

**Advisory Committee on Administrative
and Budgetary Questions**

**First report on the proposed programme
budget for the biennium 1998-1999**

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the maximum extent possible, extrabudgetary funding is used in support of programme priorities that have been established through the appropriate legislative process. In this connection, the Advisory Committee points once again to the need for specialized bodies to play a greater role in the formulation and review of programmes (including publications); perhaps this can be accomplished through the greater use of inter-sessional working groups (see para. 87 above).

Increasing demands for independent audits and management reviews of the United Nations system

98. As indicated in paragraph 94 above, the Advisory Committee has, in the past, stated that where donors of voluntary contributions attach conditions that are contrary to United Nations policy, the Organization's regulations and rules should prevail. The Committee has also made reference to the burden that often arises as the result of reporting requirements by donors. The Committee has called for the development of a standard format and reporting procedure on trust funds; this has not occurred.

99. The foregoing is relevant to developments in the past few years where organizations of the United Nations system have come under increasing pressure from donors of extrabudgetary funds to allow independent auditors to carry out audits of the funds that they advance. There have also been requests from individual Member States to conduct audit and management reviews of the activities of United Nations organizations irrespective of whether such audits and reviews are related to the funds they provide.

100. These developments have caused considerable concern to the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency, which, through its Chairman, addressed a letter to the Secretary-General of the United Nations, in his capacity as Chairman of the Administrative Committee on Coordination. The letter was referred to in the report of the Secretary-General on independent audits and management reviews of activities of the United Nations system (A/48/587), which annexed the views of the Administrative Committee on Coordination on this matter. The annex makes reference to the identification by the Panel of numerous practical disadvantages to independent audits and management reviews by individual Member States and to the fact that the Financial Regulations of the United Nations stipulate that the external auditors appointed by the organizations' governing bodies are solely responsible for the conduct of audits.

101. With regard to the United Nations itself, in its resolution 48/216 A of 23 December 1993, the General Assembly recognized that the Board of Auditors conducted its reviews in a comprehensive manner, as stipulated in regulation 12.5 of the Financial Regulations of the United Nations, and expressed its appreciation to the Board for the action-oriented and concrete recommendations contained in its reports.

102. In the recent past, the Advisory Committee has become increasingly aware of renewed pressure for individual auditing and management review by Member States, a development that has again led to expressions of concern by United Nations auditors. The Committee cannot but stress that the members of the Panel of External Auditors have been selected by the competent legislative bodies to carry out the various activities within their terms of reference on behalf of all Member States. For example, as stated in regulation 12.6 of the Financial Regulations of the United Nations, "the Board of Auditors shall be completely

independent and solely responsible for the conduct of the audit". It should be noted that where necessary, the Committee may request the Board to conduct specific examinations and report on the results, as provided for in regulation 12.7.

103. The alternative to this system would be a situation in which numerous audits and management reviews would be conducted by a plethora of institutions and bodies, responsible not to the Organization as a whole, but to individual Member States. This situation would inevitably lead to many conflicting recommendations resulting in widespread confusion and misunderstanding of the nature of United Nations operations.

104. The Advisory Committee points out that the audit reports prepared by the Board of Auditors of the United Nations and by the external auditors of each of the specialized agencies are quite detailed and extremely informative on every aspect of the operations of the audited entity. As indicated in paragraph 102 above, procedures are in place to request special or expanded audits should any Member State so desire. Furthermore, the Committee points out that under the current procedure donors to extrabudgetary operations and trust funds can request information regarding project implementation for use by their respective legislatures.

105. Furthermore, the Advisory Committee points out that, bearing in mind the requirements of the Financial Regulations of the United Nations organizations and agencies, the secretariats of the organizations and agencies concerned have no authority to conclude arrangements for audit by national authorities without prior approval of the competent legislative bodies.

106. Accordingly, the Advisory Committee once again reiterates its view that the Financial Regulations of the United Nations and the resolutions of the General Assembly, adopted for the benefit of all, must be respected by all Member States, as well as by the Secretariat.

Implementation of the performance appraisal system

107. The report of the Secretary-General (A/C.5/51/55 and Corr.1) was submitted pursuant to General Assembly resolution 51/226 of 3 April 1997 and contains a review of the first full year of implementation as well as proposals for improving the performance appraisal system on the basis of lessons learned.

108. The Advisory Committee, in paragraph 95 of its first report on the proposed programme budget for biennium 1996-1997,⁶ noting that efforts were under way to streamline the performance appraisal system, urged continued strenuous efforts to refine the performance appraisal system so as to minimize the administrative and bureaucratic burden it would likely cause in its original form. The Committee also stated that the introduction of the performance appraisal system involved significant direct and indirect expenditure.

109. The Advisory Committee notes from paragraph 13 of the report of the Secretary-General that a majority of departments and offices are now using the performance appraisal system and that where there has been a delay in implementation, those offices have been authorized to continue using the performance evaluation report until the performance appraisal system is implemented in the course of 1997. As indicated in paragraph 14 of the report, progress has also been made in the establishment of the three monitoring bodies that were agreed upon in the course of staff management consultations: the



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FINANCIAL REPORTS AND AUDITED FINANCIAL STATEMENTS,
AND REPORTS OF THE BOARD OF AUDITORS

Independent audits and management reviews of
activities of the United Nations system

Report of the Secretary-General

1. Early in 1993, the Chairman of the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency addressed a letter to the Secretary-General of the United Nations, in his capacity as Chairman of the Administrative Committee on Coordination (ACC), conveying the views of the Panel on two related subjects: independent audits and management reviews of activities of the United Nations system on behalf of individual States. The Secretary-General referred the letter to ACC for examination in view of the significance of these issues. Transmitted herewith, as an annex to the present report is the statement of ACC.
2. For the United Nations itself, the views and recommendations of the Panel of External Auditors are particularly timely and pertinent. With increasing frequency in recent years, the United Nations has received from potential donors, either individual Member States or intergovernmental organizations, offers of voluntary contributions which are subject to conditions on the granting of audit access to, or the conduct of management reviews by, representatives of the donor.
3. The Secretary-General has consistently declined to accept contributions to which such conditions have been attached, on the grounds that the conditions are incompatible with the provisions of Article XII of the Financial Regulations and Rules of the United Nations on external audit, and in particular, financial regulation 12.6, which provides that the Board of Auditors shall be solely responsible for the conduct of the audit. Some donors, however, have maintained their insistence on these conditions and, as a result, it has not been possible for the United Nations to accept the proposed contributions, however urgent the need for additional resources.

4. It should be noted that all potential donors in the latter category are either governmental agencies of States Members of the United Nations or institutions composed of Member States of the Organization. For that reason, the Secretary-General recommends that the General Assembly should endorse the views and recommendations of the Panel of External Auditors, as supported by ACC, with a view to persuading potential donors to reconsider their position.

ANNEX

Independent audits and management reviews of
activities of the United Nations system

Statement by the Administrative Committee on Coordination

1. On 18 January 1993, the Chairman of the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency addressed a letter to the Secretary-General of the United Nations in his capacity as Chairman of the Administrative Committee on Coordination (ACC). The letter contained views put forward by the Panel at its thirty-fourth session, held on 23 and 24 November 1992, on two related issues: independent financial audits on behalf of donors of extrabudgetary funds to organizations of the United Nations system, and management reviews of the activities of organizations of the system on behalf of individual States. The Secretary-General has referred the letter to ACC for examination in view of the significance of these issues.

2. In the letter the Chairman of the Panel confirms its recognition that those who provide funds to organizations of the system have legitimate interests in seeking assurances about the funds and in expecting transparency in the organizations' presentation of financial information. He also confirms the Panel's position that, in principle, providers of funds should be prepared to rely on the competence of the organizations and the normal internal and external audit arrangements.

3. The Chairman of the Panel draws attention to a number of undesirable features of independent audits of extrabudgetary funds. These include the difficulty of separating examinations of individual funds from the audit of accounts and control systems in general; the further difficulty of segregating information on individual activities from confidential information on other activities; the misleading perception of the accounting system as a whole which may result from examination of a single area; and the inefficiency of special audits in relation to the use of resources, especially where activities of a largely similar nature are concerned.

4. In connection with more wide-ranging management reviews of organizations' activities, the Chairman of the Panel cites the provisions governing external audit which are included in organizations' financial regulations. Those provisions stipulate that the external auditors appointed by organizations' governing bodies are solely responsible for the conduct of audits, while also specifying that governing bodies may request the external auditors to carry out special reviews and report separately on the results. In the Panel's opinion, special reviews by other audit bodies have an impact on the authority and independence of the appointed external auditors. Where they are required, such reviews should be approved in advance by the governing body concerned.

5. In the closing paragraphs of his letter the Chairman of the Panel adds certain practical considerations raised by the Panel. These concern, in particular, the additional audit resources that may be required in cases where appointed external auditors undertake special audits and reviews. In addition,

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the Chairman comments on the need for the other bodies carrying out special examinations to consult with the appointed external auditors on liaison, timing and reporting arrangements.

6. ACC is familiar with the problems posed by requests for special audits and management reviews. As the Chairman of the Panel notes, such requests are received by organizations of the system with increasing frequency. His letter is thus particularly timely, and ACC is grateful to him and to the Panel for their statement of views and recommendations on this important matter.

7. ACC fully shares the Panel's concerns and endorses its recommendations with regard to independent audits of funds provided for organizations' extrabudgetary activities. Like the Panel, it considers that the donors of such funds should be prepared to rely on the competence of the organizations and the efficiency of their normal internal and external audit arrangements. ACC would point out, moreover, that all organizations' financial controls are subject to the continuing scrutiny of their Member States, acting through their governing bodies. Bearing in mind also the practical disadvantages which the Panel has identified, ACC wishes to record that it is not in favour of independent audits of individual funds.

8. As indicated above, the Panel's position with regard to management reviews is that such reviews fall within the competence of organizations' appointed external auditors, either as a part of their continuing responsibilities or in response to special requests by governing bodies. ACC notes that this position allows for exceptions in cases where an external management review is approved in advance by the governing body concerned. For its own part, ACC endorses the principles stated by the Panel, and also believes that a degree of flexibility is desirable for the acceptance of external management reviews in exceptional circumstances. Where such management reviews are accepted, ACC agrees that consultations should take place with the Organization's external auditor as recommended in the letter of the Chairman of the Panel.



Comptroller and Auditor General

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Dr Boutros Boutros-Ghali
Secretary General
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Dear Secretary General,

- 1 I am writing to you in your capacity as Chairman of the Administrative Committee on Co-ordination, on a matter considered by the Panel of External Auditors of the United Nations, Specialized Agencies and the International Atomic Energy Agency at its thirty-fourth session in Geneva on 23-24 November 1992.
- 2 The Panel noted that over recent years, some organizations have come under increasing pressure from donors of extrabudgetary funds to allow independent auditors to carry out financial audits of the funds which they advance. In addition, the Panel also noted that more recently, Organizations have been asked, by individual member states, to allow management reviews of their activities by the Supreme Audit Institutions of the member countries concerned. In a number of instances, the administrations have acceded to these requests both from extrabudgetary donors and from member states. The External Auditor has not always been consulted in advance of such special audits or reviews, and in some cases have only found out about them by chance.
- 3 The Panel acknowledges that member states and extrabudgetary donors have legitimate interests in seeking assurances about the funds that they give to organizations in the UN System. The Panel also recognises that in the present economic climate, Organizations are expected to show greater transparency in their presentation of financial information. Some member states and donors may see these additional audits or reviews as part of this general trend to increase accountability.
- 4 In principle, however, the Panel believe that both extrabudgetary donors and member states should be prepared to rely on the competence of the Organization and the normal internal and external audit arrangements. Reiterating the Panel's previous concerns on this subject, it was of the view that special audits were undesirable because:

- ° an auditor's examination of individual extrabudgetary funds cannot normally be separated from the audit of an Organization's accounts and control systems as a whole;
- ° in carrying out their work, special auditors acting for extrabudgetary donors and/or member states may have access to information which also relates to other funds or activities, thus undermining the duty of confidentiality which normally exists in funding agreements between donors, member states and an Organization;
- ° the results of any special audits carried out may convey a misleading picture of an Organization's accounting competence, where the special auditor has reached an adverse opinion on the discrete area he is examining, but at the same time, the appointed External Auditor may have found the accounting system for the Organization as a whole to be satisfactory, and sufficient to support the published financial statements; and
- ° special audits generally represent an inefficient use of resources and are time consuming for both the Organization and the appointed External Auditor, in particular where the special audits are numerous and the ground covered by the special auditors is similar in most respects.

5 The Panel expressed further concerns about the implications for external audit of recent requests by a member state for access to the books and records of UN Organizations. The Panel understands that the purpose of these requests is to allow the Supreme Audit Institution of the member state concerned to carry out wide-ranging reviews of programme activities. The Panel is of the view that these reviews have an impact on the authority and independence of the appointed External Auditor.

6 Under the terms of reference governing external audit, the External Auditor is solely responsible for the conduct of the UN organizations' audit. If special reviews are required, the financial regulations provide for governing bodies to request the appointed External Auditor to carry out specific examinations and to issue separate reports to them on the results. When this procedure is not followed, because a member state insists on carrying out a general review the results of which are reported to its own government, the Panel's opinion is that governing body approval should be sought before such a review is carried out.

7 Where a special review is carried out by a separate auditor at the request of a member state, the Panel suggests that both the Organization's administration and the special auditor should consult with the appointed External Auditor on questions of liaison, timing and reporting. The Panel, of course, does not

reviews or studies of their own in the exercise of their duties, since this right in no way impacts on the duties and responsibilities of the External Auditor.

- 8 For special audits carried out at the request of extrabudgetary donors, the Panel considers that the wider interests of the appointed External Auditor and the Organization should be safeguarded. The Panel suggests that, in agreeing with extrabudgetary donors the terms of reference for any special audits, administrations should bear in mind that the External Auditor will need to take appropriate account of these audits in carrying out his own work.
- 9 In particular, the Panel believes that, in such cases, the special auditor and the administration should liaise with the External Auditor, both prior to and during the course of the special audit, to discuss the timing of the work (to take account of the External Auditor's own reporting requirements) so as to avoid the duplication of effort or excessive audit activity in particular areas. The External Auditor should also receive a copy of the special auditor's draft report and have an opportunity to comment thereon to the administration and to the special auditor.
- 10 Finally, the Panel would like to point out that in cases where the appointed External Auditor is requested to carry out a special audit for an extrabudgetary donor or a member state, such work may, if accepted, require additional audit resources. To avoid detracting from the resources available for the audit of the Organization's activities as a whole, an audit fee may be charged to cover the additional costs of the special audit.
- 11 The Panel would be grateful for the views of the Administrative Committee on the above issues and whether the Committee members would be prepared to recommend to the organizations they represent the suggestions outlined above when agreeing to special audits.

Yours sincerely,

John Bourn

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Comptroller and Auditor General
United Kingdom
and
Chairman
UN Panel of External Auditors