



JOINT INSPECTION UNIT
of the United Nations System

CORPS COMMUN d'INSPECTION
du Système des Nations Unies

The Chairman
Le Président

Statement Introducing the AUDIT FUNCTION REPORT(A/66/73)

Before the GA 5th Committee

Mr Chairman , distinguished delegates,

I am honoured to be here today with you to introduce this JIU Report on the “Audit Function in the United Nations system”, on behalf of JIU Chair and Coordinator, Mr. Mounir M. Zahran.

The JIU included this subject in its 2010 Programme of Work with the objective to contribute to improving system-wide coherence among the competent entities dealing with the audit function, whether internal or external, in line with professional standards for the practice of the profession, as applicable to the United Nations.

Significant progress has been achieved in enhancing the audit function at the United Nations organizations in the past 10 years in response to demands for higher scrutiny, transparency and accountability by Member States. Increasing time and resources have been dedicated to strengthen this important oversight function. There is a notable improvement in the scope, coverage and effectiveness of the audit activity. Notwithstanding the progress achieved, the Inspectors realized, that the audit function still lacks system-wide coherence and coordination and many organizations need to enhance the audit independence, capabilities, resources and processes to overcome a number of challenges and performance gaps, thus to bring the value delivered closer in line with stakeholders’ expectations.

The review identified the major challenges/constraints faced by **internal audit** as: the follow-up and implementation of audit recommendations; resources; auditing the “One United Nations”; coordination with other oversight bodies; and independence. In this regard, threats and interferences from management were identified, notably in the internal audit planning, work performance and communicating results processes, in the selection of the internal audit/oversight head and audit staff, in the budget approval, and in access to records, personnel and assets. Additional constraints relate to the authority, centralization/decentralization, structure, planning, reporting and quality assessment of the internal audit activity and the performance and competence of internal auditors. In addition there is a room for potential conflict of interests given the lack of provisions to bar the audit/oversight head from subsequent appointments to job positions within the organization and in cases where their tenure is unlimited. Some managers complain about the difficulty to find competent auditors, particularly at the field level while improvement programmes were not in place at half of the internal audit services. In

terms of accountability and transparency, not all internal audit/oversight heads directly submit annual summary reports of their activities to the legislative/governing bodies, and seven organizations do not authorize the disclosure of individual audit reports upon request by member States for at least in-site reading.

Among the challenges identified for **external auditors**, two critical issues were the selection process and their performance assessment. The selection process of external auditors lacks the necessary degree of competitiveness. A select few and often the same supreme audit institutions (SAIs) are recurrently chosen and engaged simultaneously at several organizations. At three organizations SAIs do not have limited terms of office and have been providing services for many years. In terms of performance assessment, relevant requirements have not been set up and some audit committees do not have it in their purview, contrary to best practices. Another issue is the need to prioritize financial statement certification audits, in line with the introduction of the International Public Sector Accounting Standards (IPSAS), which requires annual reporting together with the short period of time given to review the financial statements at some organizations. Also, among the gaps is the lack of implementation of adequate handover procedures between departing and new SAIs. Regarding independence, the review confirmed that the external audit function is indeed more independent and better safeguarded from management interference than in the case of the internal audit function.

As for the positive side, it was found that the recent establishment of **audit/oversight committees** with an advisory role to management and legislative bodies is a major step towards improving the audit/oversight function at United Nations system organizations. Yet, five organizations have not established them and in terms of coverage, audit/oversight committees focus mainly on the audit activity, particularly on internal audit. In one organization the audit committee does not cover the performance of external auditors that is the UN/IAAC.

The Inspectors could confirm that internal and external auditors and audit committees work best and can better contribute to the governance processes of the organization when they maintain a fluent and objective relationship with each other, as well as with management. Regrettably, effective system-wide **cooperation and coordination** among these groups still has a long way to go. The limited joint audit engagements undertaken in recent years in response to the “One United Nations Initiative” have indeed proven challenging as has a practical “One United Nations internal audit” solution where it is needed. Within this context, the annual meeting of Representatives of Internal Audit Services of the United Nations Organizations and Multilateral Financial Institutions and Associated International Organizations (RIAS) and meetings of the Panel of External Auditors (PEA) contributed to improving overall coordination to share information, experiences, best practices and lessons learned. While the coordination among internal auditors appeared to be more frequent and effective than the coordination between internal and external auditors, the coordination among audit/oversight committees has been only ad hoc. This should be regularized to ensure the sharing of experience, information and practice among these committees.

Finally, regarding the adherence to the single audit principle, the report suggests that external auditors, audit/oversight committees and legislative/governing

bodies should be informed of all third-party verifications, to avert any misunderstanding of what a working single audit entails.

Recommendations

The findings and recommendations contained in the reserpt report were discussed at the forty-first Meeting of RIAS, in September 2010 and positively received by the oversight community. The Inspectors appreciate the contributions of the United Nations Office of Internal Oversight Services (OIOS), the United Nations Board of Auditors (BoA) and other members of the Panel of External Auditors (PEA).

We are also satisfied with to see the positive and supportive comments of the Secretary-General and the United Nations Chief Executive Board for Coordination in their comments (A/66/73/Add.1) which “welcome this report of the JIU and expressed appreciation for the useful analysis it contains” while indicating that “Agencies found the report contained a thorough analysis of UN system organization’s audit functions” and “generally concur with its many valuable recommendations, which they note strengthen this important oversight area”.

The report contains 18 major recommendations. Eleven of them are addressed for action to Member States since they concern policy decisions intrinsically related to the audit function mandate, independence, accountability and transparency. For easy reference, these recommendations are listed in an annex attached to this statement which, I hope has been circulated to you. We trust that the debate will enrich decision-making and your timely decision will make action possible on these important governance issues to enhance the efficiency and effectiveness of the audit function in the United Nations system organizations as an important pillar of the oversight mechanism.

Thank you very much.

New York, 5 October 2011

Annex- Recommendations for consideration by legislative/governing organs

- **Recommendation 3:** The legislative/governing bodies should direct the executive heads of the United Nations system organizations concerned to facilitate the submission of the internal audit planning and audit results to the audit/oversight committees, where appropriate, for the latter's review.
- **Recommendation 7:** To enhance efficiency, the legislative/governing bodies at the organizations concerned should direct executive heads to review audit staffing and the budget prepared by the internal audit/oversight head, taking into consideration the views of the audit/oversight committees, where appropriate, and should suggest to the executive heads an appropriate course of action, to ensure that the audit function is adequately resourced to implement the audit plan.
- **Recommendation 8:** To enhance accountability and transparency, the legislative/governing bodies concerned should require the internal audit/oversight head to submit to them, annually in writing, his or her report on the results of the audit activity and to publish such annual reports on the organizations' websites. The annual reports should refer to the implementation of the audit plan, major risks, the audit ranking of the audited entities, governance and control issues, key findings, recommendations and implementation of prior outstanding recommendations, as well as to any independence, resources or other issues that impact negatively on the effectiveness of the audit activity.
- **Recommendation 10:** To ensure transparency and accountability, the legislative/governing bodies at the United Nations system organizations concerned should ensure that internal audit is subject to independent external quality assessment or self-assessment with external independent validation in line with Institute of Internal Auditors (IIA) standards every five years and should ascertain that corrective action is taken to bring the internal audit activity into general conformity with IIA standards.
- **Recommendation 11:** The legislative bodies should request the independent audit/oversight committees at United Nations system organizations to review the performance and mandate/audit engagement of external auditors at least every five years, in consultation with the executive heads, and to submit the outcome of such review to the legislative/governing bodies as part of their annual report.

- **Recommendation 12:** The legislative bodies of the United Nations system organizations should, after consulting the independent audit/oversight committee, select an external auditor among competitive and interested supreme audit institutions (SAIs) for a term of four to six years, not immediately renewable. Candidacies should be screened by a subsidiary committee of the legislative/governing body against established criteria/requirements, including rotation and geographical representation.
- **Recommendation 13:** To enhance accountability and transparency, the legislative/governing bodies should require that the financial statements be finalized no later than three months after the end of the financial period to enable the external auditor to submit his/her report, first to the audit/oversight committee and then, no later than six months after the end of the financial period, to the legislative/governing body, and to have it published on the website of the organization.
- **Recommendation 14:** The legislative/governing bodies in the United Nations system organizations should direct the executive heads at each organization to inform them of all third-party audit/verification requests, after consulting the audit/oversight committees and the external auditors.
- **Recommendation 15:** To enhance accountability, controls and compliance, the legislative bodies should revise the mandates of audit/oversight committees to include the review of both internal and external auditors' performance as well as other responsibilities, including governance and risk management.
- **Recommendation 16:** The legislative bodies should require that the charter of the audit/oversight committees be reviewed regularly, at least every three years, and any change be submitted for the approval of the legislative bodies.
- **Recommendation 17:** The legislative/governing bodies should elect/appoint the audit/oversight committee members, the number of whom should vary between five and seven members, with due regard to professional competency, geographical distribution and gender balance so as to represent the governing bodies' collective interests. The candidates should be screened by a committee, unless the audit/oversight committee is a subcommittee of the legislative/governing bodies, to ensure compliance with the said requirements, including independence before their appointment