



Fifth Committee Report No. 12 7-11 May 2007

*During the second resumed session, the Fifth Committee's main focus is on peacekeeping budgets, but a number of outstanding reform proposals have also been placed on the agenda. In regard to Governance and Oversight, the Fifth Committee is expected to finalize the Terms of Reference (TOR) of the **Independent Audit Advisory Committee (IAAC)** and establish the nomination and selection procedures for its members. The **strengthening of the Office of Internal Oversight Services (OIOS)** is also a key agenda item being addressed at the second resumed session.*

Independent Audit Advisory Committee

The purpose of the **IAAC** is to ensure that the UN will have a coherent system of internal and external audit functions. In order to enhance understanding of the negotiating process establishing the IAAC, the Center has prepared a [TIMELINE](#) of the available documentation on the IAAC, which reflects the various proposals as they developed.

Member States agreed to establish an IAAC in December 2005 but negotiations are ongoing as to its details. During the second resumed session, the Fifth Committee is expected to agree to the TOR and selection procedures in order to have the IAAC **operational by October 2007**. However, during the Q&A session, remarks and questions proposed by the G77 suggest that reaching an agreement may be more difficult than anticipated. In addition to Member States, the Board of Auditors has also expressed some concerns.

The **Board of Auditors** has communicated strong concerns regarding the potential overlap of functions between the IAAC, the ACABQ, and the Board of Auditors, respectively. This overlap, the Board argues, could lead to confusion and duplication of effort. The Board feels that, according to their mandates, the ACABQ should only deal with administrative and budgetary questions and the IAAC should only deal with audits, while respecting the independence of the Board of Auditors.

The **Secretariat** has stressed that the key role of the IAAC would be to advise the General Assembly on the progress of implementing oversight recommendations, to review audited financial statements, and to examine the UN's approach to risk management and internal controls. The **OIOS** does not have any concerns as to the latest proposed TOR of the IAAC, but did stress that the term 'advises' is a key concept in understanding the role of the IAAC.

The **ACABQ** feels that it is now time to make a decision regarding the TOR of the IAAC. It is their contention that the concerns of the Board of Auditors have been taken into account in the latest report. According to the ACABQ, ambiguities which resulted have since been revised, for example when the IAAC would review the budget of the OIOS it would not just be focusing on the budget. Rather, much like the Secretariat has stated, the ACABQ believes that commenting on the work plans of the OIOS and the Board of Auditors would be a useful function as well. The ACABQ and the Board of Auditors agree on one key issue, namely that providing advice on the integrity of audited financial statements is within the purview of the Board.

Reportedly, when the **G77** asked whether there was any research as to how an IAAC-like body works in an organization like the UN, and even wondered aloud where the idea for an IAAC came from and whether the name of the IAAC should be revisited (to include the word 'oversight'), the **US** countered that the GA had already moved beyond the rationale of establishing the committee and others noted that agreement on the name was reached after extensive discussions. Amid apparent skepticism about the role of the Committee, the **G77** indicated that it would be submitting proposals on the IAAC. In its statement to the plenary on 7 May, the **G77** expressed concern that the IAAC should be strictly an advisory body and in no way be used as an "instrument to

influence or undermine the oversight authority of the General Assembly, Board of Auditors, and the OIOS under the pretext of strengthening oversight or accountability in the Organization.”

Some Member States wondered about the issue of **risk management**. The G77 believes that the setting of risks would be beyond the scope of an audit committee. The OIOS feels that it would be natural for the IAAC to review the system of risk management in an advisory role.

As to the **size of the IAAC**, the EU wondered whether with five members, all necessary qualifications would be easily achieved. As to **meeting four times a year**, which would entail a time period of up to a week for each quarterly meeting, if it was anticipated that the meetings would have to be timed carefully so as to schedule the committee’s advisors regarding their availability and the ability to obtain the needed documentation prior to meeting.

Strengthening of the Office of Internal Oversight Services

Discussions on the strengthening of the OIOS at the Fifth Committee began during the 61st GA session. However, due to the late submission of some important documents, they were postponed to the second resumed session of the Fifth Committee.

Background:

The United Nations Office of Internal Oversight Services (OIOS) was created in July 1994 ([A/48/218 B](#)), to provide the Secretariat with independent audit, investigative, inspection, programme monitoring, evaluation and consulting capacities. To date, however, it has carried out its functions rather ineffectively due to flaws in the scope of its work and inadequate funding that at times has led to conflicts of interest. In the first half of 2006, the Secretary General appointed a Steering Committee with the purpose of conducting an external review of the oversight and audit mechanisms of the UN ([A/60/883/Add.1 & 2](#)).

In July 2006, the Under Secretary-General (USG) for Internal Oversight Services, Ms. Inga-Britt Ahlenius, issued a report, [“Proposals for the strengthening of the OIOS” \(A/60/901\)](#) in response to the recommendations offered by the Steering Committee. The USG’s report supports the suggestion that the OIOS be discharged of its management consulting functions, which indeed represent a crucial conflict of interest in the exercise of its independent auditing, evaluation and monitoring activities. However, it disagrees with the recommendation that the OIOS be stripped of its evaluation and inspection functions. The USG report also makes recommendations in regards to the funding arrangements of the OIOS, in order to guarantee its operational independence (further details on funding arrangements are also contained in [A/61/810](#)).

On 7 May 2007, during the 47th meeting of the Fifth Committee, Under Secretary-General (USG) for Internal Oversight, Ms. Inga-Britt Ahlenius and Assistant Secretary-General Controller Warren Sach, introduced two new reports on the strengthening of OIOS ([A/61/610](#)) and its funding arrangements ([A/61/810](#)). A related document by ACABQ, [A/61/880](#) was also discussed.

Ms. Inga-Britt Ahlenius underlined how the main obstacle to OIOS independence is problems surrounding its funding arrangement for operations.

According to the report on funding arrangements ([A/61/810](#)), two main issues need to be tackled in order to guarantee OIOS operational independence:

- The OIOS budget is subject to the review of the Department of Management whom which OIOS has oversight responsibility over
- OIOS negotiates funding for a third of its activities with the entities it is chartered to audit.

It is clear that such a funding mechanism has a negative impact on the independence of the internal audit activity since the funding condition allows the auditee to influence, if not control, the audit process.

Ms. Ahlenius explained that operational independence does not mean the OIOS should be autonomous from the Secretariat, as it remains administratively under the authority of the SG. Rather, it is necessary to change the fact that, currently, OIOS’s resources once determined by the GA are then apportioned to OIOS by the Department of Management, which is one of the entities that the OIOS is charged with auditing.

In view to strengthen the OIOS, Ms. Ahlenius also proposed that more funds be allocated to the evaluation and inspection functions of OIOS. She paid particular respect to the investigation function of OIOS, lamenting that

it was an issue not adequately addressed by the review of the Steering Committee. In this regard, she has ordered a review which will be completed shortly.

The **G77 and China** stated to be ready to engage in discussions for establishing operational independence of the OIOS, but always under the authority of the SG, as per its mandate ([A/48/218 B](#)). It underlines the need for strong mutual cooperation between the SG, Management and OIOS. The Group supports the transfer of management consulting functions of the programme performance report to the Department of Management but it does not see merit for the transfer of resources and additional posts proposed by the SG.

The Group noted that, as it will be the task of IAAC (upon approval of its terms of reference) to review the work plan and budget of OIOS, the role of management in the OIOS budget will have to be reconsidered. The G77 and China agree with the need for further reports from the SG in response to ACABQ's recommendations ([A/61/880](#)).

Switzerland agrees that new funding arrangements for OIOS are necessary in order to making it truly operationally independent. Financial independence from the Secretariat entities it audits needs to be guaranteed. The Secretariat should have no influence on the financial resources of OIOS as its auditor. As a consequence Switzerland, in disagreement with ACABQ recommendations, suggests that the budget should be prepared and decided by the GA, the governing body, without the involvement of the Secretariat.

Japan expressed concern that the much needed establishment and implementation of a risk management framework should be led by the SG and not through the fragmented approach used currently. With regard to OIOS proposed funding arrangements, Japan disagrees, together with ACABQ, that the SG be excluded from the preparation of the draft of the OIOS budget. The SG should continue to be responsible for presenting budgetary requirements as Chief Administrative Officer of the organization. The examination of OIOS's work plan and review of its budget by the IAAC, upon approval of its TOR, will secure OIOS operational independence.

The **US** agreed that OIOS must enjoy sufficient independence to perform its functions properly.

The **EU** declared to be ready to consider the OIOS proposal, and related ACABQ's recommendations, on funding arrangements to ensure better operational independence of OIOS.

INFORMAL CONSULTATIONS

Many Member States questioned the number of additional posts for inspections and investigations as requested by OIOS. Like the G77, the US proposed some questions, specifically asking how many active cases existed, the number of cases dealt with per investigator, the state of the backlogs, the time period in which the case studies would generally begin, and the average duration per case.

Japan reverberated the sentiment of many Member States when addressing the issue of **risk management** and how things would stand in this regard. The OIOS indicated that to assess risk and mitigate it is an increasingly common governance practice and that OIOS welcomes it. As of yet, there is no established framework and it can only be anticipated what recommendations the Secretariat will address, when they are made during the summer.

Find a full account of the 7 May 2007's meeting at:

- [Budget committee takes up revised terms of reference for independent audit Advisory committee, proposals to strengthen internal oversight office](#)

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