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Chair: Mr. Tommo Monthe (Cameroon)
Chairman of the Advisory Committee on
Administrative and Budgetary Questions: Mr. Kelapile

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The meeting was called to order at 10.10 a.m.

Agenda item 138: Scale of assessments for the apportionment of the expenses of the United Nations
(continued) (A/C.5/66/L.2)

Draft resolution A/C.5/66/L.2

1. *Draft resolution A/C.5/66/L.2 was adopted.*

Agenda item 131: Financial reports and audited financial statements, and reports of the Board of Auditors (A/66/5/Add.5, A/66/73 and Add.1, A/66/139 and A/66/377)

2. **Mr. Liu Yu** (Chairman, Audit Operations Committee, United Nations Board of Auditors), introducing the financial report and audited financial statements for the year ended 31 December 2010 and the report of the Board of Auditors on the voluntary funds administered by the United Nations High Commissioner for Refugees (A/66/5/Add.5), said that the Board's audit indicated that there had been no material errors in the financial statements. However, significant audit issues had been identified. In particular, the Office of the United Nations High Commissioner for Refugees (UNHCR) had been seriously under-prepared for the final audit: the absence of audit trails made reconciliation of the financial statements difficult; there had been large numbers of errors; and accounting policies had not reflected accounting practices. During the audit, misstatements of some \$39 million had been corrected and all other issues had been resolved to the Board's satisfaction. As a result, the Board had been able to issue an unmodified audit opinion, meaning that the financial statements fairly reflected the financial position of UNHCR.

3. Despite its unmodified audit opinion, the Board had a number of significant concerns about the financial, risk and performance management of UNHCR. The inherent uncertainties associated with the agency's heavy reliance on voluntary funding had implications for resource management and decision-making, creating an incentive to focus on short-term activities that might not always represent the best value. There were also weaknesses in financial management and control, including a backlog of bank reconciliations; an absence of rigorous management checks on financial statements; and low financial management capacity in the field, including a limited

understanding and use of the UNHCR enterprise resource planning system. A number of risks to the successful adoption of the International Public Sector Accounting Standards (IPSAS) had been identified, including the ability to produce accurate and timely end-of-year accounts, and the readiness and capacity of the field network. UNHCR did not seem to have a clear vision of benefits realization with regard to IPSAS.

4. Although UNHCR had introduced results-based management in 2005, its performance reporting still did not enable management to make effective judgements on the cost-effectiveness of projects and activities or to hold local managers accountable for performance. Data was incomplete and unreliable; performance indicators were inconsistent and did not focus on mission-critical activities, or on efficiency and effectiveness; and there was no clear linkage between performance and financial data. UNHCR therefore remained unable to gather and analyse basic financial and performance information on its operations.

5. UNHCR had yet to establish a formal and systematic organization-wide approach to risk management. There were also weaknesses in its processes for selecting, managing and monitoring its implementing partners, many of whom worked with it for a significant number of years without periodic testing or reconsideration, thereby exposing UNHCR to an increased risk of fraud and corruption, inefficiency and poor partner performance.

6. The agency's response to protracted refugee situations, a major and growing strategic issue with significant resource management implications, was fragmented, and the robust financial and performance data necessary for sound decision-making was lacking. The Global Plan of Action on protracted refugee situations had no senior accountable owner, lacked concrete measures of progress and did not include any tracking of resource deployment. Business cases for durable solutions were not well-developed and spending on such solutions was relatively small compared to the cost of protracted refugee situations.

7. The Board's overall conclusion was that UNHCR was as yet unable to demonstrate tangible benefits from its change programme or demonstrate that it was using its resources cost-effectively. UNHCR had broadly accepted all of the Board's conclusions and recommendations and had itself identified and

recognized many of the weaknesses. The agency should now take the necessary steps to prioritize and take decisive action, with the support of the Board, to address the weaknesses and implement the Board's recommendations, although not all the issues identified could be resolved within one year.

8. Introducing the report of the Board on the implementation of its recommendations relating to the biennium 2008-2009 (A/66/139), he said that the report covered 15 organizations on which the Board reported on a biennial basis to the General Assembly. A total of 590 recommendations had been issued for the biennium 2008-2009, an increase of 16 per cent compared with the previous biennium. The rate of full implementation of those recommendations was 46 per cent, almost unchanged from the biennium 2006-2007. While in general the administrations had considered the Board's recommendations seriously and had developed a range of good practice in enhanced follow-up, the Board nevertheless encouraged them to intensify their efforts to ensure a higher rate of fully implemented recommendations.

9. There had been a slight increase in partially implemented recommendations from 46 per cent to 48 per cent, compared with the previous biennium. Since most of the entities had set target dates for full implementation, and some recommendations would be systematically addressed through the implementation of IPSAS or other business transformations, the Board had no major overall concern about the level of partial implementation, although it encouraged entities to take action as quickly as possible on its recommendations. A number of areas that some organizations could address to expedite the full implementation of the Board's recommendations were set out in the report.

10. A total of 5 per cent of the recommendations made in the biennium 2008-2009 had not been implemented as at 31 March 2011, compared to 4 per cent for the previous biennium. While the Board recognized that some entities might have valid reasons for non-implementation, there were other entities that had yet to begin the implementation process.

11. **Mr. Kelapile** (Chairman of the Advisory Committee on Administrative and Budgetary Questions), introducing the related report of the Advisory Committee (A/66/377), said that the Advisory Committee welcomed the progress made by UNHCR, which had led to the issuance of an unmodified opinion by the Board of

Auditors. With regard to the Board's concerns about some aspects of the financial, risk and performance management of UNHCR, the Advisory Committee, while recognizing the challenges arising from the agency's operational environment, expected that UNHCR would take the necessary measures to address the issues raised and ensure full and timely implementation of the Board's recommendations. In particular, it should address the weaknesses that had been noted in the areas of financial management control, in order to ensure the successful implementation of IPSAS in 2012.

12. Turning to the report of the Board on the implementation of its recommendations relating to the biennium 2008-2009 (A/66/139), the Advisory Committee noted a slight decrease in the number of recommendations that had been fully implemented, compared with the previous biennium. It reiterated its call for the full and rapid implementation of the Board's recommendations and underscored the importance of senior management attention. The root causes of the problems noted by the Board must be identified and effectively addressed.

13. **Ms. Frueh** (Executive Secretary, Joint Inspection Unit), introducing the report of the Joint Inspection Unit (JIU) entitled "The audit function in the United Nations system" (A/66/73) on behalf of the Chair of JIU, said that the Unit had included a review of the audit function in its programme of work for 2010 with the aim of helping to improve system-wide coherence among the internal and external entities responsible for that function, in line with professional standards as applicable to the United Nations.

14. While significant progress had been achieved in enhancing the audit function at the United Nations organizations over the last 10 years, in response to demands from Member States for greater scrutiny, transparency and accountability, there was still a lack of system-wide coherence and coordination and many organizations needed to improve their audit independence, capabilities, resources and processes in order to overcome performance gaps.

15. The major challenges and constraints faced by internal audit were the follow-up and implementation of audit recommendations; resources; auditing the "One United Nations"; coordination with other oversight bodies; and issues relating to independence, including interference from management and potential

conflicts of interest. Additional constraints related to the authority, centralization/decentralization, structure, planning, reporting and quality assessment of the internal audit activity; the performance and competence of internal auditors; and issues of accountability and transparency, particularly in relation to the communication of audit results.

16. With regard to the external auditors, the selection process was not competitive enough, since a select few supreme audit institutions were recurrently chosen and engaged simultaneously at several organizations, with unlimited terms of office in some cases. Furthermore, relevant performance assessment requirements had not been established and some audit committees were not responsible for such assessment, contrary to best practices. Other issues highlighted in respect of external auditors were the need to prioritize financial statement certification audits, in line with the introduction of IPSAS; the short time given to review the financial statements at some organizations; and the lack of implementation of adequate handover procedures between departing and new audit institutions. The review had confirmed that the external audit function was more independent and better safeguarded from management interference than the internal audit function.

17. While the recent establishment of audit/oversight committees with an advisory role to management and legislative bodies was a major step towards improving the audit/oversight function at United Nations system organizations, five organizations had not established such committees. Moreover, several audit/oversight committees focused mainly on audit activity, and some did not cover the performance of external auditors.

18. Internal and external auditors and audit committees worked best and could better contribute to governance processes when they maintained a fluent and objective relationship with each other, and with management. However, effective system-wide cooperation and coordination among those groups still had a long way to go. The limited joint audit engagements undertaken in recent years in response to the One United Nations initiative, for example, had proved challenging. The annual meeting of the Representatives of Internal Audit Services of the United Nations Organizations and Multilateral Financial Institutions and Associated International Organizations (RIAS) and meetings of the Panel of External Auditors had contributed to improving overall

coordination. While coordination among internal auditors had appeared to be more frequent and effective than that between internal and external auditors, coordination among audit/oversight committees had been ad hoc and should be regularized to ensure the sharing of experience, information and practice. With regard to adherence to the single audit principle, the report suggested that external auditors, audit/oversight committees and legislative/governing bodies should be informed of all third-party verifications, to avoid misunderstanding of what a working single audit entailed.

19. The findings and recommendations contained in the report had been positively received by the oversight community. Eleven of the 18 major recommendations were addressed for action to Member States, since they concerned policy decisions intrinsically related to the mandate, independence, accountability and transparency of the audit function. JIU trusted that a timely decision by the Committee would make action possible on those important governance issues in order to enhance the efficiency and effectiveness of the audit function in the United Nations system.

20. **Mr. Herman** (United Nations System Chief Executives Board for Coordination), introducing the note by the Secretary-General on the audit function in the United Nations system (A/66/73/Add.1), said that the United Nations System Chief Executives Board for Coordination (CEB) welcomed the comprehensive nature of the JIU report, which sought to enhance coherence among the audit facilities within the United Nations system. In their general comments, agencies had focused on three issues: consolidation of oversight functions; the internal audit planning process; and definition of the internal audit board. CEB had largely accepted the JIU recommendations, in many cases noting that the suggested practices were already in place or were in the process of being implemented.

21. Agencies had made clarifying remarks on some recommendations. For example, organizations generally supported the principles contained in recommendation 4 on the selection of audit staff but felt that it suggested a separate set of staff selection practices, which should be avoided. Agencies had also commented on recommendation 14 on notifying governing bodies of requests for third-party audits. They had agreed on the need to inform governing bodies of such requests and had cited the single audit principle. Noting that the donor community might have

a different view and that such requests were difficult to resist, agencies suggested that a clear decision by the General Assembly would help address the issue. Those examples illustrated the range of responses agencies had provided to the JIU recommendations.

22. **Ms. Handrujovicz** (Argentina), speaking on behalf of the Group of 77 and China, said that the Group attached great importance to the work of the internal and external oversight mechanisms, whose recommendations were crucial to improving the work of the United Nations and should therefore be implemented fully and in a timely manner.

23. She welcomed the progress made by UNHCR, which had resulted in an unmodified audit opinion by the Board of Auditors on the financial statements for the year ended 31 December 2010. UNHCR should take all appropriate measures to implement the Board's recommendations on the development of effective performance, financial and risk management systems. The decline in the implementation rate of recommendations for 2009 compared to the previous year was a matter of concern. Concurring with the conclusions of the Advisory Committee set out in paragraph 9 of its report (A/66/377), the Group urged UNHCR to ensure the successful implementation of IPSAS in 2012.

24. The 15 United Nations entities for which the Board had issued recommendations for the biennium 2008-2009 should implement those recommendations rapidly, ensure effective follow-up and strengthen inter-agency coordination in the implementation of recommendations that pertained to more than one organization. The Group concurred with the Advisory Committee that senior management should take measures to overcome deficiencies in the implementation of the Board's recommendations and address the root causes of problems identified by the Board.

25. The Group would seek further information in informal consultations regarding the efforts by the United Nations Development Programme to enhance its audit tracking database.

Agenda item 134: Proposed programme budget for the biennium 2012-2013 (A/66/352 and A/66/376)

Transitional measures concerning financial reporting by the Office of the United Nations High Commissioner for Refugees under the International Public Sector Accounting Standards (A/66/352 and A/66/376)

26. **Ms. Matsuura-Mueller** (Office of the United Nations High Commissioner for Refugees), introducing the note by the Secretary-General on transitional measures concerning financial reporting by UNHCR under IPSAS (A/66/352), said that in order for UNHCR to be compliant with IPSAS effective 1 January 2012, the Financial Rules for Voluntary Funds administered by the High Commissioner must be revised. During the revision process, UNHCR had consulted with other United Nations system organizations, particularly early adopters of IPSAS. After review by the Board of Auditors, the Office of Internal Oversight Services and the Standards and Legal Advice Section of UNHCR, the proposed amendments had been submitted to the Executive Committee, pursuant to General Assembly resolution 1166 (XII), together with the comments of the Advisory Committee. As stipulated by the resolution, subject to the Executive Committee's endorsement, the revised Rules could be applied provided they were in accordance with the Financial Regulations and Rules of the United Nations. The High Commissioner requested approval by the General Assembly for UNHCR to apply mutatis mutandis the Financial Regulations and Rules in a manner consistent with IPSAS as a transitional measure until such time as the Regulations were themselves revised in line with the Standards.

27. **Mr. Kelapile** (Chairman of the Advisory Committee on Administrative and Budgetary Questions), introducing the Advisory Committee's related report (A/66/376), said that the Advisory Committee had no objection to the request by UNHCR or to the proposed amendments to the Financial Rules for Voluntary Funds administered by the High Commissioner for Refugees; its views on the latter had been communicated directly to the Executive Committee in its report on the proposed biennial programme budget 2012-2013 of UNHCR (A/AC.96/1100/Add.1).

The meeting rose at 11.15 a.m.