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IMPLEMENTATION OF THE RECOMMENDATIONS OF THE AD HOC COMMITTEE
OF EXPERTS TO EXAMINE THE FINANCES OF THE UNITED NATIONS AND
THE SPECIALIZED AGENCIES

Standardization of financial regulations: financial
regulations governing external audit

Report of the Advisory Committee on Administrative and Budgetary
Questions to the General Assembly at its twenty-sixth session

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report by the Secretary-General on the standardization of financial regulations governing external audit (A/C.5/1375). It noted that the proposed standard provisions and additional terms of reference annexed to the report had been the subject of careful scrutiny by members of the Panel of External Auditors and in the Consultative Committee on Administrative Questions and the Administrative Committee on Co-ordination, and that the standard text had been agreed by all concerned. The Committee welcomes the continuing efforts of the organizations to standardize their respective financial regulations, as recommended by the Ad Hoc Committee of Experts to Examine the Finances of the United Nations and the Specialized Agencies.^{1/}

^{1/} Official Records of the General Assembly, Twenty-first Session, Annexes,
agenda item 80, document A/6343, para. 52.

2. While the proposed text differs in many respects from the existing Financial Regulations of the United Nations (ST/SGB/Financial Rules/1/Rev.1) and the "Principles to govern the audit procedures of the United Nations", which appear as an annex to these regulations, most of the changes relate to technical points of detail which do not call for comment. In two respects, however, the proposed text introduces changes of substance. One of them relates to the nature of certification by the External Auditor and affects all the organizations in the United Nations system; the other is of interest only to the United Nations and is concerned with arrangements for determining the scope of the audit.

Nature of certification by the External Auditor

3. In accordance with paragraph 8 of the "Principles to govern the audit procedures of the United Nations", the Board of Auditors "certify, as a result of the audit, that... the financial statements are correct". Pursuant to paragraph 5 of the proposed Additional Terms of Reference, the Board would "sign an opinion... that the financial statements... present fairly the financial position" of the Organization. The reasons for the proposed change are set out in paragraphs 19 and 20 of the Secretary-General's comments (A/C.5/1375, annex).

4. The differences in terminology reflect to some extent differences in national auditing practices. The Advisory Committee has been informed that it is unlikely that the proposed change will be acceptable to all the organizations in the United Nations system.

5. The Advisory Committee has no objection in principle to the proposed form of certification. It is concerned, however, at the fact that "the generally accepted common auditing standards", in conformity with which the audit is to be conducted (proposed regulation 12.4), are still to be defined by the Panel of External Auditors. Until such time as they are defined and agreed, the proposed language might introduce an undesirable degree of imprecision both as to the scope of the audit and the nature of certification. The Advisory Committee hopes, therefore, that the Panel of External Auditors can proceed expeditiously with the definition of the standards, and suggests that the Board of Auditors should give an assurance to the General Assembly that, in the meantime, they will continue to apply the same auditing standards as hitherto.

Arrangements for determining the scope of the Audit

6. Existing financial regulation 12.2 provides, inter alia, that the Board of Auditors "shall consult the Advisory Committee relative to the scope of the several audits to be made by the Board". This provision is not repeated in the proposed text. The Advisory Committee was informed that the External Auditors had stated that, in order to ensure their independence, they must be free to perform the audit in accordance with their own programme and to the extent they feel necessary in the circumstances.

7. The Advisory Committee agrees that the External Auditors must be completely independent and it never sought to limit in any way the conduct of the regular financial audit, even though it found it necessary on some occasions to draw the attention of the General Assembly to the mounting cost of External Audit. In the circumstances, the Advisory Committee questions the need to delete the provision in existing financial regulation 12.2 quoted above.

8. The Advisory Committee decided, however, not to recommend that the provision be retained, on the understanding that the Board's complete independence in the conduct of the audit shall be deemed to apply to the normal financial audit and that, notwithstanding the reference in proposed regulation 12.5 to "in general, the administration and management of the organization", the External Auditors shall not conduct special management audits or other special audits involving additional expenditure for the Organization unless and until they are specifically requested to do so by the competent authorities in the light of a statement of the financial implications involved.

Proposed financial regulation 12.11

9. The Advisory Committee recommends that the last phrase be amended to read "such comments as it deems appropriate".

Recommendation of the Advisory Committee

10. Subject to the aforesaid observations and recommendations, the Advisory Committee recommends approval of the proposed standard provisions for financial regulations relating to External Audit and additional terms of reference.