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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

Report of the Fifth Committee

Rapporteur: Mr. Babooram RAMBISOON (Trinidad and Tobago)

I. STANDARDIZATION OF FINANCIAL REGULATIONS: FINANCIAL
REGULATIONS GOVERNING EXTERNAL AUDIT

1. The Ad Hoc Committee of Experts to Examine the Finances of the United Nations and the Specialized Agencies, in its second report,^{1/} recommended inter alia that the United Nations organizations should try to standardize their respective financial regulations as far as possible. To this end, the Secretary-General, in the annex to his report (A/C.5/1375), recommended certain changes in the existing United Nations financial regulations dealing with external audit and principles to govern the audit procedures of the United Nations.
2. The Fifth Committee, at its 1445th meeting, on 2 November, considered the Secretary-General's report (A/C.5/1375) as well as the related report (A/8482) containing the observations and recommendations of the Advisory Committee on Administrative and Budgetary Questions thereon.
3. Oral statements were made by the Chairman of the Advisory Committee on Administrative and Budgetary Questions and by the Chairman of the Board of Auditors and, at the same meeting, the Fifth Committee adopted, by 72 votes to none, with

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

1 abstention (see para. 7 below), the proposed standard provisions for financial regulations relating to external audit and additional terms of reference as contained in the annex to the Secretary-General's report, subject to the observations and recommendations of the Advisory Committee as set forth in paragraphs 5, 7, 8 and 9 of its report (A/8482).

II. REPORT ON THE ACTIVITIES OF THE JOINT INSPECTION UNIT DURING THE PERIOD 1 JULY 1970-30 JUNE 1971

4. At its 1454th and 1455th meetings, on 12 and 15 November, the Fifth Committee considered the report of the Secretary-General (A/C.5/1368) transmitting the report on the activities of the Joint Inspection Unit during the period from 1 July 1970 to 30 June 1971. The Committee also had before it the comments of the Advisory Committee on Administrative and Budgetary Questions in its related report (A/8503).

5. In the course of the brief discussion on this subject in the Committee, appreciation was expressed for the useful work performed by the Joint Inspection Unit as well as for that of the individual Inspectors. In the opinion of some delegations, however, the Unit's reports were too lengthy and too complex, and they lacked precise recommendations on ways to improve procedures or correct errors. The view was expressed that progress reports should be issued indicating the stage reached in the implementation of the Unit's recommendations.

6. In connexion with the review of the question of the Joint Inspection Unit by the General Assembly at its twenty-seventh session, the hope was expressed that it would also take into account the global question of the organs concerned with investigating control, co-ordination and inspection.

Decisions of the Fifth Committee

7. At its 1455th meeting, the Fifth Committee decided, without objection:

(a) To accept the Secretary-General's suggestion, in paragraph 4 of his report (A/C.5/1368), that the various reports of the Joint Inspection Unit be discussed in the Fifth Committee during the present session under the pertinent agenda items:

(b) To inform the Economic and Social Council of the acceptance by the Fifth Committee of the recommendations of the Advisory Committee on Administrative and

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Budgetary Questions in paragraph 5 of its report (A/8503) that, should the Council agree, circulation of the comments of specialized agencies on the reports of the Joint Inspection Unit should be normally limited to those which can be issued in time for the discussion of the Unit's reports in the Committee for Programme and Co-ordination:

(c) To endorse the views expressed by the Advisory Committee in paragraph 7 of its report (A/8503), wherein it recalled that:

"... in operative paragraph 3 of resolution 2735 A (XXV) on the future of the Joint Inspection Unit, the General Assembly requested the views of the Secretary-General, as Chairman of the Administrative Committee on Co-ordination, the governing bodies of the specialized agencies concerned, the Economic and Social Council, the Committee for Programme and Co-ordination, the Advisory Committee and the Unit itself, in time to enable the Assembly to review the question of the Unit at its twenty-seventh session. The Advisory Committee trusts that the bodies concerned will take the appropriate action to ensure that their views are available to the General Assembly at its twenty-seventh session."

III. INSPECTION AND EVALUATION WITHIN THE UNITED NATIONS SYSTEM

8. At the 1480th meeting of the Committee, held on 13 December 1971, the representative of the United States of America made a statement concerning the strengthening of inspection and evaluation within the United Nations system of organizations. A summary of the statement is contained in the summary record of that meeting.

IV. FORM OF PRESENTATION OF THE BUDGET

9. The Committee considered this subject at its 1475th, 1476th, 1480th and 1484th meetings on 8, 11 and 15 December 1971.

10. At the 1475th meeting, the Chairman of the Advisory Committee on Administrative and Budgetary Questions, in an oral statement before the Committee, stated that the mock-up of the budget, which the Secretary-General had prepared following a decision taken by the Fifth Committee at the twenty-fifth session of the General Assembly, had not reached the Advisory Committee in time to give it adequate attention. Furthermore, an alternative form of presentation of the budget (E/AC.51/L.66) had emerged from the Committee for Programme and Co-ordination (CPC). The Advisory Committee was therefore called upon to consider both the mock-up of

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the budget and the alternative presentation, as well as the question of what changes would need to be made in the executive and deliberative machinery. The Advisory Committee believed that it would be wise to defer consideration of this subject to the following year, which would permit it to give this important question thorough consideration at its spring session.

11. The suggestion of the Advisory Committee was supported by delegations taking part in the discussion of this question. One delegation stated that it could agree to the deferment of the question to the twenty-seventh session of the General Assembly provided that in the meantime efforts were continued towards the establishment of an integrated programming and budgeting system, and the establishment of the machinery for that purpose, especially at the intergovernmental level.

12. The representative of India introduced a text which his delegation proposed be included in the present report.

Decisions of the Fifth Committee

13. At its 1480th meeting, the Fifth Committee decided, without objection, to approve the following text for inclusion in the present report:

"Owing to various practical considerations, it was not possible for the Fifth Committee to consider the question of the form of presentation of the United Nations budget. The Fifth Committee, therefore, decided to postpone consideration of this item until the twenty-seventh session of the General Assembly. In order to aid it in its consideration of this item, the Fifth Committee recommends that:

"(a) The Advisory Committee should submit to it, at the beginning of the twenty-seventh session, detailed comments and recommendations on the form of presentation of the budget, including the submissions, to the Committee for Programme and Co-ordination;

"(b) The Secretary-General should present to it through the Advisory Committee on Administrative and Budgetary Questions (i) a miniature mock-up covering a small segment of the 1973 estimates, and (ii) a report setting out the probable legal, institutional and organizational implications of switching to programme budgeting, bearing in mind the possibility of adoption of a biennial budget cycle;

"(c) The Secretary-General's reports in (b) above should be transmitted to the Economic and Social Council and its Committee for Programme and Co-ordination for comments and suggestions, in order that the Advisory Committee on Administrative and Budgetary Questions can take them into account."

14. Before approving the above text, it was agreed that paragraph (c) of the text was not intended to prevent the Advisory Committee on Administrative and Budgetary Questions from giving full consideration to this item at its spring session in 1972. After the comments of the Committee for Programme and Co-ordination and the Economic and Social Council had been submitted to the Advisory Committee, it could then submit a supplementary report to the General Assembly at its twenty-seventh session, if necessary.

V. RECOMMENDATION OF THE FIFTH COMMITTEE

15. The Fifth Committee recommends to the General Assembly the adoption of the following draft resolution:

Standardization of the financial regulations governing external audit
and amendments to the Financial Regulation of the United Nations

The General Assembly,

Having considered the report of the Secretary-General on the standardization of the financial regulations governing external audit^{2/} and the recommendations of the Advisory Committee on Administrative and Budgetary Questions^{3/} thereon,

Decides that, with effect from 1 January 1972, article XII of the Financial Regulations of the United Nations dealing with external audit, as well as the annex to the Financial Regulations containing the principles to govern the audit procedures of the United Nations, shall be amended as set forth in the annex to the present resolution.

ANNEX

Amendments to the Financial Regulations of the United Nations

1. Article XII of the Financial Regulations of the United Nations should be amended to read as follows:

^{2/} A/C.5/1375.

^{3/} A/8482.

"ARTICLE XII. EXTERNAL AUDIT

"Appointment

"Regulation 12.1: The General Assembly shall appoint a Board of Auditors to perform the audit of the accounts of the United Nations. This Board shall consist of three members each of whom shall be the Auditor-General (or officer holding the equivalent title) of a Member State.

"Tenure of office

"Regulation 12.2: The members of the Board shall be elected for a three-year term of office. The term of office shall commence on 1 July and expire on 30 June three years subsequent thereto. The term of office of one of the members shall expire each year. Consequently, the General Assembly shall elect each year a member to take office from 1 July of the following year.

"Regulation 12.3: If a member of the Board ceases to hold office as Auditor-General (or equivalent title) in his own country, his tenure of office shall thereupon be terminated and he shall be succeeded as a member of the Board by his successor as Auditor-General. A Board member may not otherwise be removed during his tenure of office except by the General Assembly.

"Scope of audit

"Regulation 12.4: The audit shall be conducted in conformity with generally accepted common auditing standards and, subject to any special directions of the General Assembly, in accordance with the additional terms of reference set out in the annex to these regulations.

"Regulation 12.5: The Board of Auditors may make observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of the Organization.

"Regulation 12.6: The Board of Auditors shall be completely independent and solely responsible for the conduct of the audit.

"Regulation 12.7: The Advisory Committee on Administrative and Budgetary Questions may request the Board of Auditors to perform certain specific examinations and issue separate reports on the results.

"Facilities

"Regulation 12.8: The Secretary-General shall provide the Board of Auditors with the facilities it may require in the performance of the audit.

"Regulation 12.9: 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 of Auditors, is technically qualified.

"Reporting

"Regulation 12.10: The Board of Auditors shall issue a report on the audit of the financial statements and relevant schedules, which shall include such information as the Board deems necessary with regard to matters referred to in regulation 12.5 and in the additional terms of reference.

"Regulation 12.11: The reports of the Board of Auditors shall be transmitted through the Advisory Committee on Administrative and Budgetary Questions, together with the audited financial statements, to the General Assembly in accordance with any directions given by the Assembly. The Advisory Committee shall examine the financial statements and the audit reports and shall forward them to the Assembly with such comments as it deems appropriate.

"Audit assignment allocation

"Regulation 12.12: The Board of Auditors shall, subject to the concurrence of the Advisory Committee on Administrative and Budgetary Questions, allocate and rotate the audit work among the members of the Board".

2. The annex to the Financial Regulations of the United Nations should be amended to read as follows:

"ANNEX TO THE FINANCIAL REGULATIONS

"Additional terms of reference governing the audit
of the United Nations

"1. The Board of Auditors shall perform jointly and severally such audit of the accounts of the United Nations, including all trust funds and special accounts, as it deems necessary in order to satisfy itself:

(a) That the financial statements are in accord with the books and records of the Organization;

(b) That the financial transactions reflected in the statements have been in accordance with the rules and regulations, the budgetary provisions and other applicable directives;

(c) That the securities and moneys on deposit and on hand have been verified by certificate received direct from the Organization's depositaries or by actual count;

(d) That the internal controls, including the internal audit, are adequate in the light of the extent of reliance placed thereupon;

(e) That procedures satisfactory to the Board of Auditors have been applied to the recording of all assets, liabilities, surpluses and deficits.

"2. The Board of Auditors shall be the sole judge as to the acceptance in whole or in part of certifications and representations by the Secretary-General and may proceed to such detailed examination and verification as it chooses of all financial records, including those relating to supplies and equipment.

"3. The Board of Auditors and its staff shall have free access at all convenient times to all books, records and other documentation which are, in the opinion of the Board of Auditors, necessary for the performance of the audit. Information which is classified as privileged and which the Secretary-General (or his designated senior official) agrees is required by the Board of Auditors for the purposes of the audit and information classified as confidential shall be made available on application. The Board of Auditors and its staff shall respect the privileged and confidential nature of any information so classified which has been made available and shall not make use of it except in direct connexion with the performance of the audit. The Board of Auditors may draw the attention of the General Assembly to any denial of information classified as privileged which, in its opinion, was required for the purpose of the audit.

"4. The Board of Auditors shall have no power to disallow items in the accounts but shall draw to the attention of the Secretary-General for appropriate action any transaction concerning which it entertains doubt as to legality or propriety. Audit objections, to these or any other transactions, arising during the examination of the accounts shall be communicated immediately to the Secretary-General.

"5. The Board of Auditors (or such of its officers as it may designate) shall express and sign an opinion in the following terms:

'We have examined the following appended financial statements, numbered ... to ..., properly identified, and relevant schedules of the ... for the year ended 31 December Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances. As a result of our examination we are of the opinion that the financial statements properly reflect the recorded financial transactions for the year, which transactions were in accordance with the financial regulations and legislative authority and present fairly the financial position as at ...',

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adding, should it be necessary:

'subject to the observations in our foregoing report'.

"6. The report of the Board of Auditors on the financial statements should mention:

- (a) The type and scope of its examination;
- (b) Matters affecting the completeness or accuracy of the accounts, including where appropriate:
 - (i) Information necessary to the correct interpretation of the accounts;
 - (ii) Any amounts which ought to have been received but which have not been brought to account;
 - (iii) Any amounts for which a legal or contingent obligation exists and which have not been recorded or reflected in the financial statements;
 - (iv) Expenditures not properly substantiated;
 - (v) Whether proper books of accounts have been kept. Where in the presentation of statements there are deviations of a material nature from the generally accepted accounting principles applied on a consistent basis, these should be disclosed.
- (c) Other matters which should be brought to the notice of the General Assembly, such as:
 - (i) Cases of fraud or presumptive fraud;
 - (ii) Wasteful or improper expenditure of the Organization's money or other assets (notwithstanding that the accounting for the transaction may be correct);
 - (iii) Expenditure likely to commit the Organization to further outlay on a large scale;
 - (iv) Any defect in the general system or detailed regulations governing the control of receipts and disbursements or of supplies and equipment;
 - (v) Expenditure not in accordance with the intention of the General Assembly after making allowance for duly authorized transfers within the budget:

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(vi) Expenditure in excess of appropriations as amended by duly authorized transfers within the budget;

(vii) Expenditure not in conformity with the authority which governs it;

(d) The accuracy or otherwise of the supplies and equipment records as determined by stock-taking and examination of the records;

In addition, the reports may contain reference to:

(e) Transactions accounted for in a previous year concerning which further information has been obtained or transactions in a later year concerning which it seems desirable that the General Assembly should have early knowledge.

"7. The Board of Auditors may make such observations with respect to its findings resulting from the audit and such comments on the Secretary-General's financial report as it deems appropriate to the General Assembly or to the Secretary-General.

"8. Whenever the scope of audit of the Board of Auditors is restricted, or whenever the Board is unable to obtain sufficient evidence, it shall refer to the matter in its report, making clear the reasons for its comments and the effect on the financial position and the financial transactions as recorded.

"9. In no case shall the Board of Auditors include criticism in its report without first affording the Secretary-General an adequate opportunity of explanation on the matter under observation."
