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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 Board of Auditors on the organization and professional practices of the Board, prepared in accordance with General Assembly decision 34/403 of 25 October 1979.

* A/36/50.

Report of the Board of Auditors to the General Assembly on the
organization and professional practices of the Board

CONTENTS

	<u>Paragraphs</u>	<u>Page</u>
Letter of transmittal		3
I. INTRODUCTION	1	4
II. ORGANIZATION OF THE BOARD	2 - 8	4
A. Composition and term of office	2	4
B. Role of the members of the Board	3	4
C. Allocation of audits	4	5
D. Audit Operations Committee	5 - 8	5
III. PROFESSIONAL PRACTICES OF THE BOARD	9 - 12	6
A. Audit approach	9 - 10	6
B. Audit process	11	7
C. Staff training and development	12	8
IV. PROPOSALS BY THE GOVERNMENT OF CANADA	13 - 27	9
A. Reasons for the proposals	13	9
B. Views of the Board on the reasons for the proposals	14 - 18	9
C. Proposed changes	19	10
D. Views of the Board on the proposed changes	20 - 27	11
V. CONCLUSIONS	28	12

LETTER OF TRANSMITTAL

9 June 1981

Sir,

I have the honour to transmit to you, pursuant to General Assembly decision 34/403, the report of the Board of Auditors on the organization and professional practices of the Board.

Accept, Sir, the assurances of my highest consideration.

(Signed) Osman Ghani KHAN
Comptroller and Auditor General of Bangladesh
and Chairman of the United Nations
Board of Auditors

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

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I. INTRODUCTION

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 for making fundamental changes in the external audit arrangements for the United Nations and requested the views of the Board of Auditors on its organization and professional practices. In compliance with this request, the present report deals with the organization and professional practices of the Board and contains the Board's views on the fundamental changes proposed by the Government of Canada.

II. ORGANIZATION OF THE BOARD

A. Composition and term of office

2. The Board of Auditors, established by General Assembly resolution 74 (I) of 7 December 1946, consists of three members, each of whom is the Auditor-General (or officer holding the equivalent title) of a Member State. The Board is currently composed of the Comptroller and Auditor-General of Bangladesh, the Senior President of the Court of Accounts of Belgium and the Auditor-General of Ghana. Each member is elected for a three-year term of office and the term of office of one of the members expires each year.

B. Role of the members of the Board

3. Under regulation 12.1 of the Financial Regulations of the United Nations, the Board is appointed to "perform the audit of the accounts of the United Nations". Each member has joint and several responsibility for the performance of the audits. The actual audit is, however, carried out by the staff provided by the members of the Board. The members of the Board review and approve audit plans as well as audit reports prepared by the Audit Operations Committee (AOC). The Board meets semi-annually, normally in June and October of each year. At the annual regular session in June, the Board members review and approve the audit reports prepared by AOC and discuss them with the Advisory Committee on Administrative and Budgetary Questions (ACABQ) before their submission to the General Assembly. At these sessions, the Board also meets with senior officials of the administration to discuss the audit findings and matters of mutual concern. The over-all direction of the work of the Board is also discussed and decisions are taken on policy-related matters. The Board holds its special session in October of each year. At that session, the members have an opportunity to review and discuss with AOC the audit plans and, in general, the audit work being carried out under the immediate supervision of the Directors of External Audit, who are the members of AOC. Substantive matters of interest to the work of the Board and any other audit-related topics that need the attention of the Board members are also tabled at these special sessions.

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

C. Allocation of audits

4. In accordance with the mandate of the Board, the prime responsibility for audit assignments is shared equally among the members. In determining the allocation of assignments, the Board takes into account the principle of rotation, geographic location, the size and nature of the organizations and audit economy and effectiveness. As required by the Financial Regulations of the United Nations, the allocation of assignments is communicated to ACABQ for its approval.

D. Audit Operations Committee

5. In order more properly to discharge its joint and several responsibility, the Board, at its session of June 1976, approved a new organizational arrangement to establish the Audit Operations Committee as a working committee of the Board to assist the Board in carrying out its mandate. AOC consists of the three full-time Directors of External Audit, each representing a member of the Board of Auditors. One of the members of the Committee is appointed Chairman by the Board for a one-year term by rotation, according to seniority, and may be reappointed for another term. The Executive Secretary of the Board of Auditors is an ex-officio member of the Committee and also acts as its Secretary.

6. The Committee functions on behalf of the Board to ensure that the principle of joint and several responsibility embodied in the terms of reference of the Board is adhered to. While each member represents his/her own Auditor-General, the Committee as a whole represents the Board of Auditors.

7. In accordance with the rules of procedure of AOC as approved by the Board, the Committee shall:

- (a) Observe common audit standards as detailed in the audit manual;
- (b) Implement a uniform audit approach;
- (c) Liaise with the administration responsible for each assignment in order to identify needs, new programmes and policy changes and weaknesses in the system as a whole;
- (d) Develop audit aids;
- (e) Train staff in a unified audit approach;
- (f) Set audit objectives for each assignment;
- (g) Define internal control systems and identify weaknesses;
- (h) Establish priorities;
- (i) Determine the extent, nature and timing of audit tests;

- (j) Prepare, review and approve audit programmes;
 - (k) Calculate the time required and establish deadlines;
 - (l) Determine staff resources;
 - (m) Review and approve any minor changes in audit plans as required;
 - (n) Review working papers and financial statements to ensure accuracy and adequacy of documentation;
 - (o) Supervise the performance of audit programmes according to approved plans;
 - (p) Review and approve all management letters which are to be submitted to the administration as a result of audits conducted under the auspices of the Board, with particular emphasis on significance, relevance and consistency of audit observations;
 - (q) Review and approve all reports which are to be submitted to the Board, whether in connexion with specific audit responsibilities of the Board or with more general or administrative matters; and
 - (r) Approve draft audit reports of the Board to the General Assembly and/or to ACABQ as prepared by members of the Committee.
8. The Committee meets regularly at the request of its Chairman or of a member. Two of the three Directors of External Audit and the Executive Secretary must be present to constitute a quorum.

III. PROFESSIONAL PRACTICES OF THE BOARD

A. Audit approach

9. Since 1976, the Board of Auditors has shifted its emphasis from traditional transaction auditing to systems-based auditing. In essence, a systems-based audit involves the examination of the principal elements constituting the financial management and control system. This examination includes:

(a) The organization of the financial control function, with particular reference to the most appropriate assignment and segregation of duties and responsibilities to ensure the integrity and accuracy of the transactions and the adequacy of the measures to protect against potential fraud. The technical and other qualifications of the staff assigned to these responsibilities are also considered.

(b) The methods of recording and processing accounting transactions with particular reference to the means of ensuring their validity, as well as the degree of efficiency and economy with which the system is operated.

(c) The nature, timeliness, quality and appropriateness of the budgetary and financial information produced by the system for incorporation in the periodic financial statements submitted to the governing body and for the use of management at all levels in directing the execution of approved programmes.

(d) The adequacy and appropriateness of guidelines concerning financial policies and practices, manuals of instruction for the operation of the system, the means by which such guidelines and instructions are promulgated throughout the organization and the degree of adherence to them.

10. In addition to examining financial systems to assess their adequacy, a systems-based audit involves testing systems to determine the significance of any weaknesses, reporting to the administration and following up on actions taken to remedy any deficiencies.

B. Audit process

11. The audit process established by the Board includes three phases emphasizing the principal stages of assessment, the major decision points concerning the direction of the audit effort and the approval of resource requirements. The three phases are audit planning, audit execution and audit reporting:

(a) Audit planning. There are two stages to audit planning, as set out below:

(i) Over-all planning. The audit plans are prepared by the members of the Audit Operations Committee for subsequent approval by the members of the Board. This involves obtaining a general knowledge of the audited organization's objectives and programmes and determining the environment in which the entity operates. Furthermore, it involves identifying specific objectives for the key activities to be examined, accounting and auditing problems to be addressed and the manner in which assignments are to be carried out.

(ii) Assignment planning. It is the responsibility of the officer directly in charge of the audit assignment to obtain additional knowledge of the systems and controls relating to the activities selected in the over-all planning stage and to determine the extent of reliance on internal controls. He is also responsible for preparing the detailed audit plan which includes developing or selecting from existing audit programmes the tests and other procedures needed to conduct the examination.

(b) Audit execution

(i) Evaluation of internal controls. The evaluation of internal controls provides an important basis for determining the extent, nature and timing of the substantive tests needed to provide the Board with sufficient and appropriate evidence to support its opinion on the financial statements of the audited organization. In general terms, this evaluation consists of:

- a. Reviewing, documenting and understanding the system;
- b. Identifying significant controls;
- c. Performing a preliminary evaluation of the system;
- d. Testing the significant controls on which the auditor intends to rely;
- e. Investigating and assessing the significance of the weaknesses identified;
- f. Developing conclusions and recommendations for remedial action; and
- g. Obtaining the management's response to the auditor's findings and conclusions.

(ii) Examination of financial statements. This examination applies only to audit objectives directly related to an opinion on the financial statements of the audited organization. It consists of examining transactions and account balances, analytical reviews, obtaining letters of representation and forming an opinion on the financial statements as a whole.

The audit assignments are mainly carried out by the staff drawn from the national audit services of the members of the Board. When special circumstances so warrant, the Board may engage the services of auditors and/or consultants from international firms of known repute. In order to effect economies and in the interest of efficiency, the staff from the three Member States are integrated whenever feasible.

(c) Audit reporting. After joint reviews by AOC of audit observations and findings, the results of the audit are communicated to the audited organization through management letters to which a response from the administration is obtained. The Board of Auditors then prepares its reports to the General Assembly on the significant matters included in management letters. These matters are discussed in separate joint sessions of the Board with senior officials of the administration as well as with ACABQ.

C. Staff training and development

12. The nature and extent of pre-audit training and orientation provided to the staff of each member of the Board are determined by the Director of External Audit and the Auditor-General concerned. The training generally emphasizes systems-based auditing and is sometimes carried out with the assistance of a firm of accountants well-versed in systems-based audit. The Chairman of AOC, at the request of a member of the Board, also conducts, in conjunction with the appropriate Director of External Audit, briefing courses for the staff of the Member State. An orientation course in systems-based auditing is also arranged at the United Nations Headquarters in New York for auditors new to the United Nations.

IV. PROPOSALS BY THE GOVERNMENT OF CANADA

A. Reasons for the proposals

13. The Canadian Government gave the following reasons for the proposed changes in the organization and professional practices of the Board of Auditors:

- (a) The need for continuity in view of the changing composition of the Board;
- (b) The growing complexity of the activities of the United Nations and the increasing sophistication of its accounts;
- (c) The improvements in contemporary audit techniques;
- (d) The variations in the auditing methodology among potential members of the Board.

B. Views of the Board on the reasons for the proposals

14. After considering the above reasons, the Board offers the comments set out in paragraphs 15 to 18 below.

1. Need for continuity

15. Although regulation 12.2 of the Financial Regulations of the United Nations requires that the members of the Board shall be elected for a three-year term of office, the General Assembly has always been aware of the need for continuity and over the years it has ensured that the tenure of office of most of the Member States that have served as members of the Board has exceeded the three-year term. Thus, the Netherlands was a member from July 1956 to June 1965, a period of nine years. Colombia, which Bangladesh replaced, was on the Board from July 1948 to June 1978, a period of 30 years. Pakistan, whose place was taken over by Ghana, was also on the Board from July 1961 to June 1976, a total of 15 years. Canada, which was replaced by Belgium, was on the Board from January 1947 to June 1956 (9 years) and from July 1968 to June 1980 (12 years), a total of 21 years. It will thus be seen that there has been continuity in the existing system and structure of the Board. There is no reason to doubt now that continuity will not be ensured in the future.

2. Complexity of the activities of the United Nations and sophistication of its accounts

16. A critical examination of the work of the Board reveals that its members have on occasions effected changes, whenever the need has arisen, in the practices and procedures of the audit work in order to cope with the increasing complexity and sophistication of the accounts and the financial systems of the United Nations. In addition, regulation 12.9 of the Financial Regulations of the United Nations empowers the members of the Board to engage the services of commercial public

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auditors of known repute, or any other person or firm who, in the opinion of the Board, is technically qualified. The Board has used this power in the past and will continue to do so in the future if necessary.

3. Improvements in contemporary audit techniques

17. At its nineteenth and twentieth sessions, in 1977 and 1978, the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency discussed the development of comprehensive auditing, or "value-for-money" audit as it is also known, and generally agreed that under the circumstances this was a proper audit approach to undertake. Members of the Board have been training their staff in this modern audit technique which has been applied consistently throughout the Organization in the areas most suitable to this type of audit.

4. Variations in the auditing methodology among potential members of the Board

18. It cannot be denied that there are variations in the auditing methodology among potential members of the Board. However, members of the Board find it difficult to accept the implications in the Canadian Government's proposals that only one particular auditing methodology will ensure that the United Nations "receives a quality of auditing which is commensurate with its importance and prestige". The Board is of the view that it would be wrong to conclude that a very high quality of auditing is not ensured because there are differences in the auditing methodology of potential members of the Board. Furthermore, no evidence has been presented to substantiate the implications that the quality of auditing over the period of existence of the Board has not been commensurate with the importance and prestige of the United Nations. The Board, agreeing that training is essential for improving the quality of audit, has systematically provided it. The proposed United Nations International Centre for Auditing and Accounting in Public Services for Developing Countries could, when established, provide support in training the staff of members of the Board.

C. Proposed changes

19. The main proposals of the Government of Canada are that:

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

(b) 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;

(c) The role of the Advisory Committee on Administrative and Budgetary Questions in reviewing the Board's reports should be abolished;

(d) The scope of the audit of the United Nations should be further extended to include, as appropriate, an assessment of the adequacy of systems in contributing

to the economical, efficient and effective expenditure of the resources of the United Nations.

D. Views of the Board on the proposed changes

20. The views of the Board on the proposed changes are set forth in paragraphs 21 to 27 below.

1. Change in the structure and role of the Board

21. The increase in the membership of the Board is not a new subject. It has been discussed in the past by the General Assembly and the conclusion has been that the Board would function better in its present form. The Board of Auditors is of the opinion that the members of the Board represent not only their own countries, but also their regional groupings. Thus, members of the Board have, to a large extent, been representative of the United Nations.

22. Under the present arrangements, the audit is performed under the over-all supervision of the members of the Board who select their staff from among members of their national audit offices. The members are directly involved in the whole process of the audit work, from planning to reporting and review, and they discuss the audit findings at their regular session each year with administration officials and ACABQ and, later on, with the Fifth Committee.

23. Under the proposed changes, members of the audit committee would have no contact whatsoever with the "men in the field". An audit committee consisting of high-ranking representatives of from 11 to 16 nations could also encounter difficulties when discussing with the proposed Auditor-General of the United Nations the scope and plans for his audit and would spend more time at meetings than envisaged by the Canadian Government's proposals. Additionally, the requirement for membership of the proposed audit committee, namely, wider understanding of the objectives and finances of the United Nations would be met only by those who had previous experience in the United Nations in these fields. Hence the membership of the Committee would be restricted.

2. Permanent Auditor-General of the United Nations

24. The Board of Auditors is of the view that three heads are better than one. The proposed Auditor-General could not by himself combine the capability, sagacity and versatility of three Auditors-General of three Member States. Furthermore, unlike most of the external auditors of the specialized agencies, who reside in their own countries, the proposed Auditor-General of the United Nations would be bound to reside in New York and be within the environment of the United Nations most of the time. Consequently, he would become very familiar with members of the administration and the staff of the Secretariat, which would eventually detract from his independence. He might in this way become, or at least feel as if he were, part of the administration, thus becoming like a "glorified" internal auditor. There is certainly some wisdom in the present internal organizational

arrangements of the Board whereby all members of the Board are Auditors-General of and reside in their own countries. This situation enables members of the Board to bring freshness and impartiality to their work.

25. Additionally, the proposed arrangements would increase to a large extent the cost of external audit since the United Nations would have to bear, in addition to travelling expenses and a daily subsistence allowance, other staff costs of considerable magnitude.

3. Abolition of the role of the Advisory Committee on Administrative and Budgetary Questions

26. The work of ACABQ in reviewing the Board's reports facilitates their understanding by the representatives of Member States. It is the view of the Board that, since its reports are written for Member States and the general public, it is better for them to study those reports in a form understood by the layman instead of allowing them to remain in the language familiar to accountants and/or auditors, including national Auditors-General. Additionally, under the proposed changes, ACABQ would lose one of its main functions, namely that of facilitating the work of the Fifth Committee by directing attention to the more significant issues in the reports of the Board. The Board is of the opinion that this function should continue to be discharged by ACABQ rather than by the audit committee envisaged by the proposal of the Canadian Government.

4. Extension of the scope of audit

27. The Board of Auditors agrees that it is desirable that the scope of the audit of the United Nations is extended to include an assessment of the adequacy of systems in contributing to the economical, efficient and effective expenditure of the resources of the United Nations. The Board wishes to state that the systems-based audit approach adopted by the Board mainly deals with the economy and efficiency of expenditure. However, in the audit of projects in the field, the Board, among other things, assesses the extent to which project objectives have been achieved.

V. CONCLUSIONS

28. The conclusions of the Board are the following:

(a) The Board of Auditors is of the view that the present arrangement for the external audit function of the Organization, as stipulated in the Financial Regulations of the United Nations, should remain unchanged since it finds nothing fundamentally lacking in the present organization or in the professional practices of the Board. This opinion, however, does not preclude future self-evaluation by the Board, if necessary.

(b) Improvements in the Board's organizational structure and professional practices have been recently introduced and are working very well.

(c) The Board considers that the appointment of a permanent Auditor-General, who would probably reside in New York, would deprive the United Nations of the freshness and impartiality which members of the Board have, over the past 34 years, brought to bear upon their work.

(d) The Board is of the opinion that the cost of external audit of the United Nations would increase considerably were the proposed changes implemented.

(e) The Board is of the opinion that the role of reviewing the Board's reports for the General Assembly should remain with ACABQ rather than be discharged by the audit committee envisaged in the proposals.
