

United Nations



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

NEW YORK HEADQUARTERS

21 November 2023

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

Excellency,

The Panel of External Auditors (Panel) held its 63<sup>rd</sup> regular session at the UN Headquarter in New York on 20-21 November 2023 and considered the work performed by its Technical Group which met between 15-17 November 2023.

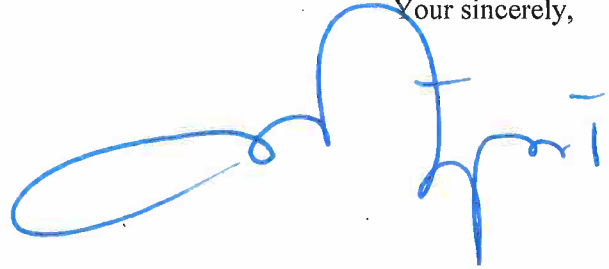
The Panel started its work by considering your detailed and comprehensive response to its previous letter, which provided further clarity for us on how the HLCCM was addressing the issues we raised. From our work this year, the Panel has highlighted the importance of a number of strategic issues:

1. The importance of effective risk management processes in capturing emerging issues and critical risks to operations impacted by the multiple conflict situations, the continued impacts of operating post-COVID, and with significant pressures arising from inflation and supply chain bottlenecks. Managing these risks well will be essential to ensure the system can maintain its reputation for delivery.
2. The importance of addressing the challenging financial environment requires well-structured funding strategies, with an appropriate balance of funding sources, cost efficiencies and the need to address long-term liabilities. All of which require effective budget management processes to monitor financial sustainability.
3. Continuing to ensure a harmonised approach to the implementation of new accounting standards across UN Organizations, recognising the importance of engagement with Panel Members, and the need to recognise the individual entities' circumstances.
4. Climate change remains a significant priority, which requires the UN system to ensure accountability for its operational impacts, and to adopt harmonized reporting, and to embed sustainable procurement practices.
5. The need to achieve the benefits of digital transformation and fully leveraging the opportunities of investments in ERP by integration of systems. The Panel also highlighted the continued importance of ensuring the digital environment is secured against cyber security threats through effective governance and assurance frameworks.

Details of the strategic issues are enclosed in the Annex.

The Panel looks forward to welcoming your response and cooperating with the CEB's wider network to address these issues. Once again, I thank you for your kind attention and cooperation.

Your sincerely,



Isma Yatun  
Chair of the Audit Board of the Republic of Indonesia  
Chair of the United Nations Panel of External Auditors

cc: Mr. Courtenay Rattray, Chef de Cabinet.  
Ms. Catherine Pollard, Chair, HLCM  
Panel Members  
Mr. Sejong Lee, Executive Secretary, UNBoA & Panel of External Auditors

**Annex****Areas Highlighted Year 2023****Risk Management**

1. The Panel recognizes that the system faces significant challenges with many emerging and evolving risks, including multiple conflict situations, post-COVID inflation and supply chain bottlenecks, as well as reputational and disinformation threats. The identification and management of critical risks at the strategic level needs to be improved, notably by better embedding and utilising enterprise risk management tools, reviewing their effectiveness and ensuring they support sound decision making and provide clear accountability. Good risk management processes can better ensure that emerging risks are both better anticipated and mitigated. The Panel would welcome your views on the effectiveness of risk management across the system.
2. UN Organizations need to accommodate their emerging issues into their risk management. In addition, it also needs to adapt with organization transformation and post-pandemic working practices. In terms of emerging issues and risk management, UN entities have various maturity on the implementation. Therefore, it is important to address this to have an effective operation within the UN entities.

**Financial and Management Issues***Challenging financial environment*

3. The Panel recognized the challenging financial environment in which the UN Organizations operate and the need to find solutions to the financial and cash flow pressures emphasizing the need for timely receipt of assessed contributions. Voluntary contributions carry risks of unpredictability, donor dependency and divergence from strategic priorities. The growth in employee benefit liabilities and the impact of inflation increases the financial risks to the system.
4. To sustain alignment of its operations with its strategic priorities, it is imperative for UN Organizations to move towards a targeted and well-structured financing strategy, particularly to consider the balance between assessed and voluntary contributions to ensure that donor dependency does not lead to divergence from the core strategic priorities.. To mitigate liquidity risks, it is important to implement a well considered funding strategy to ensure financial sustainability, exploring the potential partnership with the private and third sectors to access funds.
5. As well as seeking opportunities for funding through the development of resource mobilisation strategies, it is vital the system also considers cost effectiveness. its costs. The UN system should be more proactive in seeking opportunities for efficiencies and cost reduction in its operations, as expectations for this are likely to increase. In reviewing costs the Panel emphasises the need for all organizations to ensure that Member States agree a specific funding plan for long term liabilities, relevant to entity circumstances. The Panel would welcome your views on the system's approach to both funding and cost reduction opportunities.



6. Given the importance of budgetary accountability within the system, the Panel felt it important to have robust and transparent budget management, reporting and evaluation frameworks. The implementation, quality and operational effectiveness of these arrangements should be subject to a periodic review.

#### *Engagement with the UN Task Force on Accounting Standards*

7. The Panel welcomes the continued engagement with the UN Task Force on Accounting Standards (TFAS). The Panel heard that the TFAS was finalizing its guidance on the new IPSAS revenue standard and the Panel is looking forward to the TFAS sharing this guidance in the Spring of 2024 for the Panel's collective consideration. More generally, the Panel supports the TFAS's efforts to put in place a mechanism for greater harmonization in the implementation of new IPSAS across UN Organizations, including standardized contribution agreements to help align the accounting treatment across Organizations.
8. In all cases the Panel continues to stress that it is ultimately for UN Organizations to ensure that adopted accounting policies are appropriate in their circumstances. This latter point is particularly relevant in respect of the common actuarial assumptions for after-service health insurance liabilities. Individual entities must ensure that rates used are appropriate and adequately validated with reference to experience. The Panel looks forward to reviewing emerging guidance and for continued dialogue on accounting developments so that we can plan our responses to them and better ensure consistency.

#### *Management issues*

9. UN Organizations should have in place clear target operating models, which establish the relationships between Country, Regional and HQ networks, to ensure coherence with strategic objectives and a clear accountability and control framework to ensure delivery and control. These frameworks should be periodically reviewed to ensure they are supporting the delivery of the SDGs and organizational objectives. More can be done to ensure coherence between strategic objectives, the synchronization of country work plans with regional and global program priorities, and with the relevance of indicators which measure performance in these areas. Having an integrated, cohesive, and effective program planning and implementation mechanism supports the fulfilment of UN Organizations' mission.
10. The Panel noted that transformation was a theme in several organizations and emphasized the importance of having clear objectives within transformation programmes, supported by appropriate change management expertise and clear governance mechanisms to track delivery and benefits. Well managed transformation offers organizations the opportunity to look at delivery models and opportunities to secure efficiencies.
11. The Panel noted the need to ensure UN Organizations are making best use of their building infrastructure, emphasizing the need to have a clear strategy that takes account of post pandemic practices and the significant changes in ways of working that the Panel has noted. More efficient use of building infrastructure across the system could better leverage the opportunities for synergies and cost savings. With this in mind, the Panel would welcome your views on progress against the development reform objectives on common premises.



## Climate Change and Sustainable Development Issues

12. The Panel appreciates the commitment expressed in your response to our 2022 letter, and our shared understanding that climate change is an urgent priority. Despite this, we note that plans you highlighted, remain aspirational and still require implementation, and the development of monitoring and reporting arrangements to support delivery and planned outcomes.

### *Sustainability reporting*

13. The Panel reiterates the importance of a common sustainability reporting framework. This would demonstrate a clear commitment to sustainability, build trust and credibility with partners, help drive accountability for improvements in performance on environmental, social and governance issues. This would support donor confidence to help attract and retain funding and strengthen the UN's credibility as the leader in this area.
14. We note the UN's development of sustainability reporting practices, which will be voluntarily introduced in 2024. The Panel has had limited visibility of these developments and would welcome the opportunity to input to the discussion to ensure that planned measurement systems and indicators are objective, measurable, scientifically based and withstand the scrutiny of audit. The Panel would also welcome an understanding of how the UN's reporting will compare to existing and developing practice. The existing UN reporting falls short of current best practice despite the expectations that the UN would be a leader in this area. The Panel looks forward to system-wide adoption of a common standard of reporting to enable comparison and drive improvement against a commonly applied set of metrics. In a similar way, UN entities should ensure consistent reporting of progress against the SDGs.

### *Sustainable procurement*

15. The 2030 Agenda called upon UN Organizations and all stakeholders to integrate Sustainable Development Goals (SDGs) across policy, operational and administrative aspects including consumption and production pattern as set out by SDG 12 Target 7, which specifically requires organizations to promote public procurement practices that are sustainable, in accordance with national policies and priorities.
16. Sustainable procurement should be better aligned with SDG 13 as part of the environmental pillar of this procurement framework. Furthermore, the UN Global Compact's principles could be extended to all UN suppliers by incorporating them as additional requirements in tenders and awarding additional score points for compliance.

### *Financing mechanism for climate change*

17. The UN system has a major responsibility in guiding and managing the climate agenda, particularly climate finance. It plays a significant role in advocating reform for the international financial system, aligning climate finance agenda with development needs, mobilizing domestic capital and improving as well as disseminating climate finance data. The Panel noted that the approach to incorporating major external stakeholders in climate finance from was fragmented and that efforts need to increase significantly across sectors and regions if targets are to be achieved. The Panel would welcome information on how the system intends to meet these challenges.

*Role of the external auditor*

18. The external auditors' work can be instrumental in all these workstreams, for example, by looking at: (i) the exemplarity of UN entities regarding the 2030 Agenda; (ii) the way major risks are mitigated (green washing, window-dressing, and reputational risk regarding partnerships and sponsorship); (iii) the performance of programs and projects; (iv) how sustainable principles are applied to management, including human resources management, procurement, real estate and investment; (v) auditing the fit-for-purpose of major actors of the UN system (consistency between expectations, mandates, and financial and human resources).

**Digital Issues**

19. Taking into account previously identified weaknesses, the Panel's discussion stressed the importance of ERP systems in driving improvements in efficiency, effectiveness and accountability. The Panel discussed opportunities for Internal and External Audit to support successful implementations. It also highlighted the importance of clearly articulated and measurable project objectives, against which Member States can assess the benefits of their investment. The Panel also took note of the need have a systematic approach to ERP implementations and the opportunities for integrating procurement processes with the United Nations Global Marketplace.
20. The Panel discussed the continued risks posed by cyber threats and emphasized the importance of effective information systems governance and assurance processes. These should reflect the specific entity cyber risks and be subject to regular assessment and testing to ensure they are robust. The Panel noted that a system-wide framework on cyber security and cyber crime was established in 2013 and allowed for better coordination among UN entities. The Panel would welcome an update on the effectiveness of these arrangements considering the significant increase in threats posed over the past 10-years. The Panel will continue to monitor how management addresses cyber risks through their audits.