and audited
financial statements
for the biennium ended
31 December 1995 and
Report of the Board of Auditors**

**General Assembly
Official Records · Fifty-first Session
Supplement No. 5H (A/51/5/Add.8)**

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[13 August 1996]

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LETTERS OF TRANSMITTAL

31 March 1996

Sir,

Pursuant to financial rule 311.4, I have the honour to transmit the financial report and accounts of the United Nations Habitat and Human Settlements Foundation for the biennium ended 31 December 1995 which I hereby approve.

Copies of these financial statements are also being transmitted to the Advisory Committee on Administrative and Budgetary Questions.

Accept, Sir, the assurances of my highest consideration.

(Signed) Wally N'DOW
Assistant Secretary-General
United Nations Centre for
Human Settlements (Habitat)

The Chairman of the Board of Auditors
United Nations
New York

31 March 1996

Sir,

Pursuant to financial rule 311.4, I have the honour to transmit the financial report and accounts of the United Nations Conference on Human Settlements (Habitat II) for the biennium ended 31 December 1995 which I hereby approve.

Copies of these financial statements are also being transmitted to the Advisory Committee on Administrative and Budgetary Questions.

Accept, Sir, the assurances of my highest consideration.

(Signed) Wally N'DOW
Secretary-General
United Nations Conference on Human
Settlements (Habitat II)

The Chairman of the Board of Auditors
United Nations
New York

31 July 1996

Sir,

I have the honour to transmit to you the financial statements of the United Nations Habitat and Human Settlements Foundation, including the United Nations Conference on Human Settlements (Habitat II), for the biennium ended 31 December 1995, which were submitted by the Assistant Secretary-General. These statements have been examined and include the audit opinion of the Board of Auditors.

In addition, I have the honour to present the report of the Board of Auditors with respect to the above accounts.

Accept, Sir, the assurances of my highest consideration.

(Signed) Osei Tutu PREMPEH
Auditor General of Ghana
and Chairman
United Nations Board of Auditors

The President of the General Assembly
of the United Nations
New York

I. FINANCIAL REPORT FOR THE BIENNIUM
ENDED 31 DECEMBER 1995

A. United Nations Habitat and Human Settlements Foundation

1. The Assistant Secretary-General of the United Nations Centre for Human Settlements (Habitat) is responsible for administering the United Nations Habitat and Human Settlements Foundation and, accordingly, transmits herewith the financial report and accounts of the Foundation for the biennium 1994-1995.

Summary of significant accounting policies

2. The Foundation followed the accounting policies enumerated below:

(a) The accounts are kept in accordance with the Financial Regulations and Rules of the United Nations and the special annex thereto for the United Nations Habitat and Human Settlements Foundation. The United Nations System Accounting Standards (A/48/530, annex) were taken into account in the preparation of the financial statements;

(b) Assets, liabilities, income and expenditures are recorded on an accrual basis;

(c) The financial period of the Foundation is a biennium consisting of two consecutive calendar years. In accordance with the directives of the Office of Programme Planning, Budget and Accounts, the financial figures of the Foundation for the biennium are treated as a whole instead of in annual figures;

(d) The accounts are presented in United States dollars. Transactions in currencies other than United States dollars are recorded at the United Nations operational rate of exchange prevailing at the time the transaction took place;

(e) Pledged contributions: pledges are recorded as income on the basis of a written commitment by a prospective donor to pay a monetary contribution at a specific time or times. Pledges received for future years are recorded as deferred income;

(f) Deferred charges comprise expenditure items which are not properly chargeable in the current financial period and which will be charged as expenditure in the subsequent financial period;

(g) For balance-sheet statement purposes, only that portion of the education grant advance that is assumed to pertain to the scholastic year completed as at the date of the financial statement is shown under deferred charges. The full amount of the advance is maintained in the accounts received from staff members until the staff member produces the required proof of entitlement to the education grant, at which time the budgetary account is charged and the advance recovered;

(h) The surplus account of the Foundation fund represents funds available for the future use of project activities;

(i) Savings from the liquidation of prior periods' obligations are credited directly in the Foundation's surplus account.

Financial position and operating results

3. The financial position and operating results for the biennium ended 31 December 1995 of the Foundation, the International Year of Shelter for the Homeless (proclaimed by the General Assembly in its resolution 37/221 of 20 December 1982) and the Danish International Development Agency (DANIDA)/United Nations Centre for Human Settlements (Habitat) multi-bilateral cooperation agreement for project activities are shown in the financial statements and are summarized as follows:

(a) The combined excess of income over expenditure net deficit for the biennium 1994-1995 amounted to \$2,540,184 (statements VI-VIII). However, a saving from liquidation of prior financial periods' unliquidated obligations of \$524,218 was realized as at 31 December 1995;

(b) The Foundation has a combined unencumbered fund balance of \$4,631,989 available for existing and future commitments (statements XI and XII).

4. The total combined income of \$21,169,317 for the biennium 1994-1995 includes contributions to the Foundation recorded on the basis of receipt of firm and official letters of pledges (statements VI-X) and from DANIDA on the basis of a multi-bilateral cooperation agreement with the Government of Denmark (statement XII).

5. The Secretary-General of the United Nations is the custodian of the funds of the Foundation. During the biennium 1994-1995, combined pledges by Governments totalling \$20,539,075 were recorded for the Foundation and the International Year of Shelter for the Homeless, and collections and adjustments of \$18,931,492 were made, of which \$501,715 was for the prior period. Current and prior years' pledged contributions in respect of the Foundation, the Year and DANIDA in the amount of \$1,142,578, \$22,047 and \$0.00, respectively, remained unpaid as at 31 December 1995. The unpaid pledged contribution for future years for the Foundation amounted to \$1,638,454 (schedule 1.1).

6. Expenditure for the biennium 1994-1995 totalled \$23,709,501 and is detailed by expenditure components in statements I-V. Of this amount, \$6,572,978 relates to programme activities of the Foundation (statements I and V) and \$17,136,523 to project activities of the Foundation.

7. The expenditure for programme activities (statement I) was incurred against a revised allocation of \$7,371,000 for the biennium 1994-1995 approved for the purpose by the Commission of Human Settlements at its fifteenth session, held at Nairobi in 1994. The allocations and related expenditures by programme are as follows (United States dollars):

	<u>Total expenditure</u>	
	<u>1994-1995</u>	<u>1992-1993</u>
<u>Programme</u>		
Executive direction and management	541 028	663 497
Human settlements programme	3 810 672	3 610 775
Administration and common services	1 573 638	1 852 280
Programme support costs	<u>647 640</u>	<u>-</u>
	<u>6 572 978</u>	<u>6 096 552</u>

8. Total expenditure of the Foundation during the biennium 1994-1995 was distributed as follows (United States dollars):

	<u>Total expenditure</u>	
	<u>1994-1995</u>	<u>1992-1993</u>
Programme and programme support costs (statements I and V)	6 572 978	6 096 552
Project costs (statements II-IV)	<u>17 136 523</u>	<u>17 531 590</u>
Total	<u>23 709 510</u> a/	<u>23 628 142</u>

a/ The revised level of expenditure for 1994-1995 approved by the Commission on Human Settlements at its fifteenth session was \$24,913,500.

B. United Nations Conference on Human Settlements
(Habitat II)

9. The Secretary-General of the United Nations Conference on Human Settlements (Habitat II) is responsible for the administration of the Conference and, accordingly, transmits herewith the financial report and accounts of the Conference for the biennium 1994-1995.

Summary of significant accounting policies

10. The Habitat II Conference trust fund established by the General Assembly in resolution 47/180 of 22 December 1992 followed the accounting policies of the Foundation enumerated below:

(a) The accounts are kept in accordance with the Financial Regulations and Rules of the United Nations and the special annex thereto for the United Nations Habitat and Human Settlements Foundation. The United Nations System Accounting Standards (A/48/530, annex) were taken into account in the preparation of the financial statements;

(b) Assets, liabilities, income and expenditures are recorded on an accrual basis;

(c) The financial period of the Habitat II Conference is a biennium consisting of two consecutive calendar years. In accordance with the directives of the Office of Programme Planning, Budget and Accounts, the financial figures of the Habitat II Conference for the biennium are treated as a whole instead of in annual figures;

(d) The accounts are presented in United States dollars. Transactions in currencies other than United States dollars are recorded at the United Nations operational rate of exchange prevailing at the time the transaction took place;

(e) Pledged contributions: pledges are recorded as income on the basis of a written commitment by a prospective donor to pay a monetary contribution at a specific time or times. Pledges received for future years are recorded as deferred income;

(f) Deferred charges comprise expenditure items which are not properly chargeable in the current financial period and which will be charged as expenditure in the subsequent financial period;

(g) For balance-sheet statement purposes, only that portion of the education grant advance that is assumed to pertain to the scholastic year completed as at the date of the financial statement is shown under deferred charges. The full amount of the advance is maintained in the accounts receivable from staff members until the staff member produces the required proof of entitlement to the education grant, at which time the budgetary account is charged and the advance recovered;

(h) The surplus account of the Habitat II fund represent funds available for the future use of project activities;

(i) Savings from the liquidation of prior periods' obligations are credited directly in the Habitat II surplus account.

Financial position and operating results

11. The financial position and operating results of Habitat II for the biennium ended 31 December 1995 are shown in the financial statements and are summarized as follows:

(a) The excess of income over expenditure net deficit for the biennium 1994-1995 amounted to \$569,896 (statement XVI);

(b) The Habitat II Conference had a deficit unencumbered fund balance of \$569,896 (statement XVII).

12. The total income of \$4,919,975 for the biennium 1994-1995 included contributions to Habitat II recorded on the basis of receipt of firm and official letters of pledges (statement XVI).

13. The Secretary-General of the United Nations is the custodian of the funds of the Habitat II trust fund. During the biennium 1994-1995, pledges by Governments totalling \$2,715,606 were recorded for Habitat II and collections and adjustments of \$1,842,415 were made. Current year pledged contributions in respect of Habitat II remained unpaid as at 31 December 1995. The unpaid pledged contributions for future years for Habitat II amounted to \$2,047,744 (schedule 10.1).

14. Expenditures for the biennium 1994-1995 totalled \$5,489,871 and are detailed by expenditure components in statement XV. However, when an appropriate allotment advice is issued by the United Nations, the expenditures recorded so far under various projects will be separated into two sub-accounts: sub-account I - costs related to the participation of developing countries; and sub-account II - for the operational activities of the Conference itself. A breakdown and analysis of expenditures by programmes will be done when the expenditures are separated.

15. The expenditure for activities (statement XV) was incurred against an unrevised allocation of \$3,606,996 for the biennium 1994-1995 approved for the purpose by the Secretary-General of the Conference.

II. REPORT OF THE BOARD OF AUDITORS

Introduction

1. The Board of Auditors has audited the financial statements of the United Nations Habitat and Human Settlements Foundation and the United Nations Conference on Human Settlements (Habitat II) trust fund activities for the period 1 January 1994 to 31 December 1995 in accordance with General Assembly resolution 74 (1) of 7 December 1946. The audit was conducted in conformity with article XII of the Financial Regulations of the United Nations and the annex thereto and the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. These auditing standards require that the Board plans and performs the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.
2. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent the Board considered necessary to form an opinion on the financial statements.
3. The audit was carried out at the headquarters of the organization in Nairobi.
4. In addition to the audit of the accounts and financial transactions, the Board carried out reviews under article 12.5 of the United Nations Financial Regulations. The reviews concerned the validity of assumptions made in the formulation of the programme budget, programme planning, performance and reporting, the internal financial control and, in general, the administration and management, including those of procurement of goods and services.
5. The Board continued its practice of reporting the results of specific audits to the Administration through management letters containing detailed observations and recommendations. This practice helped in maintaining an ongoing dialogue with the Administration on audit issues.
6. A summary of main findings and recommendations is contained in paragraphs 11 to 22. The detailed findings of the audit are reported in paragraphs 23 to 87.
7. The present report covers matters which, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board's observations on all matters contained in the report were communicated to the Administration, which confirmed the facts on which the Board's observations and conclusions are based and provided explanations and answers to the Board's queries. The report is divided into two parts, covering the audit of financial statements and management issues, respectively.

Follow-up on actions taken on previous audit recommendations

8. Pursuant to paragraph 15 of General Assembly resolution 47/211 of 23 December 1992, the Board reviewed the measures taken by the Administration to implement its prior recommendations. The Administration has implemented or initiated actions to implement the recommendations made by the Board in its report for the period ended 31 December 1993. Details of actions taken by the

Administration and the comments of the Board are outlined in the annex to the present report.

9. The Board appreciates the measures taken by the Administration on its earlier recommendations but considers that it should take further steps in respect of the following:

(a) Apart from strengthening the monitoring and oversight of projects, there should be effective internal evaluation of completed projects. For this purpose, the evaluation arrangements should be upgraded (see paras. 64 and 66);

(b) An annual procurement plan covering all purchases of goods and services should be prepared and should be cost-effective, and competitive procurement should be initiated (see paras. 73-77).

Overall results

10. The Board's review of the financial statements of the Foundation and Habitat II disclosed that they do not conform fully to the United Nations System Accounting Standards. The Board also noted that the income of the Foundation and Habitat II for the biennium 1994-1995 had been overstated by \$981,854 and \$184,817, respectively, because of errors in accounting for pledges and a non-provision for uncollectible pledged contributions. The Board also observed that the accounts of Habitat II had not been recorded under two separate trust fund accounts, as mandated by the General Assembly. The Board has therefore been unable to give an unqualified opinion on the financial statements of the Foundation and Habitat II.

Summary of recommendations

11. The Board recommends that the following actions, presented in order of priority, should be taken:

Financial management

(a) The amounts diverted from Foundation funds to meet the expenditures of Habitat II should be reimbursed expeditiously (see para. 41);

(b) As mandated by the General Assembly, two separate trust funds should be established early to fund the expenditures of the Habitat II Conference and necessary corrections to the accounts should be carried out (see para. 38);

(c) Financial statements should be prepared in future in conformity with the United Nations System Accounting Standards (see para. 37);

Programme management

(d) Programme planning and project design should be improved by critical review at the project appraisal stage. The process of cost estimation of inputs and the allocation of resources to different components within a project should be subjected to closer scrutiny at the project appraisal stage (see paras. 57 and 59);

(e) Project implementation should be improved by identifying the weaknesses in project coordination and management control and by ensuring that work plans provide for performance indicators and that the technical assistance provided in the project is of the required standards and takes into account the capacity of the national staff (see para. 62);

(f) Project managers should be required to ensure timely completion of terminal reports, including analysis of the reasons for time and cost overruns. Further, the United Nations Centre for Human Settlements (UNCHS) should take the initiative in completing evaluation of technical cooperation projects on time (see paras. 65 and 66);

(g) The lessons learned from project implementation in different countries should be consolidated for dissemination (see para. 68);

Procurement

(h) Procurement planning should be improved to avoid piecemeal purchases. Systems contracts should be awarded for commonly required items, after ensuring wider competition (see paras. 76 and 77).

Summary of findings

Financial statements

12. The financial statements of the Foundation and Habitat II have not been prepared in conformity with the United Nations System Accounting Standards. Further, the financial statements for Habitat II have not been prepared correctly by establishing two separate trust funds as required under General Assembly resolution 47/180 of 22 December 1992 (see paras. 24-36).

13. During the 1994-1995 biennium, the diversion of \$0.9 million from Foundation funds to help fund the Habitat II Conference resulted in a freeze on non-earmarked projects of the Foundation (see paras. 39-41).

14. The income of the Foundation (exclusive of DANIDA) and Habitat II for the biennium 1994-1995 was overstated by \$981,854 and \$184,817, respectively (see paras. 30-34).

15. A liability to repay \$3.3 million to the Central Emergency Revolving Fund administered by the United Nations Department of Humanitarian Affairs has not been disclosed in the financial statements (see paras. 44 and 45).

Programme management

16. Weaknesses in project planning and project design resulted in time and cost overruns. Weaknesses included deficiency in estimation of project inputs, imbalances in budget allocations for the components of the project, lack of clarity in defining the objectives and unrealistic estimation of the technical assistance work programme (see paras. 55 and 58).

17. Inefficient project coordination, inadequate work plans, delays in signing project agreements and mismatch of the technical assistance with the capability of the national staff led to tardy project implementation (see para. 60).

18. In some cases, terminal reports were either not prepared in a timely manner or did not include analyses of the reasons for deficiencies in project implementation (see para. 64).

19. Design deficiencies and weaknesses in project implementation resulted in time overruns of more than three years and cost escalation of 55 per cent in a construction project (see paras. 69-71).

Procurement

20. Lack of planning resulted in inefficient procurement actions, including piecemeal purchases and inadequate competitive bidding (see paras. 74 and 76).

21. The award of a fund-raising contract to a private agency in connection with Habitat II resulted in unproductive expenditure of \$248,698 (see paras. 79-83).

Consultants

22. A retired United Nations staff member, engaged as a media consultant, was compensated at the rate of \$12,000 per month, as against the established ceiling of \$12,000 per year, resulting in overpayment of about \$120,000 (see paras. 84-86).

Part I. Financial statements

United Nations System Accounting Standards

23. The General Assembly, in resolution 48/216 C of 23 December 1993, took note of the United Nations System Accounting Standards, which were developed at its request by the Administrative Committee on Coordination (ACC). The standards were revised by the ACC in September 1995 (ACC/1995/20, annex III).

24. The Board noted that the financial statements of the Foundation and Habitat II for the biennium ended 31 December 1995 had not been prepared fully in accordance with the provisions of the accounting standards. The main areas of non-compliance are set out below.

The format of presentation

25. In respect of the Foundation and Habitat II, the statement of income and expenditure and changes in reserves and fund balances, and the statement of assets, liabilities and reserves and fund balances have not been prepared in the formats prescribed in the accounting standards. Consequently, in the statements of assets and liabilities for the Foundation (statement XI) and Habitat II (statement XVII), the results of the general funds have not been clearly delineated from other activities. In addition, in respect of both the Foundation and Habitat II, the financial statements do not include a cash-flow statement and a statement of appropriations as required under paragraph 8 of the accounting standards.

Value of non-expendable property

26. In respect of both the Foundation and Habitat II, the inventory value of non-expendable property has not been disclosed.

Financial reserve

27. The nature of the financial reserve, the authority for establishing the reserve, its authorized level and the source of funding have not been disclosed.

End-of-service liabilities

28. Liabilities for end-of-service benefits (and post-retirement benefits) have neither been provided for in the accounts nor disclosed as a note to the accounts.

Non-convertible currencies

29. The financial statements did not disclose a total of \$901,587 held in non-convertible currencies. This amount comprised the equivalent of \$159,758 in non-convertible currencies, and \$741,829 held in the convertible currency account in a donor country, which has de facto become non-convertible.

Pledges

30. The Board's review of the financial statements for the biennium ended 31 December 1995 disclosed that total income of the Foundation and Habitat II had been overstated by \$240,000 and \$208,817, respectively, as these amounts were not supported by valid pledges from donors. It is the practice of the Administration to treat excess of expenditure over income in respect of "special purpose projects" as additional pledges receivable since, according to the Administration, project budgets are fundamentally understood by the parties concerned as only estimates and project documents provided for budget revisions to accommodate any difference between the estimated budgets and the actual expenditures. This treatment, in the Board's opinion, is contrary to paragraph 31 of the United Nations System Accounting Standards.

31. Because of errors in accounting for pledges, the income from contributions received from two countries was overstated by \$100,000 and \$45,606, respectively, in the financial statements of the Foundation. Similarly, a contribution of \$74,000 received from a donor country for Habitat II was incorrectly recorded as income of the Foundation. The Administration proposes to carry out necessary corrections in the accounts of the 1996-1997 biennium.

32. The "Contributions from Governments" in the statement of income and expenditure of Habitat II includes an amount of \$50,000 pledged by a country after 31 December 1995, which should not have been included as income of the biennium 1994-1995.

33. The status of unpaid pledges (schedule 1.1) of the Foundation includes \$335,002 due from a donor country which is not supported by a valid pledge. On the Board's suggestion, the Administration reviewed the accounts and recognized that the correct amount recoverable is \$226,960 only. According to the Administration, this amount represented the difference between the project costs incurred in respect of certain specific projects implemented in 1991 and the actual receipts. The Administration stated that steps have been initiated with the specific project authorities to recover this amount from their ongoing projects funds. The Board recommends that this should be pursued vigorously. Further, this amount should not have been treated as income in the absence of a commitment from the donor.

34. The total amount of receivables of \$1,142,578 in the financial statements of the Foundation for the biennium ended 31 December 1995 (schedule 1.1) includes \$187,246 outstanding for periods ranging up to 11 years. Similarly, the status of unpaid pledges for the International Year of Shelter for the Homeless, 1987 (schedule 2.1) includes \$22,047 outstanding for more than five years. The Board considers that the collectability of the above amounts is doubtful and that, in the interest of prudent financial management, a provision should have been made in the financial statements.

Investments

35. An amount of \$1,853,815 (schedule 7.1), consisting of balances in a savings bank account (\$53,815) and call accounts (\$1,800,000), have been incorrectly shown as investments instead of being recorded as cash-at-bank, as required under paragraph 48 (i) of the United Nations System Accounting Standards.

36. The Administration stated that it received the revised accounting standards only in December 1995. This required not only modifications of the existing EDP programmes in the Foundation, but also introduced additional programmes and left insufficient time for implementation of the revised standards before closure of accounts for 1994-1995. The Administration further stated that the financial statements for the biennium 1994-1995 were therefore prepared exactly as for the previous biennium, which resulted in non-disclosure of the above items.

37. The Board recommends that the Foundation should take appropriate steps to bring the financial statements in line with the United Nations System Accounting Standards.

Trust fund accounts

38. The General Assembly, in resolution 47/180 of 22 December 1992, decided that two trust funds should be created, through voluntary contributions, for the Habitat II Conference, one for funding the preparatory process of the Conference and the other for supporting the participation of developing countries in the Conference. The Board noted that as of April 1996, neither trust fund had been created. The Board therefore recommended that the required procedural formalities for opening the two trust accounts should be completed expeditiously and necessary corrections to the accounts carried out, but as of July 1996, no progress had been noted in the matter.

Diversion of Foundation funds to meet expenditures of Habitat II

39. The Board noted that, as at 31 December 1995, only \$531,551 of non-earmarked funds was available to Habitat II to meet the expenses of the Conference and other activities. However, requirements for the Conference, including unliquidated obligations, amounted to \$1,967,555. The Administration informed the Board that Habitat II had borrowed \$0.9 million from Foundation funds and trust funds to help fund the Conference and other activities.

40. The Administration had informed the Committee of Permanent Representatives to UNCHS that its authority to divert funds for Habitat II was derived from rule 303.1 (b) of the special annex for the Foundation to the Financial Regulations and Rules of the United Nations, which states that: "The resources of the Foundation, after providing for programme support costs and for general financial reserve, shall be utilized to the maximum extent possible for programme purposes."

41. The Board noted that in view of the inter-fund advances for Habitat II, the Administration had, since February 1995, imposed an expenditure control mechanism on the Foundation's projects, other than those funded from earmarked funds, to limit expenditures only to the most essential activities. The expenditure control provided that no new expenditure would be authorized under any budget line except for salaries and other staff costs for the staff already engaged in the execution of projects. The Board therefore recommended that priority should be given to raising adequate non-earmarked voluntary contributions for Habitat II so that the diverted funds could be reimbursed to the Foundation.

International Year of Shelter for the Homeless

42. The accounts of the International Year of Shelter for the Homeless, which related to 1987, had still not been closed. The Administration accepted the recommendation of the Board to close the accounts and proposed to transfer the available unencumbered fund balance of \$699,558 as at 31 December 1995 to the Foundation fund.

Special purpose project funds

43. As at 31 December 1993, the Foundation had incurred expenditure of \$186,538 in excess of income received in respect of special purpose projects funded by a Government. The Administration had not yet explored the possibility of the donor Government making good the deficit. The Administration stated that this matter would be taken up with the Government concerned.

Liability to the Central Emergency Revolving Fund

44. The Board noted that Habitat had received \$5 million in September 1993 as an advance from the Central Emergency Revolving Fund administered by the United Nations Department of Humanitarian Affairs to take up an emergency housing reconstruction project in Lebanon. Under the terms of the letter of understanding, Habitat was required to repay the advance as a first charge on contributions received in respect of the project. If, however, sufficient contributions were not received within one year of the date of payment of the advance, the coordinator of the Central Emergency Revolving Fund had an option to require Habitat to repay the balance of the advance from its own resources.

45. Habitat reimbursed \$1.69 million during 1994 and informed the Central Emergency Revolving Fund in April 1995 that since additional contributions had not been received, it was not in a position to repay the balance. The liability of the Foundation for repayment of the balance of \$3.31 million has not been disclosed in the financial statements.

46. The Administration confirmed that it has overall responsibility for eventual settlement of the outstanding liability, but does not find justification for attaching the liability of the technical cooperation trust fund to the Foundation.

Liquidity position

47. The Board noted that at the aggregate level, including both earmarked and non-earmarked funds of the Foundation, the quick ratio (cash and near cash to current liabilities) had deteriorated from 1.5:1 as at 31 December 1993 to 0.98:1 as at 31 December 1995, indicating that sufficient resources were not readily available to meet current liabilities.

Part II: Management issues

Budgetary assumptions

Currency distribution of expenditures

48. The Board noted that in budget formulations, the Administration had assumed that the entire expenditures on non-post items would be incurred in local currency although several such items are actually incurred in United States dollars or other currencies. The Board suggested that an estimate of expenditures on non-post items by currencies should be prepared to minimize uncertainties arising from exchange-rate fluctuations and inflation. This should be adopted in consultation with United Nations Headquarters.

Delayed recruitment factor

49. In Habitat the vacancy rates in the Professional category were generally higher than those adopted on a uniform basis for the United Nations system as a whole. In view of this, the Board considers that it would be more appropriate to adopt the actual vacancy rate applicable for the organization in the preparation and recosting of the budget.

Discrepancy in budget formulation

50. The Board noted that there was a discrepancy of \$14.64 million between the estimated project expenditures included in the Foundation's proposed budget and those included in the proposed programme budget of the United Nations for the biennium 1996-1997. This was primarily because of failure to include an amount of \$12 million in the proposed programme budget towards projects to be funded from earmarked contributions.

51. The Administration stated that the discrepancy arose because of the different timings of preparation of the respective budgets, namely, November 1994 (for programme budget) and March 1995 (for Foundation budget) and the additional commitments of pledges received in the meantime. The Board, however, observed that the second programme performance report for 1994-1995 had clarified that the discrepancy was due to an error.

52. According to the Administration, some time gaps in the finalization of the two budgets were unavoidable; it proposed to give full consideration in future to avoiding any discrepancies between the two budgets.

53. The Board recommends that in order to avoid such errors and to improve budgetary planning, the Foundation's budget should be prepared in coordination with the proposed programme budget of the United Nations. The Board also suggested that adequate care should be taken in formulating programme budgets of the organization.

Programme management

54. The Board reviewed 16 projects implemented by the Foundation with extra budgetary assistance during the period June 1990-June 1995 to verify the efficiency of programme planning, performance and reporting.

Programme planning

55. The Board's review indicated substantial time and cost overruns in almost all cases. The time overruns ranged from 5 months to 35 months, with an average delay in completion of projects of some 21 months. Similarly, there were cost overruns of up to 250 per cent. The Board noted that programme planning was generally deficient in the estimation of the time and resources required for project implementation.

56. The Administration is of the view that as long as project extensions are based on tripartite agreements between the funding agency, the Government of the country which is responsible for the overall direction of the programme, and the executing agency responsible for project management, it would not be appropriate to refer to the delays in terms of time and cost overruns. Instead, the process should be seen as one in which at least three parties are involved in making decisions.

57. The Board appreciates the constraints in implementing technical cooperation projects but recommends that the Administration should identify and analyse the various factors that contribute to substantial delays in project implementation and to cost escalations. The results of such analyses should be used to streamline future project planning and the budgetary process.

Project design

58. The Board identified several weaknesses in project design. In respect of one project, for example, the terminal report had stated that the guidelines for policy planning and development strategies had not been drafted precisely and that the objectives of the project were not well defined. In addition, the goals of and expectations for the project were unrealistic. Other weaknesses in project design included inefficient preparation of the work plan, imbalances in budget allocations for the different components of the project and unrealistic estimations of the technical assistance work programme.

59. The Board recommended that the Administration should review more closely project designs, including the process of estimating input costs and budget allocations, at the project planning and appraisal stage. The Administration agreed with the Board's recommendation.

Project implementation

60. The Board noted that several technical cooperation projects of Habitat were delayed because of weaknesses in project coordination, inefficient use of consultants' time, absence of performance indicators in the work plan, expansion of the scope of the project beyond the original project objectives, inadequate management control, and mismatch of the technical assistance provided in the project with the capability of the national staff. Delays in signing project agreements also resulted in substantial revision of project budgets and targets.

61. The Administration stated that there were a few cases in which the implementation arrangements were not optimal. In these cases the projects had to be extended for reasons beyond Habitat's control. Further, delays occurred in signing project documents, resulting in project budget revisions; but this did not signify that the shortcomings were attributable to UNCHS. The Administration stated, however, that more attention was being paid to these aspects of project implementation.

62. The Board recognizes that implementation of technical cooperation projects has to be viewed in the context of specific country situations in which the required level of flexibility in programme management may not always be available. The Board, however, recommends that to minimize delays, the Administration should identify the weaknesses in project implementation and initiate timely remedial action, including preparation of improved work plans and adequate coordination in the activities of technical advisers by closer monitoring and management control. Action should also be taken to sign project agreements on time.

Project evaluation

Terminal reports

63. One of the important mechanisms in the internal evaluation of projects is the preparation of a terminal report. UNCHS is required to use the findings of terminal project evaluations as input into recommendations for immediate follow-up activities or for future projects.

64. The Board noted that in several cases the terminal reports were not prepared on time. In addition, in some cases, the report did not analyse the reasons for delays in project implementation and for cost escalation. In one case, the terminal report identified achievements of additional outputs but did not indicate whether they were substantially relevant to the main objectives of the project.

65. The Administration fully agreed with the Board that project managers should ensure timely completion of terminal reports, which should, among other things, analyse, specifically, reasons for time and cost overruns.

Evaluation of technical cooperation projects

66. The Board noted that three projects funded by the United Nations Development Programme (UNDP) with final budgets in excess of \$1 million each were not subjected to evaluation, although this is mandated under UNDP procedures. The Administration stated that the process of project evaluation involves the Government, UNDP and the executing agency and that the multiplicity of agencies sometimes leads to such delays. The Board appreciates that a tripartite exercise of this nature would be time-consuming but recommends that UNCHS, as the executing agency, take a proactive role in getting the evaluations completed soon after project implementation. Further, the findings of such evaluations should be used for future programme planning exercises.

Internal reporting on projects

67. The Board pointed out that the project reporting system in UNCHS did not provide adequate and timely information about progress in implementing ongoing projects. The Board therefore suggested that more detailed information should be provided through modified periodic reports, along the lines prepared annually for use by UNDP. The Administration agreed with the Board and proposed to introduce a more informative project performance and evaluation report for use within the organization.

Dissemination of project experience

68. The lessons learned from the experience acquired over time in implementing projects in different parts of the world had not been consolidated for internal

use or disseminated to the agencies involved in the sphere of human settlements. The Board therefore recommended that lessons learned from implementation of projects in different countries should be compiled for dissemination. The Administration has accepted the recommendation.

Avoidable loss due to defective planning and design

Construction of a bridge

69. UNCHS awarded a contract in January 1991 for the construction of a bridge in a developing country at a cost of \$193,128, with a scheduled completion date of September 1992. In July 1993, while the bridge was still under construction, its abutments and part of the approach roads constructed at a cost of \$68,423 were washed away in a flood. The bridge was finally completed in October 1995 after increasing its span by 65 per cent to overcome factors that were not known at the time of its initial design, at a cost of \$298,600, resulting in a time overrun of more than three years and cost escalation of 55 per cent.

70. The Board noted that at an advanced stage of construction, the initial design of the bridge was found to be suboptimal because of an underestimation, resulting from the absence of reliable data, of the discharge flow of the river. In addition, specifications of the earth to be used for constructing the approach road were not clearly spelt out in the contract, and there were delays in taking technical decisions.

71. The Administration clarified that even though the technical design of the bridge provided by the national counterpart agency was reviewed by UNCHS, it did not have adequate data to question aspects relating to the discharge flow of the river. The Administration agreed, however, that specifications for earth filling provided in the contract left room for interpretation. The Administration further stated that the delays in construction of the bridge reflected difficulties in executing a project in rural areas in a developing country and were dealt with as promptly as was permitted by the institutional arrangements for decision-making prevailing in the field.

72. The Board notes the difficulties in implementing technical cooperation projects but considers that the time and cost overruns could have been partly controlled by more critical review of the initial design of the bridge and by providing more detailed specifications in the contract.

Procurement

Procurement planning and competitive bidding

73. In its report for the biennium ended 31 December 1993, the Board had recommended that an annual procurement plan covering all purchases of goods and services should be prepared to avoid repetitive and piecemeal purchases without adequate competitive bidding. The Administration had stated that efforts would be made to implement this recommendation. The Board had also pointed out that the short lead time set for delivery of outputs had restricted the scope for competitive bidding in respect of printing contracts.

74. The Board's review of 16 contracts for printing jobs disclosed that the position had not improved. In eight cases, the Administration had obtained fewer than three bids each. Further, only four printing firms out of the approved list of printers were invited to bid. Additionally, the delivery of

the contracted outputs was delayed in all cases by periods of up to four months, but the Administration could not levy liquidated damages in the absence of a penalty clause in the purchase orders.

75. According to the Administration, the restrictive bidding was the result of the inadequate lead time available for printing and the general lack of responses from other listed printers. It also stated that the exceptions for calling for bids adopted in a few cases were based on the provisions of the United Nations Financial Rules. However, it informed the Board that internal procedures had since been improved to ensure that adequate lead time was available to process printing contracts.

76. The Board's scrutiny disclosed that of 784 purchase orders issued during 1995, some 99 orders pertained to computers and spares, 596 to stationery and office supplies and 89 to printing. The Board considers that the issuing of repeated purchase orders for similar items of goods and services is inherently uneconomical. It also involves more processing time and cost and denies the advantages of bulk procurement. The Board therefore recommended that instead of resorting to piecemeal procurement of stationery and other items, UNCHS should enter into systems contracts after ensuring an adequate competitive bidding process. In addition, the prices included in such systems contracts should be subject to periodic reviews in order to compare prices with market trends. The Administration agreed with the Board concerning the advantages of systems contracts and stated that such contracts could be applied for purchases of stationery, office supplies and computer equipment.

77. The Board noted two cases in which the expenditures incurred on procurement became unproductive because of deficiencies in procurement planning. In the first instance, some display panels required for a meeting of the Commission on Human Settlements in April 1995 were delivered after the meeting was over. In the second case, UNCHS had allowed insufficient time to consider the appropriateness of the design of a poster for a preparatory meeting for Habitat II. As a result, the stocks had to be destroyed, since the design was not acceptable. Although the Administration had taken action against the person responsible in the second case, the total infructuous expenditure in the two cases was \$28,850. The Board is of the view that these instances were suggestive of the need to improve procurement planning in the organization and to include a penalty clause in purchase orders against delayed delivery of contracted goods.

78. The Administration stated that it will put in place an annual procurement plan, although responsibility for procurement now rests with the United Nations Office in Nairobi.

Award of an injudicious contract for fund-raising

79. UNCHS awarded two fund-raising consultancy contracts in 1994, covering the eight months from 1 July 1994 to 28 February 1995, to a private agency, to raise \$10 million in cash and \$12 million in kind for Habitat II. The contracts were awarded retrospectively and without inviting competitive bids.

80. The first contract was awarded for a total compensation of \$69,200 which was just below the limit of \$70,000 requiring reference to the Committee on Contracts. The second contract was granted for an initial period of 6 months, renewable up to 22 months, and provided that the agency would receive monthly payments of fixed expenses (\$19,500), the salary of a media consultant (\$12,000) and travel costs (up to \$14,000). The total compensation paid to the agency

under this contract was \$209,498, although the agency's efforts had, in real terms, resulted in securing a contribution of only \$30,000 from a private foundation.

81. The Administration stated that the agency's liaison role had facilitated getting a commitment of \$250,000 from a Member State and a contribution of \$1 million from the World Bank. The Board, however, noted that the agency's role was mainly confined to arranging two meetings between officials of UNCHS and the Member State concerned. The Board did not find evidence to support the statement that the World Bank's contribution of \$1 million was due to the efforts of the contractor.

82. According to the Administration, the extreme urgency of initiating fund-raising activities for the preparatory process of the Habitat II Conference and the excellent qualifications of the firm justified the contract. It added that apart from the total amount of financial contributions to the Habitat II process arising directly and indirectly from the contractor's activities, the valuable contributions of the firm to the overall preparations and success of Habitat II, including its role in raising awareness about the Conference among prominent and influential circles of a Member State, had been substantial. The Administration also emphasized that when the results of direct resources mobilization by the contractor did not meet the expectations of UNCHS, the contract was terminated.

83. The Board considers that the contract did not result in adequate value for money. The total amount paid to the agency under the contract was more than nine times the amount directly collected by the contractor from the private foundation. The Board is of the view that the contract with the agency should have linked the compensation payable to the contractor as a percentage of the actual contributions to be secured and should have included specific and quantifiable targets.

Consultants, experts and temporary assistance

Appointment of media consultant

84. A media consultant who was in receipt of a United Nations pension was awarded two contracts for work on the first meeting of the Preparatory Committee for Habitat II. The first contract was for 12 days in April 1994 and the second was for 9 weeks up to 30 June 1994, awarded retrospectively in July 1994. He was paid \$30,224 in respect of the two contracts. The Board noted that this consultant later joined the private agency which was awarded two fund-raising consultancy contracts for Habitat II (see paras. 79 and 80). In June 1995, the services of the same consultant, who by then had joined another agency, were obtained retrospectively for the period 1 March 1995-30 June 1995 through a corporate contract at a remuneration of \$12,000 per month. The corporate contract was renewed three times for a period of three months each until 31 March 1996, resulting in an overpayment of \$120,000.

85. According to the Administration, the scarce resources available for the Habitat II Conference preparations, coupled with the fact that the Secretary-General of the Conference had only just been appointed, made it difficult to plan the recruitment of a media adviser in advance. Additionally, the consultant, who was extremely qualified for the job, proved to be very productive and instrumental to the success of the preparatory process of the Conference. Finally, the Administration stated, the consultant was not engaged

as a staff member or under a special service agreement, nor was there any contractual relationship between him and Habitat; his services were only a part of the overall services being provided by the consulting firm, which was his employer. The Administration therefore considered that the type of arrangement under which the consultant was providing services had no implication for the Pension Fund and did not conflict with the rules about payment to retirees.

86. The Board is of the view that since the requirement for a media consultant was already clear, the recruitment action for a media adviser should have been initiated in advance and the established procedures for selection should have been followed. Moreover, the consultant, being a beneficiary of a United Nations pension, was not entitled to receive more than \$12,000 in a calendar year as remuneration from United Nations sources. The Board also considers that since the contract with the consulting firm was exclusively for providing the services of the retired United Nations staff member as a media consultant to Habitat II, this virtually amounted to circumventing the rules regarding payment of remuneration to retirees.

Cases of fraud and presumptive fraud

87. In accordance with the provision of financial rule 110.14, the Administration reported five cases of fraud/presumptive fraud during the biennium ended 31 December 1995. In all cases, staff members were involved. In one case, a penalty of written censure and a fine of \$400.00 were imposed on the staff member concerned. The remaining cases were pending with the authorities concerned for investigation and further action.

Acknowledgement

88. The Board wishes to express its appreciation for the cooperation and assistance extended to the auditors by the Executive Director, his officers and members of their staff.

(Signed) Osei Tutu PREMPEH
Auditor General of Ghana

(Signed) Sir John BOURN
Comptroller and Auditor General
of the United Kingdom of Great
Britain and Northern Ireland

(Signed) Vijay Krishna SHUNGLU
Comptroller and Auditor General
of India

31 July 1996

Annex

Follow-up on action taken to implement the recommendations of the Board of Auditors in its report for the period ended 31 December 1993 a/

I. RECOMMENDATION 9 (a)

1. Apart from strengthening the monitoring and oversight of projects in order to realize the outputs in time and in full measure, there should be effective internal evaluation of completed projects to enable the lessons learned to be applied to future project planning and implementation. For this purpose, the evaluation arrangements should be qualitatively upgraded.

Measures taken by the Administration

2. Monitoring of the work programme has been strengthened to some extent. An evaluation officer joined in January 1996 and has been placed under the Director, Office of Programme Coordination. The work programme of the evaluation officer is being developed.

Comments of the Board

3. The Board noted the position. The Board observed cost and time overruns in several projects implemented by UNCHS which suggests that monitoring has to be strengthened further. The Board's comments on evaluation have been included in the present report.

II. RECOMMENDATION 9 (b)

4. The possibility of gainfully utilizing the existing stock of publications should be explored as soon as possible. Further, the systems and procedures relating to printing and distribution should be reviewed and revamped to achieve the twin objectives of dissemination of information and cost-effectiveness.

Measures taken by the Administration

5. Action has been taken for gainful utilization of the existing stock by distribution of some stock and disposal for recycling. A policy on print run is in place.

Comments of the Board

6. Although there has been some reduction in the stock of publications, a further review of the existing stock, especially in the information offices located in different countries, needs to be carried out.

a/ Official Records of the General Assembly, Forty-ninth Session, Supplement No. 5H (A/49/5/Add.8), sect. II, para. 9.

III. RECOMMENDATION 9 (c)

7. An annual procurement plan covering all purchases of goods and services should be prepared and cost-effective procurement action initiated, thereby avoiding repetitive piecemeal purchases without adequate competitive bidding. In future, the Committee on Contracts should also scrutinize and confirm the reasons given to the Committee in the proposals for awarding or extending contracts without competitive bidding.

Measures taken by the Administration

8. Procurement responsibilities have been transferred to the United Nations Office at Nairobi.

Comments of the Board

9. The Board observed that piecemeal and unplanned procurement persisted during the biennium 1994-1995. Since the procurement function has since been transferred to the United Nations Office at Nairobi, the Board will review the progress achieved by that Office in its future audits.

IV. RECOMMENDATION 9 (d)

10. The proposed Information Technology Committee should be instituted as soon as possible, with broad terms of reference to ensure proper planning and oversight of information technology development in the organization.

Measures taken by the Administration

11. The matter has been referred to the United Nations Office at Nairobi since the Information Technology Committee should have broader terms of reference than only for UNCHS, as recommended by the Board.

Comments of the Board

12. A review of the present accounting system software indicated several deficiencies. The Board reiterates the need for updating the system and establishing the Information Technology Committee.

V. RECOMMENDATION 9 (e)

13. Detailed systems analysis should in future be carried out before introducing any information technology project, and a method should be devised to evaluate periodically the utilization of available information technology facilities.

Measures taken by the Administration

14. An information technology adviser has been recruited.

Comments of the Board

15. The Administration has not spelt out the action taken on the recommendations.

VI. RECOMMENDATION 9 (f)

16. In future, a separate financial statement should be prepared, showing the income and expenditure, assets and liabilities and the balance of the special account for programme support costs.

Measures taken by the Administration

17. The required statement has been included in the accounts for the biennium 1994-1995.

Comments of the Board

18. A statement of income and expenditure of the special account for programme support costs has been included in the financial statements. The Board encourages the Administration also to prepare statements of the assets and liabilities and the balance of the special account for programme support costs.

III. AUDIT OPINION

We have examined the following appended financial statements I to XIV, properly identified, and schedules 1.1, 2.1, 3.1, 4.1, 5.1, 6.1, 7.1, 8.1 and 9.1 of the United Nations Habitat and Human Settlements Foundation and statements XV to XVIII, properly identified, and schedules 10.1, 11.1, 12.1 and 13.1 of the United Nations Conference on Human Settlements (Habitat II) trust fund activities for the financial period ended 31 December 1995 in accordance with the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

As a result of our examination, we are of the opinion that except for the effects of the adjustments set out in paragraphs 30 to 34, 38, 43 and 44, the financial statements present fairly the financial position of the organization as at 31 December 1993 and the results of the operations for the financial period then ended; that they were prepared in accordance with the stated accounting policies, which were applied on a basis consistent with that of the preceding financial period; and that the transactions were in accordance with the Financial Regulations and legislative authority.

In accordance with our usual practice, we have issued a long-form report on our audit of the financial statements of the United Nations Habitat and Human Settlements Foundation and the United Nations Conference on Human Settlements (Habitat II), as provided for in the Financial Regulations.

(Signed) Osei Tutu PREMPEH
Auditor General of Ghana

(Signed) Sir John BOURN
Comptroller and Auditor General
of the United Kingdom of Great
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31 July 1996