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SCIENTIFIC AND CULTURAL ORGANIZATION**

**CONVENTION CONCERNING THE PROTECTION OF THE
WORLD CULTURAL AND NATURAL HERITAGE**

**BUREAU OF THE WORLD HERITAGE COMMITTEE
Twenty-second session**

**Paris, UNESCO Headquarters, Room X (Fontenoy)
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**Information Document: Report on follow-up to External Auditor recommendations
following the financial audit of the World Heritage Centre, Director-General's
Comments and Actions undertaken**

SUMMARY

1. In accordance with the decision taken by the World Heritage Committee at its twentieth session in Merida (December 1996), a financial and administrative evaluation of the World Heritage Centre was undertaken by the UNESCO Auditors. This assessment led to recommendations which were approved by the World Heritage Bureau during its July 1997 meeting. The Director-General's comments were also included in the documents submitted to the Bureau. The Bureau requested the World Heritage Centre to develop control procedures covering its financial activities as recommended by the Auditors.
2. Following the Bureau decision, the World Heritage Centre, with help from UNESCO central services, responded to each and every recommendation. The adapted procedures have gradually been put into effect between the months of September 1997 and June 1998.
3. All the applied procedures are hereafter presented in a summary table form. You will find each subject and the relative UNESCO Auditors' recommendation, the Director-General's response, as well as the actions already finalised by the Centre and the financial services of UNESCO.

I. External Auditor recommendations following the financial audit of the WHC, DG Comments and Actions taken

External Auditor recommendations	DG Comments	Actions taken
1. There needs to be better co-ordination between the Bureau of the Comptroller and World Heritage Centre secretariat in the preparation of financial information for the World Heritage Fund.		
<u>Recommendations</u> 1 We recommend that the World Heritage Centre and the Bureau of the Comptroller develop a more detailed chart of accounts for the Fund. 1.2 We recommend that the Bureau of the Comptroller and the World Heritage Centre secretariat improve their accounting and administrative preparedness through better co-ordination in the analysis of the Fund's accounts and in the preparation of financial statements for the Fund.	The Director-General agrees with these two recommendations. A more detailed chart of accounts, which applies in particular to earmarked activities, will be developed. The World Heritage Centre will review the computer financial statements on a more regular basis so as to co-ordinate better with the Bureau of the Comptroller on a more timely basis. It should be noted that the year-end adjusting entries were mostly between accounts of the Fund, which was consequently globally correct.	1. A detailed chart of accounts has been elaborated for the World Heritage Fund since 1 January 1998. The financial status of accounts prepared by BOC is analysed systematically by the Administrator of the Centre and a monthly report is submitted to the Director of the Centre. 1.2 The co-ordination with BOC has been considerably reinforced since the nomination of the Administrator of the Centre (J.Erfan) in September 1997 and of the assistant accountant (M.Bhatt) at BOC / ACT in November 1997
2. The World Heritage Centre needs to improve its records that contain the documentation supporting financial activities related to the World Heritage Fund.		
<u>Recommendations</u> 2.1 We recommend that the Centre take immediate steps to improve its records that contain the documentation supporting financial transactions related to the World Heritage Fund. At a minimum, each file should contain copies of documentation and approvals to support all financial transactions including: a signed copy of contracts, amendments if necessary, evidence of approvals, invoices, copies of journal vouchers when required, evidence to support the performance of the contract before any final payments are made or before any remaining balance in the obligation is obligated.	Although this recommendation is accepted, it should be noted that the External Auditor in paragraph 26 states that he has been able to provide an opinion on the basis of the files and documentation presented. Nevertheless in some cases not all the files and documentation could be provided. The External Auditor has been requested to provide the Centre with a list of the cases where they found inadequate documentation. The Centre will then undertake a thorough investigation of these cases with the object of providing the outstanding documentation	The documents relating to each contract in 1997 have been examined and completed. A new filing system for 1998 contracts and diverse activities has been created, which comprises all the relevant documents. A separate file for the follow-up of all projects has been devised since 1998 which contains all relevant documents (contract, correspondences, receipt voucher, copy of the obligation form). Continued research has been undertaken by the Administration of the Centre in co-operation with the concerned programme specialists to obtain the missing documents for the contracts prior to 1997. Any additional documents of information received were immediately transferred to the Bureau of the Comptroller in order to complete the official files.

External Auditor recommendations	DG Comments	Actions taken
3. The accounting for and reporting of expenditures and revenues needs to be strengthened considerably.		
<u>Recommendations</u> 3.1 there be a separate clause in each World Heritage Centre contract that identifies, when necessary, how revenues and expenditures should be shared between the World Heritage Fund, the Regular Programme and other trust funds ; 3.2 written guidelines be developed by the Centre to assist administrative staff how to determine how costs should be shared between the World Heritage Fund, the Regular Programme and other trust funds ; 3.3 the Centre maintains records for each project and track revenues and expenditures over the life of each project; 3.4 a dedicated numerical series be used for the raising of World Heritage Fund obligations ; 3.5 the accounting for obligations pertaining to the World Heritage Fund be recorded in the Fund's account and not in those of UNESCO's Regular Programme or another trust fund ; ; 3.6 if, for some exceptional reason, the obligations have to be recorded in UNESCO's Regular Programme for transfer back later to the Fund's accounts, there be a clear, recorded audit trail that identifies these obligations ; 3.7 contracts for additional income should contain a clause specifying precisely if the income pertains to the World Heritage Fund, UNESCO's Regular Programme or for another UNESCO trust fund; and 3.8 each earmarked project for the Fund should have a separate financial code. The overall structure of the coding should be in accordance with the Fund's workplans..	The determination on how the expenditures for a World Heritage project are accounted for when project costs are shared by the World Heritage Fund and UNESCO's Regular Programme or other trust fund is made on the basis of the annual workplan which is presented in advance each December to the World Heritage Committee and on the eventual need to complement the allocated funds by additional resources if so required subject to their availability. Whilst accepting to use a special numerical series for the raising of World Heritage Fund obligations on a trial basis, the Director-General does not consider that this should increase administrative work when an activity or a contract should be financed from more than one source. It is accepted however that documentation on such matters should be clear within each file. A separate financial code for each earmarked project will be developed in the more detailed chart of accounts.	The Centre ensures that each contract is derived from a single source of fund. However if an activity is drawn from two sources of funds (World Heritage Fund and Regular Programme), the distribution is based on the workplans which are pre-established and approved by the General Conference and the World Heritage Committee. In accordance with BOC a special series of obligation numbers have been created for the World Heritage Fund for the 1998/99 biennium. A separate account has been elaborated for each project since 1998. The income and expenditure related to agreements are now included in the World Heritage Fund under a separate code: 196DIP55 for all anticipated promotional activities and 196EAR01 for all small earmarked activities. For a better monitoring of income and expenses, each Agreement now has a unique sub-code (i.e. 196 DIP559105). <u>It must be noted that the Bureau of the Budget has not approved the proliferation of budget codes for each project concerned.</u>

External Auditor recommendations	DG Comments	Actions taken
4. Internal controls over the recording of revenues need to be strengthened.		
<u>Recommendations</u> 4.1 we recommend that the World Heritage Centre needs to improve its tracking of anticipated revenues to ensure that receipts are deposited promptly and to ensure that it provides the Treasury Division in the Bureau of the Comptroller with the accurate information it needs on expected revenues, the anticipated date of receipt and the financial codes to which it should be credited..	The Bureau of the Comptroller possesses full information on the assessed contributions, most of which are received by bank transfer. The major problem referred to in this section of the report concerned a transfer received from a Member State of UNESCO. The information from the bank did not state that the contribution was for the Fund and on the basis of information received from one of the UNESCO Programme Sectors it was posted to a Trust Fund of the same Member State where a similar amount was expected. This unfortunate coincidence was corrected prior to the Audit. The World Heritage Centre follows up outstanding contributions due with reminders to States Parties, but is very seldom given information by them as to when payments will be made. To the extent possible, the Centre will inform BOC on the anticipated date of receipt of other contributions, together with the code to which the funds should be credited.	The contributions for promotional activities have been anticipated for 1998 and approved by the Committee. They amount to \$226,333 and are identified under the budget code 196DIP55. The contributions for earmarked activities are identified under a special budget line of the World Heritage Fund after the approval of the Committee and the Chairman, i.e. 196EAR01. The Administrator regularly informs the Treasury Division on anticipated receipt of contributions based on the signed agreements or exchange of correspondence with the Funding Sources. The Administrator has clearly stated to each professional of the Centre that they must inform her of any anticipated receipt of contributions. The donors are systematically reminded to mention “to the attention of WHC” and to indicate the project when sending their contributions to UNESCO. Regarding the assessed and voluntary contributions, the Centre has developed a very detailed table showing the amounts due and paid since 1993. This important document is updated on a daily basis in order to provide accurate information .

External Auditor recommendations	DG Comments	Actions taken
5. The Fund should develop procedures to monitor its “Cash and term deposit account”		
<u>Recommendations</u> 5.1 we recommend that the Centre develop adequate records to monitor the fund’s receipts and disbursements on a regular basis..	The Centre will cover this requirement when reviewing the monthly-computerised accounts.	The Centre considers that this recommendation concerns the Bureau of Comptroller (BOC) in particular, who should in collaboration with the Centre, initiate a system to monitor the “cash and term deposit account” that controls the Funds.
6. Unliquidated obligations are not reviewed and adjusted on a regular basis.		
<u>Recommendations</u> 6.1 we recommend that Unliquidated obligations be analysed on a regular basis throughout the year. Adjustments should be made on a timely basis for those obligations that no longer represent a valid legal liability.	Agree	This is done regularly each quarter since October 1997 on the basis of a list provided by BOC and transmitted by DIT. Each responsible professional of the Centre is warned of the dates of expiration, unpaid payments, etc. and must take immediate action by either amending the date of the contract or cancelling it.
7. The World Heritage Committee needs to address concerns regarding costs for fund raising contracts.		
<u>Recommendations</u> 7.1 the World Heritage Committee should address the question of whether costs associated with fund raising contracts should be charged as a servicing fee against the additional income earned for the Fund.	The Legal Office of UNESCO drafted the fund-raising contract in question in conformity with the Organization's rules and procedures. All costs associated with the fund-raising contract are exceeded by the funds received from the fund-raising activities of the fundraiser. This is a self-financing activity, generating an overall surplus income to the World Heritage Fund.	The Centre took note of this recommendation and has since not established similar contracts.

External Auditor recommendations	DG Comments	Actions taken
8. Better financial information can be provided to the World Heritage Committee.		
<u>Recommendation</u> 8.1 we recommend that the Centre improve the financial information provided to the World Heritage Committee by providing the Committee with financial information against which actual performance can be measured, a summary report of all world heritage activities, annual financial statements with comparative figures for the preceding year and budget information for earmarked income and expenditures related to this income.	The Financial Statements at 31 December 1996, which were drafted in co-operation with the External Auditor, have been improved, <i>inter alia</i>, to show clearer budget information against actual expenditure and more clarity on earmarked income. The Financial Statements for the biennium ended 31 December 1995 that were included in an information document at the World Heritage Committee Meeting in Merida will be restated in a similar format for the General Assembly meeting later this year. It should be noted that the Committee considered that the presentation of the budget information had much improved at its 20th session in Merida. However, they considered that a reduction of documentation and an action plan for the coming year with forecasts for the forthcoming two years, as well as annual balance sheet, would be more than adequate and provide the necessary global overview to facilitate the full comprehension of the proposals. Perhaps the External Auditor could assist the Centre in the development of a format for budget presentation during the management review that will soon take place and make appropriate recommendations to the World Heritage Committee thereon.	The documents submitted to the last Committee greatly improved and clarified the presentation of the financial state of accounts and the budget such as: 1. The budget table for 1998, which for the first time, presented all the sources of funds for every chapter and by sub-chapter ; 2. The detailed table of activities from the Funds as of 31 August 1997. (annexed to document 13) This new structure allows for the elaboration of a <i>unique document that integrates the analysis of the previous years, the proposed workplan, the estimated resources and the expected results.</i> A major step to improve budget information has been achieved. Early June, the Administrator of the Centre with the help of colleagues launched a data base of “International Assistance/Obligations” accessible to each WHC staff member via intranet. This data base is already fully operational and monitors in particular all the proposed and approved international assistance projects and their implementation. More globally the database contains all budget and financial data of the World Heritage Fund and enables immediate retrieval of accurate information on the status of implementation of all activities. The effectiveness of this data base depends on the regular input of data by WHC staff , who have been informed accordingly. Furthermore, the Centre recently called upon a MIS Expert Group to review the data and information infrastructure. The Expert Group submitted a substantial report mid-April which included recommendations in particular on improving financial data. <u>However this will only be realised in the medium term and will require additional funding.</u>

External Auditor recommendations	DG Comments	Actions taken
9. Training of administrative staff should be provided.		
<u>Recommendations</u> 9.1 we recommend that training, co-ordinated by the training unit in UNESCO's Personnel unit and with the possible assistance of the Bureau of the Comptroller, be provided for those responsible for accounting and administrative duties relating to the World Heritage Fund.	Whilst agreeing with the need for training, it should be remembered that the vacant professional administrator post is under recruitment and training required will depend on the qualifications of the candidate chosen.	A professional Administrator with a solid experience in both administration and budgeting within UNESCO was recruited in September 1997. Currently there is an urgent need for a GS-2/3 post for the execution of daily administrative tasks (monitoring of project files, personnel contracts, co-ordination with central services, etc)
10. Internal Audits should review the activities of the Centre and Fund.		
<u>Recommendations</u> 10.1 we recommend that internal audit periodically review the activities of the Centre and the Fund and report their findings and recommendation to UNESCO's management.	Agree	The Inspectorate General (IOM) has informed the Centre that they will undertake an internal audit of the Centre during the next regular audit they conduct for the whole of UNESCO