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10 December 2024

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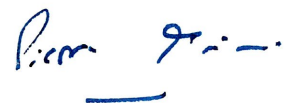United Nations, NY 10017

Excellency,

The Panel of External Auditors held its 64th session at UNESCO Headquarters, in December 2024. In its discussions, the Panel considered the work of its Technical Group. The Panel's letter provides 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 (CEB). The Panel welcomed your comprehensive response to its previous letter. The Panel looks forward to your reply once again, and to being available to the CEB's network to engage on the areas highlighted in the attached annex.

The Panel's agenda this year focused on three key strategic issues relevant to its mandate: climate change; financial and management transparency; and digital.

1. On climate change, the Panel welcomes initiatives such as *Greening the Blue* but underscores the need for robust assurance processes to validate environmental sustainability data and stresses the importance of transparency in reporting environmental strategies. The Panel highlights the value of this reporting to enhance accountability and stresses the importance of alignment with emerging standards. The Panel outlines INTOSAI work being undertaken to strengthen the audit responses to these developments.

2. The Panel noted opportunities to improve financial and performance reporting by integrating financial reporting with programmatic and sustainability outcomes into a single annual report. A holistic reporting approach would provide Member States with a more accessible and clearer understanding of resource allocation and organizational achievements. Additionally, the Panel noted further opportunities to enhance transparency by improving reporting of losses and special payments. This would strengthen accountability and learning from cases of loss. Such transparency will foster donor confidence and set a benchmark for international organisations to follow.

3. On digital issues, the Panel notes efforts under the Digital Technology Network to address persistent ICT challenges but calls for greater alignment across UN organizations to resolve governance, cybersecurity, and system migration issues. It stresses the importance of robust controls in shared service arrangements, leveraging assurance reports, and integrating continuous risk assessments to strengthen controls and systems. Furthermore, the Panel highlights the growing role of Artificial Intelligence and big data analytics and welcomes engagement with the CEB Network in this area.

Yours sincerely,

Mr. Pierre Moscovici
Chair of the United Nations Panel of External Auditors
First President of Cour des comptes, French Republic
Member of the United Nations Board of Auditors

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Annex

Areas Highlighted Year 2024

Climate Change and Sustainability issues

1.   The Panel acknowledges the vital leadership role of the United Nations in supporting Member States to confront the challenges and risks posed by climate change. As external auditors of the UN system, the Panel continues to emphasize the necessity for transparency in measuring and reporting the UN's own environmental and climate impacts. Accurate and comprehensive reporting is crucial to demonstrate accountability and leadership. In the 2022 letter, the Panel underscored the importance of a coordinated system approach to climate change. This remains paramount, and the Panel welcomes initiatives like "Greening the Blue", which provide valuable insights into the UN system's environmental performance.

2.   Ensuring the credibility of the UN's environmental data requires robust assurance processes. Since 2022, the International Organization of Supreme Audit Institutions (INTOSAI) community has coordinated the development of assurance methodologies for validating nationally reported data on climate impacts. The Panel is committed to exploring how these approaches can be adapted to validate data collected by the UN system. As Panel members implement their audit work across entities, they will share emerging good practices to strengthen data assurance and reporting.

3.   The Panel also highlights the importance of transparency in communicating environmental strategies and climate initiatives across UN entities. Clearly articulating these efforts better enables the system to provide a holistic view of its performance, fostering lessons learned, supporting evaluation, and improving tracking of outcomes. Enhanced clarity and accountability in this area will not only strengthen internal coherence but also demonstrate the UN's commitment to addressing climate change.

4.   The United Nations must remain a global leader in sustainability and accountability. The Panel continues to recognize the progress made in sustainability reporting and highlights the ongoing International Public Sector Accounting Standards Board (IPSASB) project as a cornerstone of these efforts. To maintain its position, the UN should:

- proactively adapt to emerging sustainability reporting standards, ensuring alignment with international best practices;
- promote capacity-building within its entities to embed sustainability into reporting and decision-making processes; and
- utilize sustainability reporting as a tool to enhance transparency, accountability, and strategic decision-making.

5.   Your leadership in this area will reaffirm the UN's commitment to sustainable development and inspire others to follow suit. Panel members will work with the Finance & Budget Network as the frameworks emerge and the Panel will consider an appropriate response in line with the guidance being developed by INTOSAI on audit of sustainability reporting.

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Financial and budgetary performance reporting

6.   The Panel has identified cross-cutting weaknesses that negatively impact the efficiency and effectiveness of operational performance throughout the organization. The Panel is of the view that more proactive measures need to be put in place to ensure better stewardship of the resources entrusted to the system entities. The Panel recognizes the centrality of results-based budgeting as a key accountability mechanism and as a performance measuring tool for Member States. UN organizations invest significant effort in reporting on both financial and programmatic performance, often as separate processes and present to governing bodies in separate distinct documents.

7.   In the Panel's view, there is an opportunity to develop a more integrated approach to reporting and aligning financial performance with a summary of the key programmatic outcomes, and sustainability metrics into a single annual report. This would offer Member States a more accessible and holistic view of annual performance, including revenues from all streams (contributions, self-generated revenues, etc.). Reporting in this way will align with best practices in corporate reporting, where financial and operational results are presented together for clarity.

8.   Integrated reporting would enable Member States to better understand the organization's activities and resource consumption and its alignment with strategic objectives. It would also serve as a platform to articulate future priorities and goals, fostering transparency and enhancing accountability across the UN system.

Oversight of Internal Justice Systems and Investigations

9.   The Panel discussed the relatively high prevalence of investigation activity into alleged wrongdoing, including those against senior management in various UN system entities. The credibility and reputation of the UN rests heavily on the trust it garners from its stakeholders, including its staff. Ensuring robust oversight of internal justice systems and investigative mechanisms is essential and supports more timely and efficient resolution of concerns. The Panel discussed the need for processes to be reviewed against the good practices identified in previous JIU Reports. The Panel underscores the importance of effective:

- internal justice mechanisms: to regularly review the effectiveness of internal grievance processes, including internal mediation and external ombuds arrangements;
- whistleblowing frameworks: proactively encouraging staff members to report misconduct through well-publicized, secure, and independent channels that protect whistleblowers from retaliation while providing protections against malicious allegations;
- triage and tracking mechanisms: instituting a systematic approach to record, prioritize and address cases efficiently and equitably, avoiding undue delays and to demonstrate accountability in tracking and closing allegations and investigations; and
- independent oversight: reinforcing the independence and impartiality of investigation arrangements, ensuring that they are free from undue influence and conducted with the utmost professionalism.

10.   The Panel encourages continued efforts to embed these principles into all UN entities to enhance transparency and trust and ensure timely and efficient administration of internal justice.

11.   The Panel underlines the importance of independent oversight, particularly oversight committees and internal audit, as a vital component of internal control and governance which are important elements of audit assurance in the UN system.

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Enhanced transparency of losses and special payments

12.   In prior years' letters, the Panel has stressed the importance of transparency in reporting cases of fraud, to improve donor confidence and to drive improvement in mitigating controls. In discussions this year, the Panel considered the adequacy of wider reporting of losses, and not limiting these to fraud.

13.   Under many entities existing Financial Regulations, disclosures of frauds, losses and other special payments are relatively limited in scope. Where entities are required to report, it is often only to the external auditors and other relevant oversight bodies. There is no standardized framework for their aggregation or systematic inclusion in financial statements. The current approach lacks transparency and risks under-communicating critical issues to Member States and donors, potentially eroding confidence in the organization's financial stewardship.

14.   In the Panel's view, there are opportunities for more comprehensive disclosures within financial statements for losses and special payments, requiring organizations to report losses (for example, frauds, abandoned claims, and administrative failures) with descriptions, including their causes and amounts. Disclosures of special payments, such as compensation payments, ex gratia payments, and write-offs, should be accompanied by a justification for their occurrence.

15.   In the Panel's view, more transparent reporting would enhance confidence, demonstrate a commitment to learn lessons from losses incurred and enhance a greater culture of accountability. In adopting enhanced disclosure practices, UN system entities would not only demonstrate commitment to accountability but also set a benchmark for transparency in other international organizations. Panel Members would be available to support further discussions on this.

Engagement with Chief Executives Board (CEB) networks

16.   The Panel met with representatives from various CEB networks and welcomes this continued engagement on the developments, challenges and risks relevant to the Panel's work. The Panel noted the continued pressure on resources and the uncertainty arising from macro-economic challenges. Having raised the importance of greater collaboration with the Task Force on Accounting Standards (TFAS) in previous letters, the Panel welcomed the discussion on the challenges, on both sides, in achieving full harmony on guidance. The Panel would suggest engaging with the TFAS at a working group level on guidance, enabling emerging issues to be discussed and to ensure any areas of disagreement are clearly communicated.

17.   As highlighted earlier, the Panel would also wish to engage early on emerging sustainability reporting guidance and how measurement systems, validation routines and the role of external audit are being defined. The Panel also noted that the Finance and Budget Network has agreed a UN system Responsible Investment Statement (RIS). Panel members look forward to this becoming more embedded in individual entities own investment guidance, alongside more traditional matters such as preservation of capital and the need for robust investment management and oversight. The Panel looks forward to being briefed in a future meeting about the CEB review of the RIS, and the extent to which entities have reported their performance against the statement.

Digital Issues

18.   The Panel acknowledges the efforts of the UN's Digital Technology Network (DTN) in fostering cooperation and collaboration on digital and technology-related matters like the development of an updated system wide minimum cybersecurity standard. Nonetheless, the Panel observed that IT systems across UN

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organizations were not fully aligned with the respective entities' IT governance policies and have highlighted persistent issues. These include delays in migrating legacy systems, inadequate segregation of duties controls, inconsistent adherence to business change management procedures, weaknesses in business continuity and disaster recovery planning and the vulnerabilities in information systems security. The Panel encourages the DTN to be leveraged to address these challenges collectively, disseminate lessons learned and enhance efficiency of digital operations across the UN systems. The Panel would appreciate engagement with the DTN in a future meeting.

19.   The increasing reliance of UN entities on internal and external shared services, presents unique challenges and audit risks. The Panel recognizes the intent of the introduction of the principle of mutual recognition, but this can lead to some ambiguity over management responsibility for related internal controls. In shared service arrangements, management must establish clear accountability and oversight by defining roles and responsibilities before finalizing agreements, ensuring accountability remains intact even when operations are outsourced. Entities should obtain and review annual assurance reports, such as service organization control reports, including from other UN entities, to gain insights into the adequacy of controls at the service provider, which are crucial for maintaining oversight of the control environment. Within the UN system, entities managing shared services must ensure robust internal controls are in place, regularly evaluated, and effectively communicating results of these reviews across all participating organizations.

20.   Additionally, continuous risk assessment is essential. UN entities should regularly assess financial and operational risks associated with shared services, adapting controls and oversight mechanisms as needed. This would provide greater assurance over internal controls, enhance the reliability and transparency of financial reporting and serve to mitigate audit risks and duplication of audit efforts, improving ICT governance. By adopting these principles, UN entities can strengthen stakeholder confidence in their management of shared services, especially since a growing number of users are entering into new service arrangements in critical areas of financial reporting like the implementation of the QUANTUM ERP system.

21.   The Panel underscores the importance of leveraging big data analytics to enhance inter-agency collaboration. The Panel noted the work of the CEB and the recent UN White Paper on artificial intelligence (AI) Governance. These developments underscore a system-wide commitment to leveraging AI for inclusivity, reducing inequalities, and advancing the Sustainable Development Goals. The Panel further noted the Principles for the Ethical Use of AI in the UN System, which emphasize transparency, fairness, accountability, and sustainability across the AI lifecycle. The Panel would welcome engagement with the inter-agency working group on Artificial Intelligence at a future meeting.