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Financial reports and audited financial statements, and reports of the Board of Auditors

Financial reports and audited financial statements and reports of the Board of Auditors for the period ended 31 December 2011

Report of the Advisory Committee on Administrative and Budgetary Questions

I. Introduction

1. In accordance with regulation 7.12 of the Financial Regulations and Rules of the United Nations (ST/SGB/2003/7 and Amend.1), the Advisory Committee on Administrative and Budgetary Questions received copies, some in advance form, of the financial reports, audited financial statements and reports of the Board of Auditors for the biennium ended 31 December 2011 to the General Assembly for 17 entities of the United Nations system. In addition, the Committee had before it an advance version of the concise summary of the principal findings and conclusions contained in the reports submitted by the Board to the Assembly at its sixty-seventh session (A/67/173), as well as the report of the Secretary-General on the implementation of the recommendations of the Board on the accounts of the United Nations, the United Nations funds and programmes and the international tribunals for Rwanda and the former Yugoslavia for the financial period ended 31 December 2011 (A/67/319 and Add.1).

2. During its consideration of the reports, the Advisory Committee met with the members of the Audit Operations Committee of the Board of Auditors, who provided additional information and clarification. The Advisory Committee also met with representatives of the Secretary-General to discuss the status of implementation of recommendations of the Board.

3. The Advisory Committee was informed that the Board had used approximately 3,587 auditor-weeks during the audit cycle for the biennium 2010-2011, excluding the Board's peacekeeping audits. During the audit period, the Board issued 129 management letters to organizations on matters relating to programme and financial management. Some of the significant comments contained in those management

letters are reflected in the Board's reports to the General Assembly. In certain cases, the reports of the Board summarize the Administration's replies to its recommendations and observations, as well as additional information on measures taken and/or being taken to implement recommendations. The Advisory Committee notes that entities have generally concurred with the Board's recommendations and have proceeded to implement them. In instances in which they have not agreed with the recommendations or have indicated that they are unable to begin implementation, some entities have provided explanation.

4. The Board issued unmodified opinions for 15 entities (the United Nations, the International Trade Centre, the United Nations University (UNU), the United Nations Development Programme (UNDP), the United Nations Children's Fund (UNICEF), the United Nations Institute for Training and Research (UNITAR), the Office of the United Nations High Commissioner for Refugees (UNHCR), the United Nations Environment Programme (UNEP), the United Nations Population Fund (UNFPA), the United Nations Human Settlements Programme (UN-Habitat), the United Nations Office on Drugs and Crime, the United Nations Office for Project Services (UNOPS), the International Criminal Tribunal for Rwanda, the International Tribunal for the Former Yugoslavia and the United Nations Joint Staff Pension Fund. With respect to the two remaining entities, the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) and the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women), the former received an unmodified opinion with an "other matter" paragraph and the latter received a modified audit opinion with emphases of matter (see paras. 50 and 51 below). No entities received a qualified audit opinion.

5. The Advisory Committee notes that the total number of modified opinions for the financial period ended 31 December 2011 declined significantly compared with the 2008-2009 period, when modified audit reports with various emphases of matter were issued for seven entities and a qualified audit opinion was issued for UNFPA. In its concise summary, the Board of Auditors reported that the reduction in the quantity of modified opinions reflected a revision of the International Standards on Auditing intended to provide greater clarity on emphases of matter and requiring stricter application criteria. Meaningful comparisons between the two periods could not therefore be made. The Board acknowledged, however, that improvements on the part of the Administration had been made, particularly in the area of managing and reporting non-expendable property, reflecting the preparations required for the implementation of the International Public Sector Accounting Standards (IPSAS) (A/67/173, para. 3 (b)).

6. The table below summarizes the opinions issued by the Board on the financial statements of each entity for the financial period ended 31 December 2011:

Organization		Audit opinion
1.	United Nations (A/67/5 (Vol. I))	Unmodified
2.	International Trade Centre (A/67/5 (Vol. III))	Unmodified
3.	United Nations University (A/67/5 (Vol. IV))	Unmodified
4.	United Nations Development Programme (A/67/5/Add.1)	Unmodified
5.	United Nations Children's Fund (A/67/5/Add.2)	Unmodified
6.	United Nations Relief and Works Agency for Palestine Refugees in the Near East (A/67/5/Add.3)	Unmodified with one other matter
7.	United Nations Institute for Training and Research (A/67/5/Add.4)	Unmodified
8.	Office of the United Nations High Commissioner for Refugees (A/67/5/Add.5)	Unmodified
9.	United Nations Environment Programme (A/67/5/Add.6)	Unmodified
10.	United Nations Population Fund (A/67/5/Add.7)	Unmodified
11.	United Nations Human Settlements Programme (A/67/5/Add.8 and Corr.1)	Unmodified
12.	United Nations Office on Drugs and Crime (A/67/5/Add.9)	Unmodified
13.	United Nations Office for Project Services (A/67/5/Add.10)	Unmodified
14.	International Criminal Tribunal for Rwanda (A/67/5/Add.11)	Unmodified
15.	International Tribunal for the Former Yugoslavia (A/67/5/Add.12)	Unmodified
16.	United Nations Joint Staff Pension Fund[a] (A/67/9)	Unmodified
17.	United Nations Entity for Gender Equality and the Empowerment of Women[b] (A/67/5/Add.13)	Modified with emphasis of matter and one other matter
18.	Capital master plan[c] (A/67/5 (Vol. V))	Not applicable
19.	United Nations enterprise resource planning system[c] (A/67/164)	Not applicable

[a] The audit report on the accounts of the Joint Staff Pension Fund is included in the report of the United Nations Joint Staff Pension Board.
[b] Entity established on 1 January 2011.
[c] The financial statements are consolidated with those of the United Nations.

7. The present report contains the observations and recommendations of the Advisory Committee on the reports of the Board of Auditors on the financial reports and audited financial statements of the United Nations and its funds and programmes for the period ended 31 December 2011. In section II, the Advisory Committee makes general observations and recommendations on the reports of the Board. Section III specifically addresses the Board's findings relating to the activities of the United Nations, and section IV deals with those relating to the United Nations funds and programmes.

8. The Advisory Committee's comments and recommendations on the report of the Board of Auditors on the United Nations Joint Staff Pension Fund for the biennium ended 31 December 2011 (A/67/9, annex X) will be reflected in the context of its forthcoming report on the Fund. Similarly, the Committee will comment on the audit reports on the International Criminal Tribunal for Rwanda (A/67/5/Add.11, chap. II) and the International Tribunal for the Former Yugoslavia (A/67/5/Add.12, chap. II) in the context of its consideration of the performance reports of the tribunals. Concerning the capital master plan (see A/67/5 (Vol. V)), the Committee will comment on the Board's audit findings in the context of the tenth progress report of the Secretary-General on the capital master plan. The Committee will also comment separately on the Board's findings on the implementation of the United Nations enterprise resource planning system (A/67/164) and the implementation of IPSAS (A/67/198) in the context of its consideration of the Secretary-General's reports on those subjects. The audit report on the accounts of the United Nations peacekeeping operations for the financial period from 1 July 2010 to 30 June 2011 (A/67/5 (Vol. II), chap. II) will be considered by the Advisory Committee early in 2013. A list of the audit reports appears in the table above. Furthermore, the Committee will draw upon the Board's observations in the context of its consideration of various subject reports during its current session.

9. Prior to its hearings with the Board of Auditors, the Advisory Committee met with the representatives of UNHCR in the context of the review of its revised biennial programme budget for the period from 2012 to 2013. The Committee's report to the UNHCR Executive Committee contained a number of comments relating to the report of the Board. The Advisory Committee will follow up, as necessary, on the Board's observations and recommendations during its review of the biennial budgets of other United Nations entities for the next fiscal period.

II. General observations and recommendations

10. The Advisory Committee continues to appreciate the work of the Board of Auditors and the continued high quality of its reports, which, in the Committee's view, are well structured and easy to read. The Committee reiterates its appreciation for the concise summary of principal findings and conclusions (A/67/173), which highlights areas of concern across the United Nations and its entities. The Committee also welcomes the Board's submission of topic-specific reports, for example, on the capital master plan, the implementation of the United Nations enterprise resource planning system and the implementation of the International Public Sector Accounting Standards. The Advisory Committee wishes to recall its previous suggestion that the concise summary report of the Board should include paragraph references that cross-reference findings and observations to entity-

specific and thematic reports (A/65/498, para. 8). While the Committee acknowledges that it is up to the Board to determine how it conducts its audits, the Committee believes that it would be valuable if the Board paid particular attention to the risk exposures of the various entities under its purview, irrespective of size or budgetary level.

11. The Board has included an annex in each of its reports showing the status of implementation of the Board's recommendations for the biennium ended 31 December 2009. Upon request, the Advisory Committee was provided with the table below, showing the total number of recommendations made since the biennium 2000-2001, the comparable implementation rates and updated data for the biennium 2010-2011:

Status of implementation of recommendations

Period	*Number of recommendations*	*Fully implemented*	*Percentage*	*Under implementation*	*Percentage*	*Not implemented*[a]	*Percentage*
2000-2001	378	172	45.5	178	47.1	28	7.4
2002-2003	509	235	46.2	230	45.2	44	8.6
2004-2005	651	342	52.5	276	42.4	33	5.1
2006-2007	507	238	46.9	237	46.7	32	6.3
2008-2009	546	377	69.1	129	23.6	40	7.3
2010-2011[b]	338	45	13.3	277	82.0	16	4.7

[a] Includes recommendations that were not implemented because they were overtaken by events and/or not accepted by the Administration.

[b] Data were obtained from the reports of the Secretary-General on the implementation of the recommendations of the Board of Auditors (A/67/319 and Add.1) and do not include information on the United Nations Joint Staff Pension Fund, UNHCR or the capital master plan. The reports relating to UNHCR and the capital master plan are submitted on an annual basis.

12. The table above indicates that progress is being made in the rates of implementation of the Board's audit recommendations. The Advisory Committee notes that the Board has welcomed the progress made in this regard. Nevertheless, the Board has stressed the need for the Administration to establish a dedicated follow-up mechanism to increase accountability for the implementation of recommendations. It has also highlighted the need for management to take greater ownership for implementing recommendations to effectively address the root causes of the problem identified by the Board (A/67/173, para. 79). Upon request, the Committee was provided with background information on several areas with respect to which the Administration did not agree with the Board's recommendation. The Administration also confirmed that the Board's "main", or high-risk, recommendations were prioritized for implementation. **The Advisory Committee believes that the Administration, in the interests of the Organization, must give priority attention to the most serious problems identified by the Board of Auditors. The Committee also underlines the importance of achieving concurrence, to the extent possible, between the Secretary-General and the Board on the latter's recommendations and recommends that, in instances of the divergence of views, greater collaborative efforts be made to find resolutions, including through the jointly developed plans for remedial action.**

13. The Board indicates that it has continued its coordination and collaboration with the internal audit services of the United Nations funds and programmes and with the Office of Internal Oversight Services (OIOS) and, when appropriate, utilized the working papers relating to recent internal audits as a basis for its own audit reviews. **The Advisory Committee appreciates the continued coordination and collaboration of the Board of Auditors with other oversight bodies, including the Office of Internal Oversight Services and internal audit services of the United Nations funds and programmes, as well as the Joint Inspection Unit. The Committee reaffirms that, to the extent that oversight entities can rely on one another's work, this approach facilitates complementarity of the oversight functions of the United Nations and its entities, thus resulting in a more efficient use of resources.**

14. The Advisory Committee recalls that the General Assembly, by its resolution 60/248, established the Independent Audit Advisory Committee to assist it in fulfilling its oversight responsibilities with respect to the United Nations. Subsequently, a number of equivalent bodies have been established in other United Nations entities, including funds and programmes. The Committee notes the continued emergence of audit oversight committee arrangements across a number of United Nations entities. These committees generally serve to provide guidance on oversight arrangements and coverage. During the period under review, the Board of Auditors observed, moreover, that such committees often have a role in challenging and holding the executive to account for managing risks and maintaining effective control (A/67/5 (Vol. I), chap. II, para. 177). The Board noted, however, that the membership and reporting lines for these committees varied somewhat across different entities. For example, at UNRWA, the relevant committee had originally been chaired by the Deputy Commissioner-General, which had had the potential to compromise its independence from the entity's management (A/67/5/Add.3, chap. II, para. 166). Similarly, during its review of a revised biennial programme budget of UNHCR, the Advisory Committee observed that the Independent Audit and Oversight Committee, established by the UNHCR Standing Committee in June 2011, foresaw a dual reporting line, to the High Commissioner and the UNHCR Executive Committee. Upon request, the Board provided the Advisory Committee with a list of generally accepted audit committee principles and identified good practices from the Representatives of Internal Audit Services of the United Nations Organizations and Multilateral Financial Institutions, annexed to the present report, which include the recommendation that such committees be composed entirely of independent external members of the entity, with a direct reporting line to the governing body. **The Advisory Committee therefore recommends that, given the important role that these entities perform, the governing bodies keep the matter of audit oversight committees under close review in order to ensure their independence and objectivity through harmonized reporting lines and equivalent membership across the organizations of the United Nations system.**

15. The Advisory Committee previously noted, in its report on the reports of the Board of Auditors for the financial period 2008-2009, that under IPSAS the United Nations and its entities would produce financial reports on an annual, instead of a biennial, basis (A/65/498, para. 13). This will have an impact on the programmes of work of the Board of Auditors, the General Assembly and the Advisory Committee itself. In the annex to the report of the Advisory Committee on the proposal to clarify and enhance the role of the Board of Auditors in the conduct of performance

audits (A/66/806), the Committee clarified the impact of IPSAS on the reporting requirements of the Board of Auditors. In this context, the Committee was informed that whereas currently the Board produced 28 reports in a biennium reporting year and 9 in a non-biennium reporting year, 8 additional reports would be submitted in 2013 because of the adoption of IPSAS by a number of entities and that, from 2014 onwards, the Board would be submitting a total of 28 reports annually. In addition, the quantity of information and the associated time requirements for the review of these reports in the Advisory Committee and the intergovernmental bodies would increase. In this connection, the Secretary-General, in his report on the proposed revisions to the Financial Regulations of the United Nations for the adoption of IPSAS, noted that the approval of annual audits would have widespread impact, including on the work programmes of the Advisory Committee, the Fifth Committee and the General Assembly (A/67/345, para. 17).

16. **The Advisory Committee believes that the implications of the adoption of IPSAS for the work of the Advisory Committee, the Fifth Committee and the General Assembly require urgent and immediate consideration, given that a number of United Nations entities will be adopting the Standards in 2013. While in the interim the Committee will reflect on the impact of IPSAS reports on its work, it also recommends that the Assembly address this issue as a matter of priority no later than during the main part of the sixty-seventh session.**

17. The Advisory Committee notes the Board's repeated observations and recommendations regarding a number of cross-cutting issues that remain unresolved and the failure by management to address them, which may expose the United Nations and its entities to financial risk and lead to insufficient accountability. For example, observations concerning the inconsistent treatment of end-of-service liabilities persist, despite an explicit IPSAS requirement for their disclosure (see paras. 35 and 36 below). Another area of concern relates to persistent deficiencies in controls over non-expendable property and the need for more rigorous oversight and monitoring (see paras. 43, 44 and 61 below). The adoption of IPSAS requires a profound change in the disclosure of and accounting for such assets and liabilities. **The Advisory Committee recalls paragraphs 10 and 11 of General Assembly resolution 62/223 A, in which the Assembly reiterated its request to the Secretary-General to provide a full explanation for delays in the implementation of the recommendations of the Board of Auditors. The Committee requests the Secretary-General to implement the recommendations of the Board of Auditors in a timely manner.**

18. The Advisory Committee also notes that the level of explanatory detail contained in the Secretary-General's report on the implementation of the Board of Auditors' recommendations (A/66/319 and Corr.1) continues to be limited and does not always allow for a full understanding of the remedial action taken in response to the Board's recommendations. In addition, the Committee notes that some entities disclose useful supplementary detail on the implementation of Board recommendations to their governing bodies. For example, in addition to the brief summary included in the Secretary-General's report to the General Assembly, UNHCR provides more details in a separate report to its Executive Committee. **The Advisory Committee recommends that the Secretary-General provide additional explanatory detail to the General Assembly on actions taken to**

implement the recommendations of the Board of Auditors and/or factors preventing their full implementation.

19. In its concise summary, the Board also made the general observation that the concept of management accounting was not well developed across the United Nations and its funds and programmes (A/67/173, para. 20). Upon request, the Board provided the Advisory Committee with a detailed definition of the concept, explaining that management accounting, as distinct from the prescribed financial reporting requirements produced for intergovernmental consideration, would be primarily for internal use by programme managers. Management accounting reports typically provided programme managers with more timely, forward-looking information for better programme management, more informed decision-making and increased managerial control over resources. The Board indicated in its explanation that the effective use of management accounts presupposed the existence of reliable cost information and a viable reporting functionality. The Board noted that some entities, including UNRWA, UNDP and the United Nations, were committed to the introduction of such a concept. In the case of the United Nations, the capacity for the production of management accounts was being built into the design of its new enterprise resource planning system (Umoja) (A/67/173, para. 20). Upon enquiry, the Committee was informed by the Board that the introduction of management accounting should not increase costs and should be approached in a manner proportionate to the needs of the business. Management accounting information was, according to the Board, straightforward to generate without creating unnecessary overheads. **The Advisory Committee concurs with the observations of the Board of Auditors in this regard.**

III. United Nations

20. The main recommendations of the Board regarding the accounts of the United Nations for the financial period ended 31 December 2011 are summarized in its relevant report (A/67/5 (Vol. I), chap. II, summary). The Board issued an unqualified opinion with regard to the financial statements of the United Nations. In the paragraphs below, the Advisory Committee highlights a number of key issues that the Board raised concerning the United Nations. Some of the observations and recommendations made by the Committee in this section, in particular those on IPSAS and after-service health insurance, also apply to the other organizational entities covered by the Board's audits. Observations and recommendations relating solely to the other organizational entities are set out in section IV.

Major business transformation projects

21. The Board noted in its concise summary report that the United Nations was in the midst of four large-scale business transformation projects (A/67/173, para. 64). For the period under review, the Board reported separately on the progress made on three of the projects: Umoja, IPSAS and the capital master plan (A/67/164, A/67/168 and A/67/5 (Vol. V), respectively). In addition, it made observations on a fourth project, the global field support strategy, in its most recent report on peacekeeping operations (A/66/5 (Vol. II), chap. II, paras. 197-213).

22. As the Board pointed out, all of these projects were crucial drivers in modernizing the Organization. The Board conceded that each would be immensely

challenging, even in a stable and homogenous organization (A/67/5 (Vol. I), chap. II, para. 179). The Board highlighted the need for a realistic and holistic assessment of the ability of the United Nations to absorb these fundamental changes simultaneously, while continuing to deliver its ongoing mandates. It also stressed the need for a coherent and articulated strategic vision for change. Specifically, the Board cited the lack of an end-state vision for each of the projects together with an action plan to realize it (A/67/173, paras. 64-67).

23. Furthermore, the Board noted a lack of complete and transparent reporting on progress, costs and budgets. For example, it indicated that the capital master plan cost overruns reported by the Administration for the period ended in March 2012 totalled $430 million (A/67/5 (Vol. V), para. 15). The Advisory Committee recalls that associated costs were explicitly excluded from the project's original budget pursuant to the recommendations of the Committee and decisions of the General Assembly on the project budget (see resolution 61/251). In the Board's view, the amount of the total project cost should have been highlighted to the Assembly sooner, reflecting a need for more analytical and complete cost forecasting across the life of the project. In addition, the Board indicated that it could not provide adequate assurances that the project's anticipated forecast of final cost was sufficiently robust. It noted that the Office of the Capital Master Plan had been unable to provide evidence to support a $9 million increase in change order costs relating to work in the basement and $2 million in increased professional fees and management costs in individual change orders at the time of the audit. In addition, $30 million in forecasted cost increases were not supported by auditable evidence (A/67/5 (Vol. V), para. 17).

24. With regard to Umoja, the Board expressed similar reservations concerning the validity and accuracy of the cost projections for the project and the exclusion of significant associated costs from the anticipated final project cost (A/67/164, paras. 63-77). The Board also noted that the deferral of certain project functionalities in order to stay within budget might place the achievement of the aims of the project at risk (A/67/164, para. 68).

25. The Advisory Committee also notes the Board's observations regarding the absence of effective internal governance mechanisms for both the capital master plan and Umoja. With respect to the capital master plan, the Board found it unusual that a project of this nature did not have a high-level steering committee (A/67/5 (Vol. V), para. 54). In the case of Umoja, the Board noted that the Steering Committee established to oversee project implementation did not have clearly defined roles and responsibilities, nor did the project have a senior responsible owner with clearly defined authority and lines of responsibility (A/67/164, paras. 93-98). Consequently, the Board concluded that United Nations senior management had not provided the project team with the level of oversight and challenge that would have been expected for projects of this scale and complexity.

26. **The Advisory Committee expects that the Secretary-General will ensure that the lessons emanating from the implementation of major business transformation projects currently under way are incorporated into ongoing and future project initiatives. To this end, the Committee shares the concerns of the Board of Auditors regarding the lack of an end-state vision for each of the projects and the absence of a realistic assessment with respect to the ability of the Organization to absorb fundamental change simultaneously. The**

Committee also regrets the recurrence of serious gaps and lack of robustness in the preparation of cost projections for large-scale projects. It recommends that the Secretary-General submit full cost estimates to the General Assembly, irrespective of the source of funding, for future projects of this magnitude, at the time of their approval, along with a projection of expected benefits. The Advisory Committee also recommends that the Secretary-General manage such projects to limit the possibility of the de-scoping or deferral of key project deliverables as a means to contain cost or time overruns. In order to fully realize the expected benefits of such projects, the Committee stresses, in principle, that the full scope of all projects, as approved by the General Assembly, should be delivered.

27. In addition, the Advisory Committee concurs with the Board's observations regarding the weaknesses of internal governance mechanisms for projects of this nature and recommends that the Secretary-General review such arrangements for all current and future large-scale, transformational projects to ensure that adequate vetting and oversight are in place.

Implementation of the International Public Sector Accounting Standards

28. The Advisory Committee intends to comment further on the implementation of IPSAS in the context of its consideration of the fifth progress report of the Secretary-General on the adoption of the International Public Sector Accounting Standards by the United Nations (A/67/344). At this stage, therefore, the Committee makes comments and observations of a general nature.

29. While the Board noted that significant progress had been made, with implementation on track in seven funds and programmes, it expressed concern that four entities (the Secretariat, the United Nations peacekeeping operations, UN-Women and UNU) were at high risk of not being in a position to produce IPSAS-compliant statements by their target implementation dates. The Board expressed its belief that the focus had been largely on the achievement of the technical and practical delivery of the IPSAS requirements. Entities had not yet developed clearly articulated benefits realization plans so that the advantages of adopting IPSAS could be properly realized, including the provision of improved information for review, analysis and decision-making and better insight into programme performance (A/67/168, paras. 13-20). **The Advisory Committee concurs with the observations made by the Board of Auditors, particularly with respect to the need for extra effort on the part of the entities at risk of not meeting target implementation dates and the recommendation that all entities establish clear benefits realization plans.**

30. Finally, the Board noted that there was a lack of clarity as to whether the International Tribunal for the Former Yugoslavia/International Criminal Tribunal for Rwanda should prepare for IPSAS implementation, in view of the planned closure of the tribunals by the end of 2014. Upon enquiry, the Advisory Committee was informed that the Administration had expressed the view that the preparation of IPSAS-compliant statements for closing entities was a lower-priority task. However, in the case of the tribunals, the Administration stressed that the Residual Mechanism, which is the successor entity to the two tribunals, would benefit from the necessary preparatory work to ensure that the transfer of assets and recording of opening balances for those entities were indeed IPSAS-compliant.

Financial and related matters

31. The Board noted that there had been an overall upward trend in cash holdings and investments across the United Nations and its funds and programmes during the financial period ended 31 December 2011. Cash and investment balances were approximately 5 per cent higher compared with the balances held at the end of the previous biennium (A/67/173, para. 9). The Advisory Committee also notes the relatively high market value of cash and investment balances held by the United Nations Joint Staff Pension Fund as at 31 December 2011, an increase of 3 per cent compared with the previous biennium (A/67/9, chap. II, para. 16). Upon enquiry, while the Board explained that higher levels of cash and investments did not necessarily reflect a negative state of affairs, it expressed concern that the Secretary-General was not able to provide a clear explanation for this trend and had not ensured a commensurate enhancement of internal controls in connection with these elevated cash balances. The Committee was also informed by the Administration that the Organization had limited control over the timing of different funding streams, including the payment of assessed contributions. It was also informed that funds were commonly earmarked or budgeted for specific purposes and could not therefore be redeployed for alternative uses. **Notwithstanding the Administration's explanations, the Advisory Committee concurs with the recommendation of the Board of Auditors that the Administration maintain active oversight over the level of cash which it holds at the entity level, explain the rationale for such holdings and implement reinforced controls to safeguard these balances.**

32. One of the main concerns of the Board related to the weak operation of controls over monies provided to third parties by the Office for the Coordination of Humanitarian Affairs, particularly those intended for active emergency responses, which totalled $233 million for the biennium 2010-2011 (A/67/5 (Vol. I), chap. II, para. 26). According to the Board, the Office could not, at the time of the final audit, substantiate total project expenditures on a timely basis, owing to delays in the submission of final reports confirming how funds had been utilized. However, the Office's provision of unaudited reports to the Board, along with management assurances and other substantiating evidence, made it possible for the Board to issue an unqualified audit opinion. The Board noted, however, that the low levels of site monitoring visits to some country offices reflected another gap in effective project oversight (A/67/5 (Vol. I), chap. II, para. 28). The Advisory Committee notes that these observations are very similar to previous audit concerns relating to nationally executed projects, particularly in the United Nations funds and programmes with extensive activities in the field. The Board, however, has acknowledged that UNFPA and UNHCR improved their performance in this regard during the most recent financial period.

33. **While welcoming the improvements made at the United Nations Population Fund and the Office of the United Nations High Commissioner for Refugees in the management and oversight of their field projects, the Advisory Committee emphasizes the need for effective monitoring and oversight of funds provided to third parties for project implementation organizations of the United Nations system. It recommends that lessons learned from the experiences revealed by the Board across funds and programmes should be applied to all field-based operations.**

34. The Board also noted that there continued to be gaps in disclosure of income and expenditures in the financial statements. For example, the Board considered that the $44 million regular budget contribution to the United Nations Office on Drugs and Crime should be included in that entity's financial statements in accordance with principles set out in the Financial Regulations and Rules of the United Nations (A/67/5/Add.9 and Corr.1, chap. II, para. 14). In the case of the Office for the Coordination of Humanitarian Affairs, the Board raised concerns over the accounting treatment for $233 million expensed to its emergency response fund projects when substantiation confirming how funds had been utilized was lacking. Finally, the Board noted that the funding provided to mandate holders addressing specific country situations or global thematic issues (special procedures), established by the Human Rights Council, was not fully and transparently disclosed in the financial statements of the United Nations (A/67/5 (Vol. I), chap. II, paras. 66-69). Upon enquiry, the Advisory Committee was informed that the primary source of funding for the mandated work of special procedures was the United Nations regular budget. Special procedures mandate holders sometimes received support, generally in kind, outside the parameters of the Office of the United Nations High Commissioner for Human Rights. **The Advisory Committee concurs with the Board of Auditors that there should be full, transparent and accurate disclosure of all funding to the United Nations and its entities, regardless of source.**

After-service health insurance and end-of-service liabilities

35. In accordance with General Assembly resolutions 60/255 and 61/262, the Administration was tasked with changing the presentation of end-of-service and post-retirement liabilities from disclosure in the notes to the financial statements to accounting and presentation on the face of the financial statements. The Advisory Committee's previous report on the reports of the Board of Auditors referred to the Board's observation that there was considerable variance in the disclosure of these liabilities (A/65/498, para. 22). The Board proposed that organizations consider revising disclosure policies for valuation of leave liabilities during their implementation of IPSAS. Furthermore, it noted that most organizations had still not made a decision regarding the funding of these future liabilities (A/65/498, para. 24).

36. In its most recent report, the Board noted that this matter had still not been resolved and that no specific funding plans had been developed in the course of the biennium ended 31 December 2011 (A/67/173, para. 16). The Advisory Committee recalls that for the United Nations Secretariat this issue will be addressed in the context of the report of the Secretary-General on managing after-service health liabilities, requested by the General Assembly in its resolution 64/241, which will now be submitted at its sixty-eighth session. The Committee recalls the concern of the Board that entities might not be in a financial position to fully meet their obligations when end-of-service liabilities actually fall due. **The Advisory Committee agrees that funding streams for the voluntarily funded entities and activities are less predictable and could pose challenges for the development of binding funding arrangements for future end-of-service liabilities.**

Results-based budgeting

37. The Board has again found serious problems in the implementation of results-based budgeting and results-based management. First, it pointed out that the General Assembly's recommendation, contained in its resolution 64/259, that the Secretary-General assign the responsibility for the successful implementation of results-based management methodology throughout the Secretariat to a relevant member of his senior management team had not been implemented during the 2010/11 financial period (A/67/5 (Vol. I), chap. II, para. 156). In terms of specific deficiencies, the Board noted that the United Nations did not effectively align operational workplans with the Organization's strategic goals. Consequently, the Organization's resources might not be allocated to activities that addressed the core strategic aims of the United Nations. The Board also noted that indicators of achievement were not focused on outcomes in any of the cases sampled during its most recent audit (A/67/5 (Vol. I), chap. II, paras. 137-145).

38. In its earlier report on the reports of the Board of Auditors for the period ended 31 December 2009, the Advisory Committee noted that its own comments, as well as those of the Board and of the other oversight bodies, had had little impact on how the results-based-budgeting framework had been presented over the years (A/65/498, para. 27). The Committee recalls that the General Assembly, in its recent resolution 66/257, requested the Secretary-General to continue to take appropriate measures to accelerate the implementation of results-based management. Upon enquiry, the Committee was informed that a task force established by the Secretary-General to develop a conceptual framework for results-based management, having met several times in 2011, had decided to postpone the presentation of the framework pending the finalization of certain change management initiatives under way within the Secretariat. The Committee notes that the opportunity to introduce improvements to results-based budgeting/management for the biennium 2014-2015 is no longer possible, since the strategic framework for that period has been reviewed by the Committee for Programme and Coordination.

39. **The Advisory Committee regrets that the opportunity to introduce an improved approach to results-based budgeting and management in the context of the United Nations strategic framework for 2014-2015 has been missed. With hindsight, the Advisory Committee now questions the purpose and value of the Secretary-General's task force and the resources expended thereon. It stresses that the recommendations of the Board of Auditors to address deficiencies in the implementation of results-based budgeting should be implemented immediately. In addition, the Committee expects that any improvements to the results-based-budgeting/management framework be reflected in the strategic framework for 2016-2017, in advance of the review by the Committee for Programme and Coordination.**

Procurement and contract management

40. The Advisory Committee recalls that considerable effort has been made in recent years to address serious deficiencies in the applicable control framework for United Nations procurement. However, for the biennium ended 31 December 2011, the Board made particular observations concerning contract management, which it defined as the process of managing vendors to deliver goods and services in line with contracted terms (A/67/5 (Vol. I), chap. II, para. 91). It was noted by the Board

that as at 31 December 2011, the United Nations managed 205 active contracts across its headquarters, with a combined value in excess of $2.6 billion. Specifically, the Board noted that United Nations staff required to manage contracts had received limited or no training in these functions. Furthermore, the Board found that only 50 per cent of sample contracts included key performance indicators to measure contractor performance. The Board also noted that evaluations of contractors' performance were routinely left incomplete (A/67/5 (Vol. I), chap. II, para. 102).

41. Upon enquiry, the Advisory Committee was informed that while the Administration saw merit in the recommendations of the Board, it argued that a distinction should be made between contract administration and contract management, and maintained that the principle of segregation of duties that was at the core of the internal control system for procurement should be preserved. The Administration stated that while the contract administration function was carried out exclusively by the Procurement Division, the contract management function, which included day-to-day operational aspects of payment and receipt and inspection, was carried out by requisitioners. The Committee notes that the relevant provisions of the United Nations Procurement Manual, Revision 6, March 2010 (chap. 15), do not set out this distinction in such clear terms.

42. **The Advisory Committee emphasizes that, as past experience has demonstrated, procurement activities carry significant reputational risks to the Organization if not managed in accordance with established rules and procedures, including the stipulated provisions of the Procurement Manual. The Committee is concerned by the position taken by the Administration regarding contract management, which does not correspond to the current provisions of the Procurement Manual. The Committee stresses that this situation could lead to a lack of accountability and transparency in the procurement process. It also stresses that the principle of segregation of duties can be upheld only if there is a full understanding by all parties of their distinct roles and responsibilities. The Advisory Committee expects the Administration to rectify the situation as a matter of priority and to report on actions taken in this regard.**

Non-expendable property

43. The Board noted some overall improvement in the Administration's management and reporting of non-expendable property, owing principally to the ongoing roll-out of IPSAS, under which the accounting modality for assets would be changed (A/67/173, para. 3 (b)). Nevertheless, the Board continued to note discrepancies in accounting for non-expendable property at the United Nations. For example, following the Board's review of the inventory checks carried out by the Administration at Headquarters, it found that $2.7 million worth of non-expendable property could not be located at the time of audit. Similarly, at the United Nations Office at Geneva (UNOG), $3.7 million worth of missing items were noted, along with a $3 million overstatement in the 2010-2011 financial statements. In addition, in the concise summary it was noted that there continued to be a high risk of loss or wastage from unused non-expendable property in peacekeeping operations (A/67/173, paras. 46-47). In the context of its review of land and property for UNOG, the Board also noted that there was a lack of good historical information, particularly concerning the original cost of 10 plots of land owned by UNOG, the

cost of individual buildings on the UNOG sites and the breakdown of assets covered by the $12.3 million historic cost valuation disclosed in the financial statements. The Board concluded that the absence of good information in this regard hindered effective estate management (A/67/5 (Vol. I), chap. II, para. 43).

44. **The Advisory Committee reiterates its concern that improper accounting for non-expendable property has been a recurring theme in external and internal audit reports and requires urgent corrective action, bearing in mind that IPSAS will require more stringent reporting and valuation of such assets. The Committee also highlights the fact that similar deficiencies were observed by the Board in its audits of United Nations funds and programmes (see para. 61 below). It reiterates its recommendation that the Secretary-General take swift action to improve record-keeping and custodial control over non-expendable property and develop timelines for remedial action, along with associated benchmarks (see A/65/498, para. 31).**

Internal oversight arrangements

45. At the request of the Advisory Committee (endorsed by the General Assembly in paragraph 10 of its resolution 66/232 A), the Board assessed and reported on the internal audit arrangements of UNHCR during the financial period (A/67/5/Add.5, chap. II, para. 165). The Board noted the continuing concerns of UNHCR over the level of services currently provided by OIOS but also concluded that UNHCR had not properly considered the full implications of the alternative options for the provision of those services (A/67/5/Add.5, chap. II, paras. 185-188). Upon enquiry, the Advisory Committee was informed that UNHCR management still had the matter under review, including through the establishment of a review team to undertake a cost-benefit analysis of four different options outlined for the provision of the entity's internal audit services. It was anticipated that this work would be completed by the end of 2012. **The Advisory Committee looks forward to reviewing the results of the analysis on possible alternative options for the provision of internal audit services to UNHCR. The Committee believes that before any definitive decision is taken, an authoritative legal basis will be required, in view of the mandated remit of OIOS under resolution 48/218 B.**

46. In its reports on UNU and UNITAR, the Board also raised a number of issues regarding the agreements between those entities and OIOS on the provision of internal audit coverage. In particular, the Board noted that these matters had remained unresolved during the financial period and that no internal audit had been conducted during the period under review (A/67/5 (Vol. IV), chap. II, para. 10, and A/67/5/Add.5, chap. II, para. 9). Upon enquiry, the Advisory Committee was informed that consultations on the different servicing, staffing and financing options to ensure sustained internal audit coverage continued to be inconclusive. **The Advisory Committee believes that continued uncertainty over the internal audit arrangements could lead to a deficiency in internal control at UNU and UNITAR. The Committee is also concerned that the question of the continued provision of coverage by OIOS to United Nations entities, particularly for smaller organizations more susceptible to funding pressures, might reflect issues of a more fundamental nature. The Advisory Committee therefore suggests that in the context of the related concern regarding UNHCR discussed in the previous paragraph, the General Assembly consider the broader issue of the mandate of OIOS as a service provider to different United Nations entities.**

47. In its most recent report, the Board also noted that an OIOS evaluation concerning the structure of its own Investigations Division remained incomplete at the time of the audit (A/67/5 (Vol. I), chap. II, paras. 189-194) and recommended that any proposal be underpinned by a cost-benefit analysis and options appraisal. In addition, the Board emphasized that without a comprehensive assessment of the exposure of the United Nations to the risk of fraud, OIOS would not be able to determine the optimum level and distribution of resources to fulfil its mandated requirements (A/67/5 (Vol. I), chap. II, paras. 206-208). The Advisory Committee recalls that the question of the investigation capacity, structure and resources of OIOS has been under consideration since the fifty-seventh session of the General Assembly in the context of its review of peacekeeping operations (see resolutions 57/318, 61/275, 61/279 and 63/287). More recently, the Committee noted the interim nature of the OIOS pilot project on its centres of investigation (see A/66/779/Add.1) and recommended that OIOS submit a final report in the context of the proposed support account budget for the 2013/14 period. **The Advisory Committee concurs with the views of the Board of Auditors on the link between the potential fraud exposure of the United Nations and the structure and resources of the OIOS Investigations Division, and reiterates its recommendation that OIOS finalize its report to the General Assembly on the final results of the review of its organizational structure.**

Fraud and presumptive fraud

48. In accordance with the Financial Regulations and Rules of the United Nations, the Administration provided the Board of Auditors with a report of cases of fraud and presumptive fraud for the biennium 2010-2011. A total of 9 cases were reported, compared with 21 during the biennium 2008-2009. The cases of fraud and presumptive fraud were valued at $66,385 for 2010-2011 and at $730,049 for 2008-2009.

IV. Funds and programmes

General observations

49. As noted in paragraph 4 above, the Board of Auditors issued 15 unqualified opinions for the United Nations entities, a modified audit opinion for UN-Women and an "other matter" notation for UNRWA. The Board made no qualified audit opinions for the 2010-2011 biennium. **While the Advisory Committee welcomes the unqualified audit opinions now achieved for such entities as UNFPA and the observed improvement in the management and oversight of its nationally executed projects, the Committee also notes the Board's finding that UNOPS continues to show progress in its efforts to address previously identified control weaknesses and deficiencies. The Advisory Committee expects that all entities across the United Nations system will pay attention to issues of concern that could have an impact on the Board of Auditors' opinion with regard to their financial statements.**

50. In respect of UNRWA, the Board issued an unmodified opinion with an "other matter" paragraph reflecting the impact of low funding and cash levels on the entity's internal control (A/67/5/Add.3, chap. I). The Board drew attention to the entity's financial statements, which described an operating deficit of $33.67 million

in its regular unearmarked funds, the very low level of reserves ($3.86 million) and the limited cash position of $35 million as at 31 December 2011. The Board also highlighted the impact of the low levels of funding and cash on the entity's ability to fill vacancies in critical positions and the resulting impact on the effectiveness of its internal controls (A/67/5/Add.3, chap. II). **The Advisory Committee recalls its prior observation concerning the operational conditions under which UNRWA operates (A/65/498, para. 41). It nonetheless concurs with the Board that such circumstances necessitate an increased focus on internal control measures and that there is a need for stronger budget management oversight.**

51. In connection with the newly established UN-Women, the Board issued a modified audit report, referring to matters concerning the formation of the new Entity and the transitional period provided for in General Assembly resolution 64/289. The resolution provided for a transitional period of six months, until 31 December 2010, after which UN-Women would become operational. The Board noted, however, that in 2011 UN-Women was still in the process of establishing its required level of resources. Furthermore, critical staff were not on board until the second half of 2011, and the policies and procedures to support its wider mandate were still being developed, including its financial regulations and rules, which were approved in April 2011 (see A/67/5/Add.13). Consequently, the Entity's internal control system for its operations, projects and programme oversight were not consistently applied throughout the year. The Board also noted that the financial statements for UNIFEM activities from July to December 2010 were annexed to the UN-Women financial statements for 2011, reflecting an inconsistent legal interpretation on the asset transfer arrangements for the four entities combined to form UN-Women (A/67/5/Add.13, chap. II, para. 20). In particular, UNDP took the view that its responsibilities to administer UNIFEM and include activities in its financial statements had been concluded when the Fund had been dissolved in July 2010. In addition, UN-Women was one of the entities with respect to which the Board had identified specific risks as regards IPSAS implementation. **The Advisory Committee is mindful of the constraints encountered during the transitional period for the creation of UN-Women and the challenges involving the establishment of any new entity. The Committee, however, concurs with the Board's recommendations that UN-Women continue its efforts to reinforce its internal control frameworks. In addition, the Committee stresses that a uniform interpretation of the mandates arising from the legislative bodies should be applied in all future instances in which United Nations entities are dissolved and/or consolidated into a new organization to avoid lapses in reporting and accountability.**

Financial and related matters

52. The Board of Auditors continues to issue findings on the financial records of funds and programmes. For example, the Board noted that UNICEF management and administration expenditures were misclassified or understated by $167 million (A/67/5/Add.2, chap. II, paras. 13-14). Upon request, the Advisory Committee was informed that UNICEF Administration had explained that its transparency and presentation of such costs were being improved and that a joint effort with UNDP and UNFPA to decide on a common cost classification for such charges was under way. At UNDP, the Board noted a gap in the verification of $13 million worth of expenditure undertaken through the UNDP national implementation modality

(A/67/5/Add.1, chap. II, para. 64). In the case of UNEP, the Board found that adequate arrangements were not in place to obtain managerial assurance over expenditure incurred by implementing partners under the Multilateral Fund. The Board also noted weaknesses in UNEP oversight of the multilateral environmental agreements (A/67/5/Add.6, chap. II, paras. 23-46). **The Advisory Committee concurs with the Board that the above-noted financial matters should be resolved expeditiously.**

53. In two cases, at UNEP and UN-Habitat, the Board noted that cash management practices at the two entities resulting in exchange rate losses had curtailed the amount of funds available for project implementation (A/67/5/Add.6, chap. II, paras. 60-66, and A/67/5/Add.8 and Corr.1, chap. II, paras. 22-24). Upon enquiry, the Advisory Committee was informed by the representative of the Secretary-General that a broader Organization-wide strategy to mitigate the effects of such losses was under review. It was anticipated that the policy guidance would be finalized by the end of 2012. **The Advisory Committee looks forward to receiving details concerning the proposal to develop a loss-mitigation strategy for exchange rate exposures.**

54. The Advisory Committee notes the continued high level of receivable balances of UNRWA arising from value-added tax (VAT) paid but not refunded by the host Government authorities ($55.9 million as at 31 December 2011), along with the Board's reservations about the recoverability of the long-outstanding portion of the balance ($7.95 million) (A/67/5/Add.3, chap. II, para. 49). The Committee also notes the intention of UNHCR to write off $872,319 of VAT that could not be recovered, since the legal basis of the claim had not been established (A/67/5/Add.5, chap. II, para. 190). **The Advisory Committee recalls that the United Nations and its entities are exempt from the imposition of value-added taxes, in accordance with the standard agreements with host countries. The Committee considers that every effort should be made to ensure that taxes levied and paid are promptly refunded by the host Government authorities.**

Fundraising activities

55. The Board of Auditors continues to make observations concerning the relationship of UNICEF with its National Committees. Given the significance of those Committees' contribution to UNICEF, the Board, as part of its audit for the financial period, reviewed the relationship between UNICEF and the National Committees, the implementation of the related cooperation agreements and the role of UNICEF in the oversight and monitoring of their activities. Specifically, it recommended that UNICEF take a more proactive role in monitoring and overseeing the Committees' fundraising role and noted that the Committees' fund retention rates often exceeded the maximum levels stipulated in the UNICEF model memorandum of understanding (A/67/5/Add.2, chap. II, paras. 88-105). The Advisory Committee recalls its prior recommendation that UNICEF National Committees strictly adhere to the 25 per cent retention limit, unless the limit is changed under its Financial Regulations and Rules (A/65/498, para. 47). Upon enquiry, the Advisory Committee was informed that the UNICEF Administration had agreed to a new cooperation agreement with its National Committees. In addition, the newly approved UNICEF Financial Regulations and Rules foresaw the possibility of variances to the retention rate in exceptional circumstances, as agreed by UNICEF in their joint strategic plans. As at July 2012, 25 such plans had been

finalized. UNICEF had also introduced a list of monitoring improvements in its oversight of the National Committees' fundraising efforts.

56. The Advisory Committee acknowledges the reputational risk that UNICEF may incur owing to the use of its name and brand by the National Committees in individual Member States over which it has limited control. It notes, however, that the Committees are private entities constituted under national law and are subject to the audit and verification requirements of the respective Member States. **The Advisory Committee concurs with the actions taken by UNICEF to strengthen controls over the National Committees through improved cooperation agreements.**

Project implementation

57. In its review of United Nations funds and programmes and specifically the trend towards decentralized project management for activities carried out in the field, the Board observed that better oversight was needed to ensure compliance with the Financial Regulations and Rules. For example, the Board noted that UNDP internal controls were not applied consistently in field offices and that the entity's headquarters should further strengthen the oversight and monitoring of field-level activities (A/67/5/Add.1, chap. II, paras. 95-97). At UNFPA, the Board found a continued lack of clarity regarding the extent of oversight that its regional offices should exert over country offices (A/67/5/Add.7, chap. II, paras. 78-82). The Board also expressed concern over the lack of a central mechanism at UN-Women to manage and oversee its national implementation modality process. In the Board's view, the entity lacked the assurance that nationally administered funds were expended for the intended purpose (A/67/5/Add.13, chap. II, paras. 72-90). **The Advisory Committee concurs with the Board of Auditors' recommendations to improve project monitoring and oversight for field-level activities. It encourages entities to share best practices and lessons learned with respect to the effective management of decentralized organizational structures.**

58. The Board again pointed out that a long-standing dispute between UNDP and UNOPS regarding an $18 million inter-fund balance remained unresolved. The Board remained concerned about the adequacy of existing controls in recording and reporting such transactions and in taking timely action to correct discrepancies (A/67/5/Add.1, chap. II, para. 49). Upon enquiry, the Advisory Committee was informed that a panel of experts was being convened to settle the outstanding issues in this regard. In addition, the Board noted that during the biennium under review, there had been a difference of $49.01 million between the amounts initially recorded by UNDP and UNOPS, relating to incorrect adjusting entries on the management service arrangement between the two entities (A/67/5/Add.1, chap. II, para. 47). **The Advisory Committee concurs with the Board of Auditors' recommendation that the matter of the long-outstanding inter-fund balance be brought to a swift conclusion. The Committee points out that future problems could be minimized if adequate documentation is maintained by both entities as proof of services rendered.**

59. The Board of Auditors also noted that the framework for the harmonized approach to cash transfers, designed to harmonize cash transfers for nationally executed projects and reduce transaction costs, had not been taken up and applied consistently in the field. Specifically, it referred to the conclusions from the global

assessment by the Harmonized Approach to Cash Transfers Advisory Committee of the United Nations Development Group, which included observations that the initiative had not been implemented beyond the initial stages and that implementing countries were encountering challenges in establishing assurance and audit plans (A/67/5/Add.1, chap. II, para. 91). **The Advisory Committee believes that this important initiative appears to have no clear ownership across the United Nations funds and programmes. It concurs with the Board's findings and recommendations and notes that UNDP has agreed to take steps to reinforce the implementation in country offices of the framework for a harmonized approach to cash transfers.**

Procurement and contract management

60. The Board continued to make observations relating to the lack of compliance with entities' procurement rules. For example, in several cases across different entities, instances were noted of a high level of ex post facto procurement approvals, sole-source contracts and the invocation of operational exigencies for exceptional procurement actions. Specifically, the Board noted that UNRWA had granted 445 waivers with a combined value of $90.8 million to normal tender processes in awarding contracts, along with 24 ex post facto approval cases, during the biennium ended 31 December 2011 (A/67/5/Add.3, chap. II, paras. 84-94). UNOPS also showed an elevated number of procurement cases not solicited through formal competitive bidding processes, with a total value of $304.9 million over the biennium (A/67/5/Add.10, chap. II, para. 98 (b)). The Board noted in both cases that remedial actions were under way in the concerned entities. **While the Advisory Committee notes the volatility of the operating environments in the examples cited, it concurs with the Board's recommendations to strengthen internal controls and improve compliance with procurement procedures.**

Non-expendable property

61. As noted in the context of the Board's findings on the United Nations (see paras. 43 and 44 above), the Board reiterated its observations and recommendations on asset management, in particular with respect to non-expendable property. For example, in its visits to UNDP country offices, the Board continued to note weaknesses in asset management (A/67/5/Add.1, chap. II, paras. 116-124). Similarly, the Board recommended that UNFPA perform a complete verification of the asset register for assets held in the field, owing to a number of noted discrepancies (A/67/5/Add.7, chap. II, paras. 111-116). On the other hand, the Board did not retain its modified audit opinions for UNEP and UN-Habitat during the biennium under review, since sufficient evidence had been provided to support the adjustments made to asset values in the 2008-2009 biennium (A/67/5/Add.6, chap. II, paras. 87-88, and A/67/5/Add.8 and Corr.1, chap. II, para. 40). Similarly, the Board noted that UNRWA had completed its project to document and perform a valuation of its existing land and buildings, as part of its adoption of IPSAS (A/67/5/Add.3, chap. II, paras. 104-106). **The Advisory Committee remains concerned about the continued improper accounting for non-expendable property, which poses a reputational risk, in particular to funds and programmes, which are largely dependent on voluntary funding. The Committee refers to paragraph 44 above concerning the implications of IPSAS in this regard.**

Fraud and presumptive fraud

62. In the individual audit reports on the United Nations funds and programmes, the Board of Auditors disclosed the cases of fraud and presumptive fraud identified at each of the entities, in accordance with paragraph 6 (c) (i) of the annex to the Financial Regulations and Rules of the United Nations. Upon enquiry concerning one particular case, the Committee was informed by the responsible official from the relevant entity that efforts to recover monies had had to be abandoned, given the age of the case and the lack of progress on the part of national authorities. **The Advisory Committee recommends that every effort be made by United Nations entities to expedite investigations in cases of fraud or alleged fraud and, where wrongdoing is proved and staff concerned separate from organizations before investigations are completed, cases should be referred to national authorities without delay.**

Annex

Generally accepted audit committee principles and some identified good practices

	Accepted principles	*Some identified good practices*
Purpose	The audit committee, as an independent advisory expert body, should assist the governing body and the executive head of the entity, as appropriate, in fulfilling their oversight and governance responsibilities.	• The audit committee primarily assists the governing body and, as needed, the executive head of the entity, as an independent advisory expert body. • The audit committee helps to ensure that the governing body has independent and objective assurance on the effectiveness of the entity's controls, risk management, governance practices and accountability processes. • Oversight responsibilities include: (a) the integrity and appropriateness of financial and other reporting practices; (b) the effectiveness of internal controls, risk management, "tone at the top" and governance practices; (c) the performance of the internal audit/oversight function; (d) the process of monitoring compliance with laws and regulations, and integrity and ethics (e.g. code of conduct); and (e) the external auditors' qualifications and independence.
Authority	The audit committee should have the authority necessary to fulfil its responsibilities.	• The audit committee has free and unrestricted access to any information, staff, including internal auditors, and external auditors or any external parties necessary to fulfil its mandate and roles and responsibilities. • The head of internal audit/oversight and the external auditors have unrestricted and confidential access to the Chair of the audit committee.
Composition	The audit committee and its members should be independent and objective.	• The audit committee is composed entirely of independent external members of the entity. • The audit committee reports directly to the governing body. • The audit committee has no management powers or executive responsibilities. • All members of the audit committee are approved by the governing body.
	The size of the audit committee should be determined by the size of the governing body and of the United Nations entity.	• The audit committee comprises at least three members and, normally, not more than five. • The quorum for the committee is a majority of the members. • Members serve in a personal capacity; therefore, alternates are not allowed.

	Accepted principles	Some identified good practices
	Members of the audit committee should have collective skills, knowledge and experience to fulfil their responsibilities.	• Skills mix includes good management experience and understanding of finance, accounting, financial reporting in the public sector, United Nations entities or other multilateral institutions, internal controls and risk management, internal and external audits and governance and knowledge of the entity. • At least one member is a financial expert with good knowledge of generally accepted accounting principles and financial statements, internal controls and procedures for financial reporting. • Members of the audit committee are oriented and trained on the committee's objectives and responsibilities, internal and external audit functions, risk management and the functions/operations of the United Nations entity. • Members of the audit committee are free of any real or perceived conflict of interest.
Responsibilities		
Risk and controls	The audit committee should review — together with the internal and external auditors and management — and advise the governing body, at least annually, on the effectiveness of the entity's internal control systems, including its control assurance statements and risk management and governance practices.	• The audit committee reviews with management and the internal and external auditors the effectiveness of the entity's internal controls and any related significant findings and recommendations together with management's responses, including the timetable for implementing recommendations. • The audit committee reviews, at least annually, the entity's risk management process and risk profile. It reviews the entity's process for assessing significant risks or exposures and the steps that management has taken to manage and mitigate risks. • The audit committee reviews, through the results of internal and external audits, the entity's policies, systems and practices to ensure the appropriateness of internal controls over financial reporting, efficiency and effectiveness of operations, safeguarding of resources and compliance with laws, regulations and rules.
Financial statements	The audit committee should review and advise the governing body on the financial statements of the entity, including the external auditors' opinion on the financial statements, and management letters and other reports arising from the external audit of the entity's financial statements.	• The audit committee reviews and is familiar with the accounting and reporting principles, policies, standards and practices that the entity has applied in preparing its financial statements and other financial information reported by it. • The audit committee reviews the annual report of the entity and other significant accountability reports to ensure that, to the best of its knowledge, there are no material misstatements or omissions. • The audit committee reviews the reports from the external auditors.

	Accepted principles	Some identified good practices
Internal audit oversight	The audit committee should review and advise the governing body on the appropriateness of the level of independence of the internal audit/oversight function, the internal audit/oversight resources and staffing and the performance of the internal audit/oversight function.	• The audit committee conducts reviews of the performance of internal audit/oversight function, including a review of risk assessment processes, plans and budgets and an assessment of the appropriateness of oversight resources, and periodic external quality assessment. • All internal audit/oversight reports are made available to the audit committee for its consideration. • The audit committee reviews periodic activity reports on the results of the internal audit/oversight function. • The head of internal audit/oversight reports periodically to the audit committee on the implementation of management's action plans for implementing internal audit recommendations and on the effectiveness of the actions taken. The head of internal audit/oversight reports all areas where management has accepted a level of risk that is unacceptable to the entity. • The audit committee reviews the appropriateness of the internal audit/oversight charter. • The audit committee is consulted on the appointment, renewal and dismissal of the head of internal audit/oversight. • The audit committee reviews management's responsiveness to internal audit/oversight findings and recommendations.
External audit	The audit committee should review and advise the governing body on the scope and approach of the external auditors' planned examination and the reports therefrom.	• The audit committee ensures that the entity's management has appropriate mechanisms to support the external auditors in carrying out their work. • The audit committee considers the workplan of the external auditors. • The audit committee periodically meets with the external auditors and seeks their comments and advice on matters of risks, controls and governance. • The audit committee assesses the performance of external auditors and makes recommendations to the governing body. • The audit committee is consulted and provides advice on the appointment of the external auditor (including on the cost of the audit).

	Accepted principles	*Some identified good practices*
Reporting	The audit committee should report to the governing body on the committee's activities, issues, results and effectiveness in discharging its responsibilities.	• The audit committee prepares meeting reports, an annual report and special reports, if required, to the governing body and executive head. The annual report should confirm whether the committee has fulfilled all its responsibilities established in the charter and achieved its stated objectives for the period. • The reports of the audit committee are distributed to the external auditors and others, as deemed necessary, in accordance with the reporting structure of the entity. • The committee's annual report includes its assessment of the performance of the internal audit/oversight function (such as actual achievements against workplans) and external audit and its recommendations, if necessary, for the improvement of risk management, controls and governance processes. • The audit committee reviews its own performance at least annually.
	The audit committee should maintain and promote effective communication with the governing body (or other governing and legislative authority), management, the head of internal audit/oversight and the external auditors.	• Management has a good understanding of the audit committee's purpose and responsibilities.
Values and ethics (compliance)	The audit committee should review, at least annually, the systems established by the entity to maintain and promote international civil service values and to ensure compliance with laws, regulations, policies and high standards of integrity and ethical conduct to prevent conflicts of interest, misconduct and fraud.	• The audit committee obtains regular updates regarding any litigation, including assessments of related contingent liabilities, investigations, fraud and ex gratia and special payments. • The audit committee reviews the appropriateness and adequacy of anti-fraud policies, whistle-blowing arrangements and ethics provisions. • The audit committee reviews the appropriateness of the system in place to receive, investigate and take action on allegations of fraud and misconduct.

	Accepted principles	Some identified good practices
Operations (functioning)	The audit committee should be established by a charter or terms of reference approved by the governing body.	• United Nations entities are generally governed by a legislative body, governing body, council or commission. In circumstances in which United Nations entities are managed by a chief executive or other governance structures, the audit committee is established but modified to fit the specific organizational structure. • The audit committee is accountable to the governing body. • A charter establishes the independence, objectivity, authority, responsibilities, functioning and structure of the audit committee. Reporting of the audit committee is established in the charter. • The authority, responsibilities and structure of the audit committee, established under the charter, are set out in the governing law of the United Nations entity. • The audit committee annually reviews the appropriateness of the charter and requests the governing body to approve proposed changes.
	The audit committee should establish an annual plan to ensure that its responsibilities and stated objectives for the period will be effectively addressed.	• The audit committee's annual plan is submitted to the governing body.
	The audit committee should meet as necessary to fulfil its responsibilities.	• The audit committee meets three to four times a year or more, as necessary. • Meeting agendas are prepared and provided in advance to members. The meetings are scheduled at least 12 months in advance, with sufficient time to report to the governing and/or legislative body. • Minutes or reports of meetings are documented and approved. • The audit committee establishes a set of working procedures to assist it in carrying out its responsibilities.
	The audit committee should have adequate resources in order to fulfil their responsibilities.	• The audit committee is assisted as necessary by a secretariat. • If necessary, the audit committee has the ability to obtain independent counsel or other experts to advise it. • All confidential documents and information submitted to or obtained by the audit committee remain confidential.

	Accepted principles	Some identified good practices
Operations (functioning)	Standards for tenure, terms and conditions of service, conflict of interest, discipline, liability indemnification, security clearance, travel authorization and remuneration, and mechanisms to address disagreements should be established.	• These standards are preferably included in the audit committee's charter. They are closely in line with the systems that prevail in the entity itself. • Payment of travel costs, daily allowances and other out-of-pocket expenses to members of the audit committee are considered. • The members of the audit committee are appointed and serve for at least three years and may be reappointed for a second and final term of two to three years. To ensure continuity at the start-up phase of the audit committee, initial terms may be less than three years so that appointments can be staggered over a period of time. • The members of the audit committee are required to complete the entity's own financial and conflicts of interest declaration and disclosure processes. • Former managerial staff of the entity are not appointed as committee members for five years following separation from the entity. Audit committee members are not appointed in the entity for a period of five years following the expiry or discontinuation of their term of appointment. • Decisions of the audit committee are by consensus. If consensus does not prevail, dissenting reports are appropriate.