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Item 120 of the provisional agenda*

Review of the efficiency of the administrative and financial functioning of the United Nations**Activities of the Independent Audit Advisory Committee for the period from 1 January to 31 July 2008****Report of the Independent Audit Advisory Committee***Summary*

By its decision 62/413, the General Assembly appointed the following members of the Independent Audit Advisory Committee with effect from January 2008: Vadim Vadimovich Dubinkin (Russian Federation), Vijayendra Nath Kaul (India), John F. S. Muwanga (Uganda), Adrian Patrick Strachan (Jamaica) and David M. Walker (United States of America).

The first session of the Committee, which was held in February 2008, was devoted to organizational matters, including the election of the Chairperson and Vice-Chairperson and the adoption of its rules of procedure. At its second and third sessions, the Committee was fully engaged with its responsibilities in line with its terms of reference. The main activity in the second session was the consideration of the budget for the Office of Internal Oversight Services (OIOS) under the support account for peacekeeping operations for the period from 1 July 2008 to 30 June 2009 (see A/62/814 and Add.1).

The Independent Audit Advisory Committee found the OIOS proposal for a hub and spoke structure for its Investigations Division to have strong conceptual merit, but suggested that it should be implemented in a phased manner to ensure that the transfer of investigators out of the peacekeeping missions to regional hubs will not leave any operational gaps.

* A/63/150 and Corr.1.



61. As a point of reference for its comments in the present report, the Committee used the concise summary of principal findings and conclusions contained in the reports prepared by the Board of Auditors for the General Assembly at its sixty-third session (A/63/169).

62. The Committee decided to comment on two of the items raised in the Board of Auditors report that it believes to be significant: the recognition of end-of-service liabilities in the financial statements and deficiencies in the recording of non-expendable property.

63. There are two distinct aspects of end-of-service liabilities: the accounting treatment and the funding of the related liability.

64. Under General Assembly resolutions 60/255 and 61/264, the United Nations is required to disclose end-of-service and post-retirement liabilities on the face of its financial statements. Excluding peacekeeping operations, this would entail an adjustment of \$1.96 billion to the reserves and funds balances, since no specific funding had been allocated by the Assembly.

65. The Organization's total liabilities (excluding peacekeeping operations) increased fourfold since the last biennium, rising from \$0.97 billion to \$3.88 billion owing to the recording of liabilities of \$2.33 billion for after-service health insurance and other end-of-service liabilities.

66. The Secretary-General has presented five options for funding end-of-service liabilities (see A/61/730), namely:

(a) A one-time assessment on Member States to fully fund the total accrued end-of-service liability;

(b) Successive assessments on Member States over a set period of time at the end of which the end-of-service liability would be fully funded;

(c) Application of a charge against salary costs for all budget types to achieve full funding within a specified period of time (12-13 bienniums);

(d) Combination of current funding under the regular budget and partial funding under the budget of the support account for peacekeeping operations for annual costs related to retirees ("pay as you go"), with a charge against salary costs for all budget types;

(e) A combination of a one-time assessment, successive assessments, transfers from reserves and charges against salary costs.

67. With respect to the accounting treatment, the Committee notes that the majority of the entities under the United Nations umbrella are in compliance with the General Assembly resolution as well as with the International Public Sector Accounting Standards (IPSAS) regarding the recording of liabilities. As a result of the disclosure, the International Trade Centre UNCTAD/WTO, the International Tribunal for the Former Yugoslavia and the International Criminal Tribunal for Rwanda have reported deficits in their reserves and fund balances. Also, some entities in the United Nations system that fall outside the remit of the Committee have not treated the reporting of end-of-service liabilities consistently.

68. **On the issue of the funding of end-of-service liabilities, the Committee believes that a decision should be taken by the General Assembly before the**

finalization of the next budget to determine whether, how and to what extent the liabilities will be funded in order to smooth out future ongoing assessments on Member States.

69. The deficiencies in United Nations recording of non-expendable property as reported by the Board of Auditors are of concern to the Committee. According to the Board, items could no longer be located or accounted for, there were inconsistencies in the valuation of items, items were not included in the inventory report and there was a lack of physical counts and property records. The Committee views these deficiencies as a serious breakdown in the basic internal controls that are critical for safeguarding the Organization's assets.

70. The Committee recommends that the General Assembly request the Secretary-General to give priority to addressing the deficiencies pointed out by the Board of Auditors.

F. Adoption of the International Public Sector Accounting Standards

71. The Independent Audit Advisory Committee addressed the adoption and implementation of IPSAS with representatives from the Department of Management.

72. Since the current information system, the Integrated Management Information System, does not support IPSAS, the implementation of the new enterprise resource planning application becomes a key dependency for the IPSAS project. The Committee agrees with the observation by the Board of Auditors that the delays in the enterprise resource planning project make it unlikely that IPSAS will be implemented by the target date of 2010.

73. In addition to being dependent on the enterprise resource planning project, there are several challenges in the implementation of IPSAS that management is aware of. The Committee highlights the following challenges arising from IPSAS implementation that require the attention of the General Assembly:

(a) Financial statements would have to be prepared and presented at least annually, which has implications for the external auditors;

(b) The Financial Regulations and Rules of the United Nations would have to be updated;

(c) The annual financial statements would have to include a comparison of actual amounts with amounts in the budget, which would use the same basis of accounting as adopted for the budget (i.e. modified accrual basis in the United Nations), even if that basis were different from the basis adopted for the financial statements (which would be the accrual basis after the implementation of IPSAS).

G. Cooperation and access

74. The Independent Audit Advisory Committee is pleased to report that it has received full cooperation from the Joint Inspection Unit, the Board of Auditors, the Office of Internal Oversight Services and senior management in the Secretariat, including the Department of Management. The Committee was also given