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

Organization and professional practices of the Board of Auditors

Report of the Advisory Committee on Administrative and  
Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions has considered the reports of the Panel of External Auditors of the United Nations (A/36/174), the Board of Auditors (A/36/175) and the Secretary-General (A/36/176) on the organization and professional practices of the Board of Auditors. These reports have been submitted in response to the request in General Assembly decision 34/403 of 25 October 1979 that the Panel, the Board and the Secretary-General present their views on the proposals contained in the note verbale dated 14 September 1979 from the representative of Canada. 1/
2. The following four main recommendations were made in the note verbale:
  - (a) The role of the Board of Auditors should be changed from that of actually conducting the audit to that of an audit committee on behalf of the General Assembly and its membership increased to make its members more representative of the United Nations.
  - (b) On the nomination of the Board of Auditors, the General Assembly should appoint an appropriately qualified person as Auditor-General of the United Nations to be responsible for conducting the audit of the United Nations. The Auditor-General and his staff would be given complete independence from the Administration and would report to the General Assembly through the expanded Board of Auditors in accordance with a plan and budget approved by the Board and in a manner consistent with the highest standards of contemporary auditing.
  - (c) The Auditor-General should be given responsibility for selecting

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1/ A/C.5/34/L.3; reproduced in the annex to document A/36/176.

audit staff from all regions of the world giving due regard to experience and competence, and such other guidelines as may be established by the Board of Auditors.

(d) The systems-based audit approach should be gradually extended to include an assessment of the adequacy of systems in contributing to economical, efficient and effective expenditure of the United Nations resources. The efforts of the Auditor-General and of the Joint Inspection Unit respectively in the area of programme effectiveness should be co-ordinated by the expanded Board of Auditors. (A/36/176, annex, para. 8.)

A. Role of the Board of Auditors and increase in its membership

3. As can be seen from paragraphs 9 to 11 of the note verbale (A/36/176, annex) and from additional information provided by the Auditor-General of Canada to the Panel of External Auditors (A/36/174, para. 5), the Canadian proposal envisages an expansion of the membership of the Board from 3 to 11 or 16. It is further proposed that the role of the Board of Auditors be changed. The Board, as the External Auditor of the United Nations, now has full executive responsibility for the conduct and results of the audit. What is being proposed instead is that the Board, with enlarged membership, act as an audit committee; it would have no executive responsibility for the audit but would act as a review body on behalf of member Governments. Responsibility for planning, organization and controlling the audit would be vested in the proposed Auditor-General of the United Nations. The proposed audit committee would, however, discuss with the proposed 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. The proposed audit committee would also receive and consider the Auditor-General's reports and promote action on them. For these purposes, the proposed audit committee would need to meet at least once a year. In the Canadian view, the proposed changes in the membership and role of the Board are fundamental to the successful implementation of the other improvements proposed to the system of external audit.

4. The Panel of External Auditors notes in paragraph 8 (e) of its report (A/36/174) that the proposed changes would be a departure from the practice of entrusting the audit of most organizations in the United Nations system to the national auditors of States members of the organizations.

5. The views of the Board of Auditors on the proposed changes in its membership and role are contained in paragraphs 21 and 23 of its report (A/36/175). On the question of increasing the membership, the Board notes that this is not a new subject, and recalls that following past discussion the General Assembly had concluded that the Board would function best in its present form. The Board is of the opinion that since its members represent not only their own countries but also their regional groupings, the Board has been representative of the United Nations. The Board also raises the possibility that if it was transformed into an audit committee with an expanded membership composed of high ranking representatives, discussions with the proposed Auditor-General of the United Nations

could be more time-consuming than is assumed in the Canadian proposal. With regard to the proposed change in its role, the Board observes that the members of the audit committee would have no contact whatsoever with the "men in the field", whereas, under the current arrangements, the conduct of the audit is supervised by the members of the Board who select their staff from among members of their national audit offices. As such, the Board 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 the Advisory Committee on Administrative and Budgetary Questions, and, later on, with the Fifth Committee. In paragraph 26 of its report, the Board expresses the opinion that the function of facilitating the work of the Fifth Committee by directing attention to the more significant issues in the reports of the Board should continue to be carried out by the Advisory Committee rather than by the proposed audit committee.

6. The Secretary-General's views on the proposed changes in the membership and role of the Board are reflected in paragraphs 17 and 18 of his report (A/36/176). The Secretary-General expresses concern that the role of the audit committee - namely reviewing the audits performed by the proposed Auditor General - would be too limited, given its proposed composition. Furthermore, its high-level membership and numbers could give rise to difficulties with regard to the appointment of members and the convening of meetings. As regards the question of broad representation, the Secretary-General believes that this is a matter for the political judgement of Member States. The Secretary-General notes that the proposed changes "appear to contradict the principle expressed first by ACC /the Administrative Committee on Co-ordination/ and endorsed by the Advisory Committee and the Fifth Committee, that final responsibility for external audit should rest with governmental auditors" (para. 17).

7. The Advisory Committee recalls that it submitted a report to the General Assembly at its twenty-ninth session in which, inter alia, it addressed the questions of whether the role and the size of the Board should be enlarged. 2/ The Committee had concluded and the General Assembly subsequently agreed that these need not be changed. For the reasons stated in that report, and bearing in mind the views expressed by the Panel of External Auditors, the Board of Auditors and the Secretary-General in their reports, the Advisory Committee has concluded that the need for the proposed enlargement of the Board of Auditors and for a change in its functions has not been adequately demonstrated.

#### B. Proposal to appoint an Auditor-General of the United Nations

8. According to paragraph 10 of the note verbale (A/36/176, annex) and the additional information provided by the Auditor-General of Canada to the Panel of External Auditors (A/36/174, para. 5), an outstanding individual with appropriate

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2/ Official Records of the General Assembly, Twenty-ninth Session, Supplement No. 8 (A/9608 and Add.1-23), document A/9608/Add.1.

qualifications and experience would be appointed Auditor-General of the United Nations. He would have full responsibility and accountability for the audit and would be politically independent in the application of his professional experience and judgement. While he would report to the General Assembly, he would also be expected to discuss with the proposed audit committee his broad plans and the scope of his audit.

9. The Panel of External Auditors suggests in paragraph 8 (c) of its report (A/36/174) that, in any arrangements for establishing an Auditor-General and his staff, there would be 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 the Auditor-General should not become in practice an internal rather than an external auditor. In this connexion, the Panel observes that the independence of the external audit function is assured under the existing arrangements.

10. In paragraph 24 of its report (A/36/175), the Board of Auditors also expresses concern about the independence and impartiality of the proposed Auditor-General of the United Nations. The Board expresses the view that the current practice whereby all its members are Auditors-General of and reside in their own countries enables them to bring freshness and impartiality to their work.

11. The Secretary-General discusses the proposed appointment of the Auditor-General of the United Nations in the context of ensuring the continuity and independence of external audits (A/36/176, para. 19). The desideratum of continuity has been met in practice since some members have served on the Board for periods longer than one three-year term. As regards assuring the complete independence of external audit, the Secretary-General is in favour of maintaining the existing arrangements which, in his view, allow the United Nations to enjoy the benefit of the integrity and independence of three Auditors-General responsible jointly and severally for the audit.

12. The Panel of External Auditors, in paragraph 8 (d) of its report (A/36/174), suggests that it is desirable to evaluate the probable cost of the proposed system. In the Board's view "the proposed arrangements would increase to a large extent the cost of external audit" (A/36/175, para. 25).

13. The Advisory Committee's observations on this proposal can be found in paragraph 18 below.

C. Selection of the staff of the proposed Auditor-General of the United Nations

14. According to paragraph 12 of the note verbale (A/36/176, annex) and the additional information provided by the Auditor-General of Canada to the Panel of External Auditors (A/36/174, para. 5), the proposed Auditor-General would have the authority to decide whom he would employ. His staff would comprise a cadre of experienced international auditors complemented by other staff seconded from national

audit services. In the exercise of this authority the Auditor-General of the United Nations would strive for geographical representation as far as practicable, but without applying any system of quotas. In the Canadian view the need for flexibility and rotation of audit staff could be met through secondments and contracts of limited duration.

15. The views expressed by the Panel of External Auditors in this regard are summarized in paragraph 9 above.

16. The Board of Auditors makes no comment on this proposal (A/36/175).

17. In paragraphs 20 and 21 of his report (A/36/176), the Secretary-General recalls in this connexion that concern was expressed in the past that the need to provide national audit staff for temporary assignment to the United Nations might have discouraged some Member States from serving on the Board or might have imposed excessive demands on Member States which served on the Board. The Secretary-General points out that members of the Board are able to, and do, avail themselves of the provisions of Financial Regulation 12.9. 3/ Continuation of this practice would, in his opinion, ensure that the United Nations audit is conducted by the most highly skilled auditors available at minimum cost to the Organization.

18. As is stated in paragraph 12 above, the Board of Auditors is of the view that the proposal to appoint an Auditor-General of the United Nations and a full-time external audit staff would increase to a large extent the cost of external audit. The appointment of the external audit staff would also give rise to problems relating to their conditions of service (scale of remuneration, eligibility to pension and other benefits) and legal status (would they be regarded as United Nations staff?). In the circumstances, and bearing in mind the views expressed by the Panel of External Auditors, the Board of Auditors and the Secretary-General, the Advisory Committee is not convinced that the present arrangements should be superseded in the manner proposed.

#### D. Extension of the systems-based audit

19. According to paragraph 9 of the note verbale (A/36/176, annex), the proposed fundamental change in the role of the Board of Auditors is essential to the successful implementation of the improvements proposed to the system of external audit which, inter alia, would extend the scope of the systems-based audit to include an assessment of the adequacy of systems in contributing to economical, efficient and effective expenditures. The size and complexity of the United Nations activities and the nature of the financial systems, including computerized

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3/ Financial Regulation 12.9 states that:

"For the purpose of making a local or special examination or of effecting economies in the audit cost, the Board of Auditors may engage the services of any national Auditor-General (or equivalent title) or commercial public auditors of known repute, or any other person or firm who, in the opinion of the Board, is technically qualified."

systems, demand increasingly sophisticated audit techniques which emphasize review and testing of internal controls, rather than extensive checking of financial transactions. The changes in the Board's membership in recent years have resulted in staff turnover which have created difficulties in training staff and managing the United Nations audit. In this regard it is suggested in the Canadian note verbale that the proposed arrangements would provide an opportunity to train and develop staff of national audit services on a world-wide basis; in that way more Member States could participate in the audit process by providing candidates from their own national services for the Auditor-General's staff.

20. The Panel of External Auditors indicates in paragraph 2 of its report (A/36/174) that, following initiatives by the Auditor-General of Canada, the Board has, since 1976, introduced changes in its audit arrangements, including the establishment of an Audit Operations Committee, which are designed to improve the techniques and extend the scope of the audit. The Panel notes that in their 1978 review report, the consultants commissioned by the Auditor-General of Canada with the concurrence of the other Board members had, inter alia, concluded that the changes introduced were generally working well under the existing organization and provided an excellent basis for further improvement. The Panel shares this assessment and suggests in paragraph 8 (a) of its report (ibid.) that any further changes considered desirable could be made by developing the existing system further. In the Panel's view, the relevant rules and regulations do not appear to restrict such further developments. As regards the objective of training national auditors from developing countries, the Panel observes that undue emphasis on this question might detract from the effectiveness of the audit (A/36/174, para. 7).

21. The Board of Auditors states in paragraph 27 of its report (A/36/175) that the systems-based audit adopted by the Board deals mainly with the economy and efficiency of expenditure. In its audit of projects in the field, however, the Board also assesses the extent to which project objectives have been achieved. The Board has demonstrated that, within the existing arrangements, it can effect changes in audit practices and procedures whenever the need has arisen (ibid., para. 16). According to the Board it has systematically provided training for its staff to improve the quality of the audit (ibid., para. 18). As an illustration of its ability to keep abreast of developments, the Board points out that, following agreement between the Panel of External Auditors and the specialized agencies in 1977 and 1978 to apply comprehensive auditing or "value for money" audit, 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 (ibid., para. 17). In the Board's opinion the possibility of recourse to Financial Regulation 12.9 provides the Board with added flexibility to cope with the increasing complexity and sophistication of the accounts and the financial systems of the United Nations (ibid., para. 16). Thus, while the Board agrees that it is desirable to extend the scope of the audit of the United Nations as envisaged, it concludes that since the recent changes in its organization and practices have been working well, the present arrangements for the external audit of the Organization should remain unchanged (ibid., paras. 28 (a) and (b)). As regards the objective of training national auditors from developing countries, the Board notes that the proposed

United Nations International Centre for Auditing and Accounting in Public Services for Developing Countries 4/ could serve that purpose (ibid., para. 18).

22. In his observations, the Secretary-General notes that the Board has, inter alia, adopted the service team concept in order to provide various technical skills needed for an effective evaluation of the Organization's systems and performance; that it has provided audit coverage on a year-round basis; and has instituted the practice of issuing management letters to advise the administration of its findings and to offer solutions to the existing and potential problems (A/36/176, para. 24). In paragraphs 22 and 23 of his report, the Secretary-General supports the views of the Board that the proposed extension of the scope of the audit is desirable, but that it should be done in the context of the existing organizational structure and professional practices of the Board of Auditors.

23. The Advisory Committee notes that the Panel of External Auditors, the Board of Auditors and the Secretary-General agree on the value of the systems-based audit, but believes that it can be extended, as needed, within the context of the present arrangements. The Advisory Committee supports this view.

#### E. Conclusion

24. The Advisory Committee agrees with the premise underlying the Canadian proposal, namely that the United Nations needs an effective external audit in which both the Member States and the Secretariat have confidence. For the reasons stated in this report, the Advisory Committee has concluded that the Board of Auditors can provide such an audit without the far-reaching and potentially expensive reforms advocated in the note verbale. At the same time, the Committee is confident that the Board will continue to give particular attention to ways and means of adapting the audit to the changing requirements of the Organization.

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4/ See Economic and Social Council resolution 1981/53.