

The audit function in the United Nations system

Chapter II, section I (paras. 75–82)

For the existing text *substitute*

I. Audit resources

75. Internal auditing at the United Nations organizations is a core/mandatory activity financed either from the regular budget (48 per cent) or from a combination of regular and extrabudgetary resources (48 per cent). Only at UNHCR is the internal audit activity fully financed from extrabudgetary resources.

76. The options for staffing an audit activity are: (a) in-house dedicated audit team; (b) co-sourcing and (c) outsourcing. The first option is usually applied by large organizations with expansive operations. Co-sourcing, by which an external provider supports the in-house audit team with supplementary skills, is increasingly used in the private and public sectors. At the United Nations it is commonly applied at 86 per cent of the organizations. This option allows greater flexibility for upsizing/downsizing according to needs.

77. Other than the requirement to communicate the audit plan and resources needs to management and the legislative/governing bodies, there is no IIA Standard to advise on the size of the audit activity. In general, the level of resources allocated to internal audit depends on the volume of the organization's operations, the degree of decentralization, the level and complexity of the risks the organization faces and is willing to accept and the responsibilities given to internal auditing, including in relation to other oversight functions. Additional factors are the level and competence of the audit staff and the structure of the audit function.⁴³

78. Each audit needs to be based, inter alia, on risk assessment, complexity and the history of fraud, error or account preparation problems. However, in the absence of an agreed formula, in the Oversight Lacunae report JIU defined minimum requirements to set up internal oversight units at United Nations organizations, which are applicable to internal audit, as appropriate. Accordingly, an organization would be required to manage a minimum of US\$ 250 million over a biennium to justify the set-up of an internal oversight unit. Below US\$ 250 million, the existence of a unit is not justified and the services should be in-sourced to another United Nations organization with a capacity to respond. For internal audit, a range of US\$ 60 million to US\$ 110 million per year was proposed per auditor, taking into account headquarters and field responsibilities of organizations.⁴⁴

79. Since 2006, audit resources have been boosted at many organizations; increases at some, such as FAO, UNDP, UNHCR, WHO and the United Nations Office for Project Services (UNOPS), have been significant. In contrast, at ICAO and UNIDO the audit resources have decreased in the last five years. At present, the number of full-time professional staff for internal audit, by organization, ranges from 1 at ICAO, UPU and WIPO to 150 at the United Nations.

⁴³ R. Hirth, "FAQs about integral audit and new regulatory requirements", *The CPA Journal* (May 2005), available from www.nysscpa.org/cpajournal/2005/505/perspectives/p12.htm).

⁴⁴ JIU/REP/2006/2, annex I, sect. B and annex VIII.

80. Many internal audit heads expressed to the Inspectors general satisfaction with the level of resources available to perform the audit activity; 40 per cent, however, indicated that the issue of resources is a significant challenge/constraint presently faced by the internal audit function (ICAO, ILO, IMO, UNIDO, UNRWA, UPU, WIPO and WMO). Currently only two organizations declared that they applied the above-mentioned JIU formula (UNFPA and WMO⁴⁵). The Inspectors noted that, applying this formula, IMO, UPU and WMO should insource the audit activity to another organization, whereas nine organizations (45 per cent) are below the range in number of auditors, as shown below. At either instance, the audit activity is too weak and, in the view of Inspectors, should be reinforced.

Table 1. Budget and staffing of the audit activity

Org.	2009 Budget <i>(Millions of United States dollars)</i>		Number of internal audit professional staff according to JIU formula* (range)		Number of internal audit professional staff ^h	Remarks
	Total Budget: RB +XB ^a	Internal Audit Budget				
FAO	1 271.7	3.7	12	21	16	<u>Within range</u>
IAEA	582.6	1	5	10	5	<u>Within range</u>
ICAO ^b	325.9	0.8	3	5	1	<u>Below range</u>
ILO	582.9	1.3	5	10	5	<u>Within range</u>
IMO	81.9	0.4	1	1	2	<u>Above range</u>
ITU	136.6	0.6	1	2	3	<u>Above range</u>
United Nations ^c	10 698.4	32.1	97	178	150	<u>Within range</u>
UNDP	5 143.9	8.4	47	86	37	<u>Below range</u>
UNESCO	609	2	6	10	9	<u>Within range</u>
UNFPA	783	2	7	13	20	<u>Above range</u>
UNHCR	1 749.4	3.5	16	29	18	<u>Within range</u>
UNICEF ^d	3 459.4	5.9	31	58	28	<u>Below range</u>
UNIDO ^e	240.2	1	2	4	2	<u>Below range</u>
UNRWA	940.5	2	9	16	4	<u>Below range</u>
UNOPS ^f	1390	1.6	13	23	5	<u>Below range</u>
UPU	40.1	0.2	0	1	0	<u>Within range</u>

⁴⁵ WMO informed JIU that at the sixty-second session (June 2010), the Executive Council invited the Audit Committee to consider at its following meeting “the core functions to be performed by IOO and make recommendations on resourcing levels based on such core functions while considering the priorities within WMO” (document No. 1059, para. 7.2.37). This recommendation was tabled for action in the agenda of the fifteenth meeting of the WMO Audit Committee (October 2010).

WFP	3 507.8	3.1	32	58	16	<u>Below range</u>
WHO ^g	1 788.7	3.5	16	30	12	<u>Below range</u>
WIPO	314.9	0.4	3	5	1	<u>Below range</u>
WMO	86.8	0.6	1	1	3	<u>Above range</u>

Notes:

^a Source (except for Department of Peacekeeping Operations (DPKO) and UNOPS): Note by the Secretary-General on the budgetary and financial situation of the organizations of the United Nations system (A/65/187), table 1 (approved regular budgets (1996-2011)) and table 2 (extrabudgetary resources, without “in-kind”) of CEB Financial Statistics compiled in 2010.

^b For ICAO, “internal audit budget” refers to internal audit, evaluation and investigation.

^c United Nations “total budget” includes the DPKO budget from 1 July 2008 to 30 June 2009 (US\$ 7,310 million) per A/64/643.

^d For UNICEF, “internal audit budget” and “professional staff” include internal audit and investigation.

^e The “internal audit budget” and “number of internal audit professional staff” columns for UNIDO cover audit and investigation.

^f Source for UNOPS “total budget”: UNOPS budget estimates for the biennium 2008-2009 (DP/2008/13).

^g For WHO, “internal audit budget” includes all IOS (Internal Oversight Services), i.e. audit, evaluation and investigation services, and “total budget” refers to its universe, which include support for selected partnerships hosted by WHO.

^h Based on responses to the survey.

* JIU formula: more than US\$ 250 million per biennium (US\$ 125 million per year) per organization and US\$ 60 million to 110 million per year per auditor.

81. In this regard, the Inspectors consider that when the volume of transactions of the organization may justify an increase in audit professional staff or even when insourcing should be applied, it is the responsibility of the internal audit/oversight head to build up the case, with the support of the audit/oversight committee, as applicable. Management, in turn, must understand the key risks the organization faces and work with the internal auditor to determine how best to mitigate them, including, if necessary, through an increase in audit resources. The result of such analysis, alternative options and budgetary implications should be brought for decision-making to the relevant legislative/governing bodies, bearing in mind that strengthening the audit is not only a budget issue, but also a matter of skills and the use of efficient audit and risk techniques.

Recommendation 7

To enhance efficiency, the legislative/ governing bodies at the organizations concerned should direct executive heads to review audit staffing and the budget prepared by the internal audit/oversight head, taking into consideration the views of the audit/oversight committees, where appropriate, and should suggest to the executive heads an appropriate course of action, to ensure that the audit function is adequately resourced to implement the audit plan.