

# United Nations Nations Unies

PANEL OF EXTERNAL AUDITORS OF THE UNITED NATIONS, THE SPECIALISED AGENCIES AND THE  
INTERNATIONAL ATOMIC ENERGY AGENCY

NEW YORK HEADQUARTERS

7 December 2021

His Excellency  
Mr. António Guterres  
Secretary-General of the United Nations  
United Nations, NY 10017

Excellency,

## **Meeting of the Panel of External Auditors, 6-7 December 2021**

1. The Panel of External Auditors held its sixty-first regular session as a hybrid session hosted from the United Nations Headquarters in New York from 6-7 December 2021. In its deliberations, the Panel considered the work of the Technical Group, which met from 1-3 December 2021.
2. The Panel continues to see this letter as an important output from its work, and an opportunity to bring matters of concern to your attention in your role as Chair of the United Nations System Chief Executives Board for Coordination. In this capacity, your responses are important in ensuring our matters of concern are appropriately considered across the system.
3. Throughout their discussions the Panel was alert to the very specific challenges and circumstances the UN has faced because of the pandemic; co-ordinating significant humanitarian efforts to both prevent Covid-19 and its impact, while continuing to deliver its existing mandates. The Panel's observations this year are made with an understanding of this overall context, identifying those areas we consider promote effective accountability and efficiency in the use of resources.

### **Financial issues**

4. The Panel received presentations on the developments in accounting standards and reporting. It noted that several significant changes to existing standards would apply in the coming years, with substantial impacts on system entities. These changes will need early and close attention to enable proper adoption on a timely basis. As the Panel noted in 2019, it is important that we work collectively with the UN Finance and Budget Network (FBN) and UN Task Force on Accounting Standards to understand how the system is approaching the adoption and consistent application of these new and existing standards. This will enable the External Audit community to contribute to these discussions to ensure our comments are considered before any final decisions are taken.

5. The Panel observed that there would likely be continued fluctuations in key valuation assumptions in the context of Covid-19, emphasizing the importance of management critically reviewing and challenging these against actual experience. Entities should ensure that any estimation sensitivities and uncertainties are fully disclosed in financial Statements, especially in respect of the significant After Service Health Insurance liabilities. The Panel also took note of the increasing volatility of investments and stressed the need for continued vigilance in investments and the mitigation of risks. The Panel also discussed the varying practices on the presentation of consolidated budgets, which we will further consider.

**COVID impact on internal controls**

6. COVID-19 has represented a significant and unique challenge for the system in respect of its vital operational delivery and in the maintenance of its administrative, financial and internal control functions. The system has had to adapt to these circumstances in an emergency, while retaining controls in the procurement and delivery of essential humanitarian supplies. The scale of the impact of Covid-19 on controls has been assessed by the Panel members through the audit process and has, for example, been particularly highlighted through a special chapter included in the Board of Auditors Concise Summary Report.

7. In many cases, changes to the existing internal process and control procedures were carried out during the pandemic. We observed that these changes have further impacted on the level of assurance activities undertaken in areas such as project monitoring and financial verification, spot checks and field site monitoring. You may recall from previous letters that these were already areas of concern for the Panel, where pre-existing controls had been deemed weak.

8. In its reporting during 2020, Panel Members have stressed the importance of addressing the control weaknesses identified. Despite the circumstances of the pandemic, it is essential to strengthen the controls in place; establishing appropriate and comprehensive levels of assurance and monitoring to ensure that the use of resources can be appropriately controlled and scrutinized.

**Outsourcing of services, especially hiring of non-staff by third parties**

9. Recognizing the different business models of the UN agencies and entities, the Panel considers that a set of common principles for the outsourcing of services is desirable. Members have repeatedly noted that control over third parties by various UN entities has been weak, exacerbated by the lack of a clear definition and a common framework for outsourcing services, an observation which is emerging from JIU findings. The absence of a clear framework exposes organizations to both efficiency, fraud, and ethical conflicts.

10. The Panel received presentations showing analysis of previous external audit reports which focused on hiring non-staff, including using agencies. This is the case when an agency contracts a third party to conduct its non-staff hiring process. The Panel noted weaknesses in monitoring processes for these external agency processes, with weak risk assessments and a lack of transparency in the procedures. Ultimately, weaknesses in this area may lead to inefficiencies or reputational risks.

### **Supply chain**

11. We acknowledged the supply chain challenges faced by the UN entities during the pandemic and the onerous task undertaken by them in supplying essential items and other relief materials to the effected populations across the globe. However, Panel Members have made recommendations to improve supply chain management so that audited entities are better prepared for future emergencies. In public procurement integrity, objectivity, fair play, competition and transparency should not only be upheld but should be evident at each stage of decision making. Inadequate documentation to evidence this has been repeatedly flagged by external auditors across UN system entities, and our audits identified the issues were more pronounced when related to emergency procurements during the pandemic.

12. We continue to promote the importance of objectivity in the tendering processes and better adherence to the basic principles of public procurement, we have observed continued weaknesses in many of our audits. The local procurement system at the country office level needs strengthening in many instances.

13. Delay in delivery of supplies was a recurrent problem for many entities which was accentuated during 2020-2021.

14. Covid-19 has highlighted the commonality of supply chains used by system entities for humanitarian aid; emphasizing the need for modernized common supply chain management practices, reduced costs, enhanced efficiency and to provide greater resilience in the circumstances of an emergency such as Covid-19. This would obviate the need for the proliferation of inter-agency agreements and collaborations, which have been evidenced through our audit work.

### **Implementation of common back offices; UN reforms**

15. The goal of equipping all UN country teams with common back offices by 2022 has been delayed until 2024. As already emphasized in our 2019 letter, the Panel needs to consider and anticipate the impact of future common back offices on external audits.

16. While taking note of this important initiative, there is a risk of duplication without effective arrangements for documenting and evidencing how we have obtained appropriate assurance where one entity acts on behalf of another. Given the potential risks to our audit opinion, the Panel Members will need sufficient time to consider the impact any new arrangements may have on their audit approach.

17. Therefore, the Panel suggests that it is important we are kept regularly informed of all developments in the common back-office policy.

### **Environmental and social governance concerns for the UN**

18. The Panel discussed the important developments in Environment, Social and Governance reporting, both in the public and commercial sectors, and its importance in supporting the climate agenda.

19. While noting the absence of a universally accepted framework for ESG reporting, the importance of reporting was recently emphasized in the recent COP 26. As exemplars of

good practice and with the UN's wider leadership role in the climate agenda, system entities should further develop their own reporting, taking into account the UN circumstances and the focus of key stakeholders.

20. In its attendance at COP 26, the International Organization of Supreme Audit Institutions emphasized the role of public external auditors in providing confidence in reported data that shall be clear and consistent for all stakeholders. The Panel would welcome your thoughts on how the External Audit community can help UN entities increase transparency and confidence in reporting.

*Establishment of working groups*

21. The Panel decided to form working groups to carry forward the deliberations on some of the important issues and engage with the Finance and Budget Network and UN Task Force on Accounting Standards.

Yours sincerely,



Girish Chandra Murmu  
Comptroller and Auditor General of India  
Chairman of the United Nations Panel of External Auditors

cc: Ms. Maria Luiza Ribeiro Viotti, Chef de Cabinet.  
Ms. Grete Faremo, Chair, HLCM  
Panel Members  
Ms. Anjana Das, Executive Secretary, UNBoA & Panel of External Auditors