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FINANCIAL REPORTS AND ACCOUNTS, AND REPORTS OF THE BOARD OF AUDITORS

Organization and professional practices of the Board of Auditors

Note by the Secretary-General

The Secretary-General has the honour to transmit to the members of the General Assembly the report of the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency on the organization and professional practices of the Board of Auditors of the United Nations, prepared in accordance with General Assembly decision 34/403 of 25 October 1979.

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LETTER OF TRANSMITTAL

10 March 1981

Sir,

I have the honour to transmit to you, pursuant to General Assembly decision 34/403, the report of the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency on the organization and professional practices of the Board of Auditors of the United Nations.

Accept, Sir, the assurances of my highest consideration.

(Signed) H. PESCHAR
President of the General Chamber
of Audit of the Netherlands
and
Chairman of the Panel of External Auditors

The President of the General Assembly
of the United Nations
New York, N.Y.

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Report of the Panel of External Auditors of the United Nations,
the Specialized Agencies and the International Atomic Energy
Agency to the General Assembly on the organization and
professional practices of the Board of Auditors of the
United Nations

1. At its 46th plenary meeting, on 25 October 1979, the General Assembly, on the recommendation of the Fifth Committee ^{1/} adopted decision 34/403, in which it took note of the proposals of the Government of Canada (A/C.5/34/L.3) for changing the external audit arrangements for the United Nations and requested the views of the Panel of External Auditors on the organization and professional practices of the Board of Auditors of the United Nations. In the belief that the Assembly did not intend to ask the Panel to carry out a study at first hand of the Board's present audit practices, the Panel's review in the course of its twenty-first and twenty-second regular sessions has been necessarily of a restricted character. In considering its response to the Assembly's request, the Panel has reviewed and discussed the documents submitted by the Canadian Government to the General Assembly and has obtained the comments of the members of the Board of Auditors. The Panel drew attention to the fact that its present membership of seven includes both the Auditor-General of Canada and the three members of the Board of Auditors.

I. BACKGROUND

2. In 1976 the Auditor-General of Canada commissioned a study by two consultants of its role and professional responsibilities as a member of the Board of Auditors. The two other members of the Board asked the Auditor-General of Canada to place the recommendations of the consultants before the Board. As a result, the Board introduced changes in its audit arrangements in order to improve the techniques and extend the scope of the audit; these included the establishment of an Audit Operations Committee, consisting of a Director-General and three Directors of External Audit to plan and control audits and to integrate the use of staff from the national audit offices of the three members of the Board. In June 1978 the same consultants were commissioned by the Auditor-General of Canada with the concurrence of the other two members of the Board, the Auditors-General of Colombia and Ghana, to review the progress made since 1976, to review the effect of the United Nations regulations and practices concerning the appointment and period of tenure of the Chairman and members of the Board of Auditors in maintaining and further improving its professional practices, and to consider what further steps should be taken to improve the effectiveness of the Board in discharging its mandate. The terms of reference were adopted at a special meeting of the Board when the membership consisted of the Auditors-General of Bangladesh, Canada and Ghana. The consultants reported that the changes introduced in 1976 were generally working well under the existing organization and provided an excellent basis for further improvement. They then recommended further changes designed in their view to broaden the extent of participation, ensure greater consistency and conform to the highest available standards of contemporary auditing. The Board as a whole at that time did not endorse the consultants' recommendations. Subsequently, at the suggestion of the other members of the Board, Canada took the initiative by

^{1/} Official Records of the General Assembly, Thirty-fourth Session, Annexes, agenda item 96, document A/34/586, para. 13.

putting the proposals before the Fifth Committee in a note verbale dated 14 September 1979 (A/C.5/34/L.3).

3. The main proposals are, in summary, the following:

(a) The audit of the United Nations should be conducted by a permanent Auditor-General who would recruit his own staff and report to the General Assembly;

(b) The Board of Auditors should be enlarged and its role changed, so that instead of being responsible for actually carrying out the audit it should act as an "Audit Committee" on behalf of the General Assembly;

(c) The scope of the United Nations audit should be further extended to cover, as appropriate, the economy, efficiency and effectiveness of United Nations expenditure.

4. The Canadian Government considers that the appointment of a permanent Auditor-General, in place of a Board of Auditors of varying membership and methods, would ensure a more consistent approach to the United Nations audit. It sees an enlarged Board of Auditors or Audit Committee as a representative body of experts who would review audit arrangements and reports and would relieve the Advisory Committee on Administrative and Budgetary Questions of its responsibilities relating to audit. They also consider that the proposed expansion of the scope of the United Nations audit would be facilitated by the appointment of a permanent staff under an Auditor-General working in association with an Audit Committee. The Canadian Government suggests that its proposals would provide an opportunity to train and develop staff of national audit services on a world-wide basis and more Member States could participate in the audit process by providing candidates from their own national services for the Auditor-General's staff.

5. As a member of the Panel, the Auditor-General of Canada has provided further information and suggestions on how the proposed arrangements should operate:

Role of the Audit Committee

It is essential to appreciate that the role and responsibilities of the proposed Audit Committee would be quite different from those of the present Board of Auditors. The Board of Auditors is the external auditor, with full executive responsibility for the conduct and results of the audit. Its findings and reports are reviewed, on behalf of Member Governments, by committees of the United Nations charged with that duty, and ultimately by the General Assembly itself. The proposed Audit Committee would have no executive responsibility for the audit but would act as review body on behalf of Member Governments. Responsibility for the planning, organization and control of the audit would rest solely on the proposed Auditor-General of the United Nations. The Committee would, however, discuss with the Auditor-General the scope and plans for his audit in order to advise the General Assembly on the adequacy of the audit and the acceptability of the relevant budget; it would receive, consider and promote action upon the Auditor General's reports. For these purposes, it would need to meet at least once a year.

Membership of the Audit Committee

The Committee would consist of high-ranking representatives of 11 to 16 nations, including national auditors-general wherever possible.

Role of the Auditor-General

The Auditor-General would report to the General Assembly. In carrying out his audit he would be independent politically and in the application of his professional experience and judgement, but he would be expected to discuss with the Audit Committee his broad plans and the scope of his audit to demonstrate that they satisfied the requirements of the General Assembly.

Staff of the Auditor-General

The Auditor-General would decide whom he would employ. He should aim at geographical representation as far as practicable, but there should be no question of a quota system. The need for flexibility and rotation of audit staff could be met by the use of secondments and contracts of limited duration. The consultants had not intended to imply in their report that the recruitment of staff should be confined to auditors qualified as commercial accountants; they recognized the competence of auditors trained by national audit offices and also the need, in a comprehensive audit, for disciplines other than accountancy.

Audit of specialized agencies

The proposals were not intended to affect the autonomy of the external audit of the specialized agencies. Consistency in the audit standards applied to all the United Nations agencies was an objective to be achieved through the work of the Panel of External Auditors, of which the Auditor-General of the United Nations would be a member.

II. VIEWS OF THE PANEL OF EXTERNAL AUDITORS

6. The Panel observes that the consultants' report which led to the Canadian Government's proposals contained only limited evidence of the professional practices of the Board of Auditors in recent years. However, the consultants themselves recorded that there had been a considerable improvement in the standard of the audit since 1976, and there have been recent comments in the Fifth Committee on the valuable work of the Board.

7. On the assumption that the Board of Auditors would continue to consist of experienced auditors-general with adequate staff support, the Panel sees no reason why further progress should not be made along the lines begun in 1976. On the other hand, most members of the Panel see no reason in principle why the Canadian Government's proposals could not be developed to provide a good audit system in

the United Nations; they would provide a unified and continuing organization to undertake the audit, although undue emphasis on the training of auditors from developing countries might detract from its effectiveness.

8. The Panel suggests that, in considering the course to be followed, the General Assembly should also have regard to the following factors:

(a) Whether, since the consultants found their earlier proposed changes in audit arrangements to be working well, any further changes considered desirable could be made by developing the existing system further: the relevant rules and regulations do not appear to restrict such further developments.

(b) Whether a lack of continuity on the Board of Auditors, which is possible and which could affect the standard of audit, is likely to be a problem in practice: the Panel observes that there have been three changes in Board membership in the last four years, but that prior to that there has generally been a high degree of continuity. The Panel wishes to stress the importance of avoiding too many changes within a short period.

(c) Any arrangements for establishing an Auditor-General and his staff would need to ensure that his independence was not impaired by the conditions of his appointment, constraints on his budget, or by his staff being United Nations employees; and that the Auditor-General would not become in practice an internal rather than an external auditor. The Panel considers that these would be essential conditions to the successful operation of the proposed arrangements. It observes that the independence of the external audit function is assured under the existing arrangements.

(d) It is desirable to evaluate the probable cost of the proposed system for comparison with that of the present arrangements, but the Panel is unable to do so on the information at present available to it.

(e) The appropriateness of the proposed new arrangements in the specific United Nations environment, noting that the appointment of a permanent Auditor-General of the United Nations would depart from the practice of entrusting the audit of most United Nations organizations to the national auditors of States members of the organizations.

(f) The implications for other United Nations committees, such as the Advisory Committee on Administrative and Budgetary Questions, of establishing an Audit Committee: this is not a matter on which the Panel can advise.
