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

Note verbale dated 14 September 1979 from the Permanent
Representative of Canada to the United Nations addressed
to the Secretary-General

The Permanent Representative of Canada to the United Nations presents his compliments to the Secretary-General of the United Nations and has the honour to request that the attached document concerning the organization and professional practices of the United Nations Board of Auditors be circulated to the Fifth Committee for its consideration under item 97 of the provisional agenda entitled "Financial reports and accounts, and reports of the Board of Auditors".

* A/34/150.

1. The United Nations Board of Auditors, at the request of the Auditor General of Canada, a member of the Board, approved the commissioning of a report on the Board's organization and professional practices.

2. The objectives of the review were to assess the progress in implementing the changes which the Board had decided to make in 1976, the effect of the regulations and practices concerning the appointment and period of tenure of the Chairman and members of the Board of Auditors and any further steps that should be taken to ensure the effectiveness of the Board of Auditors in discharging its mandate.

3. A number of matters have bearing on the work of the Board of Auditors, such as:

The need for continuity in view of the changing composition of the Board (Colombia retired in 1978 having served as a member of the Board since 1946; Bangladesh has just commenced its first term; Ghana has recently been elected for a second term; Canada's present term expires in 1980);

The growing complexity of the United Nations activities and the high degree of inter-relationship of the organizations involved in these activities;

The increasing sophistication of the United Nations accounts arising from the introduction of programme budgeting, the decentralization of management responsibility and increasing computerization;

The improvements in contemporary audit techniques which emphasize review and testing of internal controls within financial systems, including computerized systems, rather than extensive checking of financial transactions; and

The variations in the current state of government and private sector auditing methodology among Member nations of the United Nations, thus affecting the techniques familiar to the staff of potential members of the Board.

All of these factors lead to the conclusion that there is a basic contradiction between the type of audit the United Nations needs and the ability of the Board of Auditors to supply it under present arrangements. On the one hand, the size of the United Nations activities and the nature of its financial systems demand increasingly sophisticated audit techniques; and on the other hand, turnover of Board members to make the Board representative of Member nations creates continuing difficulties in training staff and managing the United Nations audit in a manner that introduces and maintains the best of world-wide auditing techniques.

4. The United Nations Board of Auditors was established by General Assembly resolution 74 (1) of 7 December 1946. The mandate of the Board has evolved over the years and is now laid down in regulations 12.1 to 12.12 of the Financial Regulations. The organizational structure of the Board has not changed over this period. The Board consists of three members, each of whom is the Auditor General (or officer holding the equivalent title) of a Member State; each member has joint and several responsibilities for the audits conducted by the Board of Auditors; prime responsibility for audits is allocated on an equal basis among the

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Members; and audit staff are provided on an equal basis by the individual members of the Board.

5. The role and organization of the Board of Auditors was the subject of a report to the General Assembly by the Secretary-General in document A/2974 of 20 September 1955 entitled "Review of audit procedures of the United Nations and the specialized agencies", together with the report of the Advisory Committee on Administrative and Budgetary Questions (ACABQ) in document A/2990 of 6 October 1955. In 1974, the Assembly considered the "Study of the role, organization and functioning of the United Nations Board of Auditors" contained in document A/9608/Add.1 prepared by the Advisory Committee. Neither of these reviews resulted in fundamental changes to the role or organization of the Board of Auditors.

6. In 1976, the Board adopted a number of significant changes in the manner in which it carries out its responsibilities. These changes did not require action on the part of the General Assembly. The Chairman of the Board reported these matters to ACABQ in June 1976 and to the Fifth Committee at its 26th meeting on 9 November 1976. The major organizational change involved the creation of an Audit Operations Committee composed of a Chairman, who also serves as Director-General of External Audit, and three Directors of External Audit representing the three members of the Board. The Committee was made responsible for the planning and co-ordination of audits and the preparation of reports. Another substantive change was the introduction of the systems approach to auditing which led to an evaluation of the financial management and control systems of the United Nations Headquarters and Office at Geneva. The results of these developments were discussed with ACABQ in June 1978 and reported to the General Assembly in the report of the Board for the 1976-1977 biennium contained in the Official Records of the General Assembly, Thirty-third Session, Supplement No. 5 (A/33/5), volume I.

7. The present review found that although the internal organizational arrangements, audit practices and procedures have been improved, more fundamental changes are required to ensure a quality of auditing commensurate with the United Nations importance and prestige. These changes require approval by the General Assembly as well as subsequent amendments to the Financial Regulations.

8. The main recommendations of the report are that:

(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.

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(a) The Auditor General should be given responsibility for selecting 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.

(b) 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.

The following paragraphs outline in greater detail the rationale behind these four major initiatives.

9. The size of the Board of Auditors has not changed since its creation, although the membership of the United Nations has virtually tripled. The Board could be expanded provided that such expansion was attendant upon a change in its role from that of conducting the audit to that of reviewing the audit on behalf of the General Assembly. It is by this means that a significant improvement can be made in the manner in which audit reports are dealt with at the United Nations. With the Board of Auditors becoming a representative audit committee, the General Assembly would have assurance that audits are planned and co-ordinated, and reports are reviewed by an appropriate group of experts in auditing and accounting matters. This would enable ACABQ, which has been serving in this capacity in the absence of an audit committee, to devote its full attention to its role as an expert budget committee. This fundamental change in the role of the Board of Auditors is essential to successful implementation of the other improvements proposed to the system of external audit.

10. The Board of Auditors, when expanded, could become a most effective audit committee of the United Nations. The actual audit responsibilities should be assigned in another way that would result in a unified audit of the highest quality. An outstanding individual with appropriate qualifications and experience should be appointed to a position designated as Auditor General of the United Nations. In this capacity, the Auditor General would be fully responsible and accountable for the audit, including providing leadership in the application and development of modern audit techniques. The Auditor General would require appropriate authority to carry out these responsibilities.

11. Members of the Board of Auditors have as a rule provided the staff that audit the United Nations. This has been a considerable burden to them as it has diverted much needed scarce resources from their national audits and thereby limited the ability of many Members to offer their services as Board members. However, it has also provided a remarkable opportunity for staff from national audit services to gain experience in different audit methods and procedures. This has had a positive and enriching impact on their training and development. The proposed audit committee role relieves Board members of the obligation to provide significant staff resources, but would continue to give them the opportunity of nominating candidates for audit positions at all levels.

12. This change to the traditional staffing pattern for the United Nations audit would also provide a unique opportunity to introduce a new and imaginative programme for training and developing staff of national audit services on a world-wide basis. The staff of the Auditor General would consist of a cadre of well-experienced international auditors complemented by other staff seconded from national audit services. In this way, the United Nations audit could be carried out by the most highly skilled auditors available and more Member States could participate in this process by providing candidates from their own national services.

13. This report was reviewed by the Board at its meeting in June 1979. It was decided that the report's recommendations raised matters which should be pursued through national delegations to the General Assembly and that it was for Canada to take any initiative it wished in this regard.

14. Accordingly, the Canadian delegation has tabled for consideration by the Fifth Committee this document based on the special report. The proposals outlined above, if adopted, would go a long way towards ensuring that the United Nations, as one of the most important bodies in the world, receives a quality of auditing which is commensurate with its importance and prestige. They would also make sure the Board was representative in that a greater number of Member States could participate in the audit process. It remains for the Fifth Committee to decide on what action might be taken during the thirty-fourth session of the United Nations General Assembly on this matter.
