The Single Audit Principle

Background

1. The United Nations Board of Auditors was established by the General Assembly in December 1946 (Resolution 74 (I)) to carry out external audit of the accounts of the United Nations organization and its funds and programmes and to report findings and recommendations to the General Assembly through the Advisory Committee on Administrative and Budgetary Questions. For this, the General Assembly appoints three members, each of whom shall be the Auditor General (or officer holding the equivalent title) of a Member State. The three members of the Board have joint responsibility for the external audit of the United Nations and its funds and programmes.

2. The Panel of External Auditors of the United Nations, specialized agencies and the International Atomic Energy Agency was established by the General Assembly by resolution 1438 (XIV) of 5 December 1959. The Panel is made up of the members of the United Nations Board of Auditors, and the appointed external auditors of the specialized agencies and of the International Atomic Energy Agency.

3. The Financial Regulations and Rules of the United Nations provide for accounts to be maintained and prepared in compliance with the UN System Accounting Standards and for the UN General Assembly to appoint a Board of Auditors to perform the external audit of the accounts of the UN.

4. The UN Financial Regulations give the UN’s external auditors, the UN Board of Auditors, the exclusive right to audit the accounts and statements of the UN and allow only the UN General Assembly to direct, and the UN Advisory Committee on Administrative and Budgetary Questions to request, the UN Board of Auditors to conduct specific audits.

5. Comparable principles apply to the specialized agencies of the UN system.

6. At its forty-eighth session, the General Assembly in its Resolution 49/216, Section A, endorsed the principle of the 'single audit', upon the recommendation of the Secretary General in his report A/48/587 of 10 November 1993.

7. The single audit principle is a regular item on the agenda of the Panel of External Auditors and its Technical Group. This issue will again be revisited in the upcoming meeting of the Technical Group of the Panel in the context of the audit of the United Nations Development Group Iraq Trust Fund (UNDG ITF).
8. The Chairman of the Panel has repeatedly taken official positions on the matter, latest in his letter of 11 December 2002 to the United Nations Controller (Annex III). Although specifically addressed to the United Nations, the position was taken by the Panel and thus should apply to all organizations audited by Panel members. The letter states that “The Panel does not favour the introduction of clauses in agreements to which External Auditors are not signatories, which would commit the United Nations to have its External Auditors produce upon request a special audit opinion or report on a particular project or programme. The External Auditor is entirely independent of the United Nations Secretariat and as such must be free to choose whether to accept any additional audit mandate. Such a choice will be dependent on the request received from the appropriate authority, agreement as to the scope and report, arrangements for the audit and the availability of sufficient resources”.

9. The Chairman of the Panel had also written two earlier letters on this issue to the United Nations Secretary General. In the first letter, dated 18 January 1993 (Annex I), the Panel reaffirmed its belief in the single audit principle. In the second letter dated 27 November 2001 (Annex II), the Panel recommended that the UN system create a mechanism to properly assess all situations/requests that may infringe on the single audit principle.

**Recent developments**

10. At the last meeting of the Finance and Budget Network of the HLCM (July 2005), representatives from organizations shared their recent experience with the single audit principle.

11. Some of the recent pressure to break the single audit principle had come, as in the past, in connection with activities funded by the European Commission, as well as with joint programming activities and situations such as the UNDG Iraq Trust Fund.

12. World Bank audit policies provide for an exemption from its normal requirements if the borrower (or recipient) has more cost-effective mechanisms that provide the Bank with “equivalent assurance” that Bank’s proceeds have been used appropriately. In all such cases, however, the Bank policy requires it to retain the right to request an audit. A Model Trust Fund Agreement currently being negotiated between the UN and the Bank includes such clauses.

13. In the conclusions of the FB Network meeting, organizations stressed the fact that no exceptions to the single audit principle should be authorized, no matter the form.

14. It was therefore suggested that the single audit principle be re-affirmed by a body with adequate authority and legitimacy, at the level of the CEB or by the Board of Auditors and respective External Auditor of each organization.

15. The FB Network agreed to raise the issue at the HLCM, for appropriate decision and action.
Conclusion

16. In connection with special independent audits and management reviews requested by extra-budgetary donors, the HLCM is requested to recommend that CEB endorses the re-affirmation of the single audit principle, as follows:

“The United Nations Board of Auditors and the appointed External Auditors of the specialized agencies and of the International Atomic Energy Agency, retain the exclusive right to carry out external audit of the accounts and statements of the United Nations Organizations. If special reviews are required, governing bodies should request the appointed External Auditor to carry out specific examinations and to issue separate reports to them on the results.”
ANNEXES
[see following pages]


- Annex III - Letter of the Chairman of the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency to the Assistant Secretary-General, Controller of the United Nations, dated 11 December 2002
I am writing to you in your capacity as Chairman of the Administrative Committee on Co-ordination, on a matter considered by the Panel of External Auditors of the United Nations, Specialized Agencies and the International Atomic Energy Agency at its thirty-fourth session in Geneva on 23-24 November 1992.

The Panel noted that over recent years, some organizations have come under increasing pressure from donors of extrabudgetary funds to allow independent auditors to carry out financial audits of the funds which they advance. In addition, the Panel also noted that more recently, Organizations have been asked, by individual member states, to allow management reviews of their activities by the Supreme Audit Institutions of the member countries concerned. In a number of instances, the administrations have acceded to these requests both from extrabudgetary donors and from member states. The External Auditor has not always been consulted in advance of such special audits or reviews, and in some cases have only found out about them by chance.

The Panel acknowledges that member states and extrabudgetary donors have legitimate interests in seeking assurances about the funds that they give to organizations in the UN System. The Panel also recognises that in the present economic climate, Organizations are expected to show greater transparency in their presentation of financial information. Some member states and donors may see these additional audits or reviews as part of this general trend to increase accountability.

In principle, however, the Panel believe that both extrabudgetary donors and member states should be prepared to rely on the competence of the Organization and the normal internal and external audit arrangements. Reiterating the Panel’s previous concerns on this subject, it was of the view that special audits were undesirable because:
an auditor’s examination of individual extrabudgetary funds cannot normally be separated from the audit of an Organization’s accounts and control systems as a whole;

in carrying out their work, special auditors acting for extrabudgetary donors and/or member states may have access to information which also relates to other funds or activities, thus undermining the duty of confidentiality which normally exists in funding agreements between donors, member states and an Organization;

the results of any special audits carried out may convey a misleading picture of an Organization’s accounting competence, where the special auditor has reached an adverse opinion on the discrete area he is examining, but at the same time, the appointed External Auditor may have found the accounting system for the Organization as a whole to be satisfactory, and sufficient to support the published financial statements; and

special audits generally represent an inefficient use of resources and are time consuming for both the Organization and the appointed External Auditor, in particular where the special audits are numerous and the ground covered by the special auditors is similar in most respects.

The Panel expressed further concerns about the implications for external audit of recent requests by a member state for access to the books and records of UN Organizations. The Panel understands that the purpose of these requests is to allow the Supreme Audit Institution of the member state concerned to carry out wide-ranging reviews of programme activities. The Panel is of the view that these reviews have an impact on the authority and independence of the appointed External Auditor.

Under the terms of reference governing external audit, the External Auditor is solely responsible for the conduct of the UN organizations’ audit. If special reviews are required, the financial regulations provide for governing bodies to request the appointed External Auditor to carry out specific examinations and to issue separate reports to them on the results. When this procedure is not followed, because a member state insists on carrying out a general review the results of which are reported to its own government, the Panel’s opinion is that governing body approval should be sought before such a review is carried out.

Where a special review is carried out by a separate auditor at the request of a member state, the Panel suggests that both the Organization’s administration and the special auditor should consult with the appointed External Auditor on questions of liaison, timing and reporting. The Panel, of course, does not question the right of the administration to commission specific
reviews or studies of their own in the exercise of their duties, since this right in no way impacts on the duties and responsibilities of the External Auditor.

For special audits carried out at the request of extrabudgetary donors, the Panel considers that the wider interests of the appointed External Auditor and the Organization should be safeguarded. The Panel suggests that, in agreeing with extrabudgetary donors the terms of reference for any special audits, administrations should bear in mind that the External Auditor will need to take appropriate account of these audits in carrying out his own work.

In particular, the Panel believes that, in such cases, the special auditor and the administration should liaise with the External Auditor, both prior to and during the course of the special audit, to discuss the timing of the work (to take account of the External Auditor’s own reporting requirements) so as to avoid the duplication of effort or excessive audit activity in particular areas. The External Auditor should also receive a copy of the special auditor’s draft report and have an opportunity to comment thereon to the administration and to the special auditor.

Finally, the Panel would like to point out that in cases where the appointed External Auditor is requested to carry out a special audit for an extrabudgetary donor or a member state, such work may, if accepted, require additional audit resources. To avoid detracting from the resources available for the audit of the Organization’s activities as a whole, an audit fee may be charged to cover the additional costs of the special audit.

The Panel would be grateful for the views of the Administrative Committee on the above issues and whether the Committee members would be prepared to recommend to the organizations they represent the suggestions outlined above when agreeing to special audits.

Yours sincerely,

JOHN BOURN
Comptroller and Auditor General
United Kingdom
and
Chairman
UN Panel of External Auditors
Mr. Kofi Annan  
Secretary-General  
United Nations  
New York, NY 10017  
United States of America  

Dear Secretary-General,

I am writing to you in your capacity as Chairman of the United Nations System Chief Executives Board for Co-ordination (CEB) on a matter considered by the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency at its forty-second session in Geneva from 26 to 27 November 2001.

The Panel noted that at its forty-eighth session, the General Assembly in its Resolution 49/216, Section A, endorsed the principle of the 'single audit', upon the recommendation of the Secretary General in his report A/48/587 of 10 November 1993. The issue had been raised by the Chairman of the Panel of External Auditors in a letter of 18 January 1993 to the then Secretary-General of the United Nations in his capacity as Chairman of the Administrative Committee on Co-ordination (ACC).

United Nations organizations had already come under increasing pressure from donors of extra-budgetary funds to allow independent auditors to carry out financial audits or reviews of UN operations. The consensus between the UN and the External Auditors at the time was that such reviews might affect the authority and the independence of the appointed External Auditors, who are solely responsible for the conduct of the audit of United Nations organizations, and that an inefficient use of resources might ensue from additional audits.

An agreement was, however, signed the following year in December 1994 between the European Commission and the United Nations, allowing for checks related to the operations financed by the European Community. The terms of the agreement had been discussed with the United Nations Board of Auditors.

At its session, the Panel has taken note of the recent exchange of letters on October 29 and November 6, 2001 between the United Nations Secretariat and the European Commission, providing a better understanding of the implementation mechanisms of the 1994 agreement. Similar developments have been observed within other institutions. The Panel has asked me to communicate to you its conclusions regarding these recent developments.
Our previous concerns, as shared by the General Assembly, are still valid, both in legal and in operational terms. The basic legal relationship stands between the governing bodies and the External Auditors; in this respect, the Panel concurs with the statement of the Advisory Committee on Administrative and Budgetary Questions (ACABQ) contained in its report A/52/744 on the proposed Programme Budget for 1998-1999, that any third-party audit agreement should be the object of prior approval by the competent legislative bodies. This was subsequently accepted by the Fifth Committee in its report A/52/744 and adopted by the General Assembly in its resolution A/Res/52/220.

In operational terms, we remain concerned that such audits may lead to additional burdens on United Nations services, thereby interfering with the implementation of our own mandates. The Panel has also taken note that the recent exchange of letters specifies that the European Commission Representatives might confer with the External Auditor, and that the delivery of copies of confidential documents by the Secretariat to third party auditors will be determined in consultation, ‘as necessary’ with the External Auditors. The External Auditors are not however so far party to this agreement, nor do they have a clear understanding of the scope of such provisions.

The Panel is confident that an appropriate legal base and a pragmatic approach will be pursued by all organizations involved in this matter. However, the Panel notes that this is a matter which should be decided by the governing bodies of the various organizations in consultation with their External Auditors. The Panel also wishes to suggest that consideration could be given to setting a mechanism for independent advice on any audit request from third parties, in order to maximize the cost-effectiveness of third-party audits.

The Panel would be grateful for the views of the United Nations Systems Chief Executives Board for Co-ordination.

Shauket A. Fakie
Auditor-General
Republic of South Africa
and
Chairman
United Nations Panel of External Auditors
Dear Mr. Halbwachs,

During recent contacts, you have kindly mentioned your interest in receiving further guidance from the Panel of External Auditors on the “single audit” issue.

At its December 2002 meeting, the Panel has taken note of the 19 April 2002 reply from the Secretary-General on this matter. The Panel has expressed its appreciation of the position taken by several agencies, funds and programmes, to remind donors that their operations are to be subject exclusively to the internal and external auditing procedures laid down in the Financial Regulations and Rules of the United Nations.

The Panel does not favour the introduction of clauses in agreements to which External Auditors are not signatories, which would commit the United Nations to have its External Auditors produce upon request a special audit opinion or report on a particular project or programme. The External Auditor is entirely independent of the United Nations Secretariat and as such must be free to choose whether to accept any additional audit mandate. Such a choice will be dependent on the request received from the appropriate authority, agreement as to the scope and report, arrangements for the audit and the availability of sufficient resources.

Regarding a mechanism to provide independent advice on such audit requests, the Panel has noted the intention of the Secretary-General to consider this perspective.

Sincerely,

Shauket A. Fakie
Auditor-General
Republic of South Africa
and
Chairman
United Nations Panel of External Auditors