

WEAK INTERNAL AUDIT

The UN Secretariat's Internal Audit Division (IAD), located within the Department of Management (DAM), was responsible for many years for conducting independent audits in accord with generally accepted auditing standards. Its work included both administrative and financial aspects and covered all UN activities worldwide for which the Secretary-General has administrative authority, both those financed under the regular budget and from extra budgetary funds. However, it provided no reporting at all to intergovernmental bodies. And despite some 35 years of experience, the IAD had not kept up with the UN's greatly expanded expenditures, field operations, new technologies, and worldwide scope of operations during the 1980s.

A consultant's study requested by the General Assembly in 1985 confirmed that the few IAD staff could not provide effective audit coverage of UN internal controls and performance. The consultants recommended that staff skills be enhanced and that 18 professional posts (a 60% increase) be added to the 29 already in IAD. Subsequently, the Secretary-General added only two more professional posts as a "first phase" of a strengthening process.

"Revised estimates ... Internal Audit Division...," UN document A/C.5/40/61 of **26 November 1985**, para. 109, as cited in Joint Inspection Unit, "Reporting on the performance and results of United Nations programmes: Monitoring, evaluation, and management review components", UN document A/43/124, **1988**, para. 163.

A year later the "Group of 18" high-level outside experts highlighted a second basic issue, recommending that the IAD should be made independent. However, the Secretary-General refused, asserting that the auditors were independent enough within the DAM and could carry out their work freely there.

Report of the Group of High-Level Intergovernmental Experts to Review the Efficiency of the Administrative and Financial Functioning of the United Nations, UN document A/41/49, **1986**, Recommendation 39, and "Analytical report of the Secretary-General on the implementation of General Assembly resolution 41/213," UN document A/45/226 of **17 April 1990**, paras. 165-168.

In 1990 a JIU report found major problems with the transparency of, and reporting on, the use of the UN's vastly increased extra budgetary resources. It stressed the need for

much stronger audit coverage and the separation of the IAD from DAM and making it directly responsible to the Secretary-General. He did not reply to this JIU recommendation.

Joint Inspection Unit, "Extrabudgetary resources of the United Nations: Towards transparency of presentation, management, and reporting", UN document A/45/797, 1990, pp. 23-24.

As in other accountability areas, the reluctance of UN senior officials to accept independent oversight is very strong. As one analysis found:

"Typical of the U.N.'s stubborn resistance to reform was the response to the [Group of -18's report] suggestion that the Secretary-General would get more reliable data if the U.N.s [internal audit unit were made independent, rather than being a subordinate unit of the UN's management division]. To this sensible recommendation, the [head of Administration] said that 'it is indeed theoretically possible for the Internal Audit Service to report directly to the Secretary-General. The advisability of this move would have to be seen in relation to other factors, such as whether the already heavy schedule of the Secretary-General should be burdened by further direct supervisory responsibilities.'"

"The United Nations continues to duck needed reforms", The Heritage Foundation, Backgrounder, No. 593, Washington, D.C., July 9, 1987, p. 6.

In the early 1990s the General Assembly continued to press for strengthened audit oversight and performance reviews. Its concerns mirrored the growing worldwide awareness of the enormous damage that corruption does to public and private organizations and to global economic and social development. The Assembly also recognized that the UN's shift from old "talk shop" and research work to implementing complex, multi-billion dollar peacekeeping and humanitarian field programmes worldwide required much stronger oversight functions.

The "worldwide awareness" was reflected in such books and reports as those of Michael Clarke, ed. Corruption: Causes, consequences and control, London, Frances Pinter, 1983, David J. Gould, and Jose A. Amaro-Reyes, The effects of corruption on administrative performance: Illustrations from developing countries, World Bank Staff Working Paper Number 580, World Bank, Washington, D.C., 1983, Robert Klitgaard, Controlling corruption, University of California Press, Berkeley CA (USA), and London, 1988, and Joseph J. Jabbra and O. P. Dwivedi, eds., Public service accountability: A comparative perspective, Kumarian, West Hartford, CN (USA), 1989. [Note: the Jabbra and Dwivedi book was an especially important early overview of accountability issues worldwide and in 15 countries.]

Although total IAD professional staff had finally increased somewhat, the external auditors reported to the General Assembly in 1992 that the IAD was still staffed well below the expected level of performance and number of auditors needed for adequate audit coverage. Accordingly, in December 1992, the General Assembly not only urged the Board of Auditors to expand its own

audit coverage, but called on the Secretary-General to "take urgent steps" to strengthen both the independence and effectiveness of internal audit, and responses to internal audit findings.

"Financial report and report of the Board of Auditors," UN document A/47/5, paras. 291-296, **1992**, and

"Financial reports and audited financial statements, and report of the Board of Auditors, General Assembly resolution 47/211 of **23 December 1992**.

The external pressure for proper internal oversight only increased in the late-1992 to early-1994 period. A set of articles on UN corruption problems in 1992 in the Washington Post disclosed very troubling and quite specific problems of UN managers' impunity and improprieties, and other similar critical reviews of UN operations appeared during the rest of the 1990s in the media in various countries). On this theme, the "Thornburgh report" by the UN's then-top manager stated bluntly in March 1993 that:

"The United Nations presently is almost totally lacking in effective means to deal with fraud, waste and abuse by staff members [as] ... recently highlighted in ... the news media.

... The chronically fragmented and inadequate ...[UN internal oversight structure] is currently so ineffective that, time and again, we have been called on to create *ad hoc* teams to carry out investigations of serious wrongdoing. The delay [in organizing] ... these teams often allows the trail to 'grow cold' [and] ... deprives the investigation of the vitality ... professionalism and impartiality [of] ... more regularized procedures.

... I believe that few of the reports [presently] ... produced will be taken seriously by the auditees until the 'muscle' of your office is placed firmly behind a consolidated effort carried out by a strong Inspector General's office.'

As noted in the Volcker-Ogata report, 'support for improved financing will be dependent upon a perception that funds are economically managed and effectively spent.' ... [so that] all Member States [can reassure] ... their taxpayers, the ultimate supporters of all United Nations activity.

This reassurance can only come ... from the prompt and effective activation of a strong Inspector General's office ..."

Thornburgh, Dick, Under-Secretary-General for Administration and Management, "Report to the Secretary-General of the United Nations", **1 March 1993**, pages 29-31.

[Note: The articles referred to are William Branigin, "The UN empire: Polished image, tarnished reality," a four part series, Washington Post, Sept. 21-24, 1992.

Or, as Mr. Thornburgh put it with some extra nuances in a newspaper article:

"With the vast increase in United Nations activities and expenditures resulting from the organization's newfound status as a global 911 emergency number, its capacity for ensuring the integrity of its operations is more important than ever.

The recent report by the UN Financing Advisory Group, led by Paul Volcker and Shijuro Ogata, noted specifically that 'support for improved financing will be dependent

upon a perception that funds are economically managed and effectively spent.

Unfortunately, the mechanisms in place to promote such a perception ... are creaking leftovers from more placid times.

What is needed is an Office of Inspector General, staffed to audit, investigate and lay the basis for remedial action in serious cases of conflict of interest, misappropriation of funds or other corrupt practices.

The inspector general's office is the centerpiece of [the] agenda for reform that I presented to Secretary-General Butros Butros-Ghali upon completion of my one-year assignment at the United Nations."

Dick Thornburgh, "How to clean up the United Nations", International Herald Tribune, **March 26, 1993**. [emphasis added]

The 1993 JIU report on UN accountability and oversight noted the accelerating criticisms mentioned above. Although the IAD had created a first audit manual in 1990 and had computerized some audit status information, the JIU found serious and fundamental problems:

-- First, severe understaffing: UN audit posts provided a ratio of auditors to total staff of 1:346 and \$66 million of budget dollars per auditor, versus a much-better 1:264 ratio and \$43 billion per auditor in the UN system overall, and there was also an urgent need to raise auditor grade levels and increase their travel and training funds;

-- Second, a need for fully qualified and competent staff: about half the UN auditors had good management analysis education, training, and experience, but the rest had only social science degrees and little or no prior management analysis experience;

-- Third, UN system and global governmental auditing bodies emphasize independence as being the first and vital standard for audit credibility, including direct reporting to executive heads (not least to protect auditors and their careers from intimidation and harassment by the "auditees"): the General Assembly's 1992 resolution especially emphasized this strengthening of independence, yet the old internal units had none; and

-- Fourth, serious gaps in UN auditors' worldwide audit coverage, which was still concentrated on UN headquarters activities in New York, while ignoring other and regional UN headquarters, and especially the tremendous expansion of risky and high-pressure UN field operations around the world.

Joint Inspection Unit, "Accountability and oversight in the United Nations Secretariat", UN document A/48/420, **1993**, paras. 57-68,

[Note: the resolution referred to is "Financial reports and audited financial statements, and report of the Board of Auditors, General Assembly resolution 47/211 of **23 December 1992**, paras. 14, 19.

The JIU report also examined three oversight areas where Secretariat action was almost non-existent:

Inspection: Inspection provides on-sight reviews to identify and solve operational problems in units. Yet experts like the Group of 18 cited widespread sloppy management in fragmented UN units and urged streamlining, and some senior UN officers told the Inspectors that they had never encountered an oversight official in their entire careers;

Investigations: continuous organizational programmes are necessary to fight corruption but, despite express General Assembly calls for action to combat fraud and mismanagement [and as noted in the Thornburgh report] UN actions were ad hoc, inadequate, and tardy.

Staff involvement: an important way to fight corruption is through vigilance from those most familiar with programmes -- the staff -- but once again when the General Assembly sought "hotline" mechanisms to combat mismanagement and fraud, the Secretariat continued to resist.

Joint Inspection Unit, "Accountability and oversight in the United Nations Secretariat", UN document A/48/420, 1993, paras. 70-86.

In early 1994, Childers and Urquhart expressed major concerns about oversight matters in their call for renewing the UN system:

"... the bulk [of financial abuses] usually occurs ... in emergency operations where cash or supplies are being moved ... [urgently], or where contracts must be issued under great pressure. Given the appalling under-staffing of peacekeeping operations and the disorganized state of humanitarian emergency assistance the surprise if any is that there is not more fraud and waste in these operations. ...

A further ironic consequence of zero-growth demands has been the severe under-staffing of the [IAD.] ... neither Secretaries-General nor member states have paid enough attention ... [thus there have been] only some 30 fully qualified auditors and 6 [professional evaluation staff] to cover the entire [UN] work programme in thousands of expenditure lines, carried out at New York, Geneva, Vienna and Nairobi, five Regional Commissions, over a hundred country offices, huge world conferences and in addition over a dozen complex peacekeeping operations. ..."

Erskine Childers, with Brian Urquhart, "Renewing the United Nations system", Development Dialogue, 1994:1, Dag Hammarskjöld Foundation, Uppsala, Sweden, 1994, p. 146. [emphasis added]

They also emphasized that further major improvements were required:

"Internal procedures to enable staff to report palpable misconduct without fear [and on the other hand without creating an atmosphere of witch-hunting] should be improved. The UN's ability to pursue miscreants through national jurisdictions needs to

be strengthened. After decades of periodic suggestions for an Inspector General to be attached directly to the Office of the Secretary-General, this issue is now being actively pressed. This may, on balance, be helpful but not really effective if the IAD remains so grossly understaffed. To carry maximum credulity and universal confidence the appointee must be of impeccable repute and with top-calibre qualifications for such work."

Erskine Childers, with Brian Urquhart, "Renewing the United Nations system", Development Dialogue, 1994:1, Dag Hammarskjold Foundation, Uppsala, Sweden, **1994**, pp. 146-147. [emphasis added.]

As discussed in the preceding section on managerial accountability struggles, the Secretariat had attempted to rebuff all these mounting pressures with a 1992 report which argued that existing UN rules were quite sufficient and that sparse national experience with fraud hotlines had not worked well. It followed with a highly-conceptual report in October 1993 on general accountability and delegation of authority issues. This paltry Secretariat response led the General Assembly to finally and firmly insist on major reform to establish management accountability in its resolution 48/218 A of December 1993. It stated therein that it:

"E.II., Recognizing also the need for an enhanced oversight function to ensure the effective implementation of [UN] activities ...;

9. Resolves that the decision to establish an additional independent entity ... to enhance oversight functions...

11. ... shall continue ... at the earliest possible opportunity ...;

III. ... Determined to address alleged cases of fraud in the United Nations in an impartial manner, in accordance with due process of law and full respect for the rights of each individual ...

2. Also decides to this end to establish an ad hoc ... working group of experts ... to report to the General Assembly [in 1994]."

"Review of the administrative and financial functioning of the United Nations", General Assembly resolution 48/218 A, **23 December 1993**, sections II. and III. [emphasis added.]

Under all these intense pressures, Secretary-General Butros-Ghali had already acted capitulated abruptly in August 1993, combining the four existing UN audit, evaluation, monitoring and advisory units into a new single unit. The JIU, then completing its accountability report, welcomed the action. But it noted that the 90 total staff assigned should actually number more than 200 to properly cover UN programmes, and that, qualitatively, a mixture of appropriate skills -- lawyers, trained investigators, and specialists in computer systems, management analysis, human resources, and financial control systems -- should be assembled as soon as possible.

Joint Inspection Unit, "Accountability and oversight in the United Nations Secretariat", UN document A/48/420, **1993**, VIII., "Postscript."

The transitional Office of Inspections and Investigations, headed by an Assistant-Secretary General, operated for a year while the General Assembly deliberated on a formal new unit. Its head, Mohamed Aly Niazi, the very experienced former head of the UN Internal Audit Division, submitted an annual report in September 1994. He observed that the new Office had begun a comprehensive overhaul of UN oversight functions. However, it existed only in embryonic form, and had struggled with its small staff to cover the multi-billion dollar regular and extra budgetary funds expended by the UN in offices scattered worldwide, including major peacekeeping missions; some 1,400 technical cooperation projects, and the 160 UN trust funds. He concluded that:

"The effectiveness of an oversight office depends to a large extent on how senior officers perceive their roles. The concept of management accountability in the United Nations has not been consistently applied. ... no system of accountability will be effective without the assurance that sanctions will be promptly applied when violations occur. I strongly recommend that any new system of accountability and responsibility include specific penalties or sanctions for United Nations managers and other staff who disregard United Nations regulations and rules or who are negligent in the conduct of their duties and responsibilities. ...

During this first year, [the new office] has addressed symptoms but has not yet been able to address the root causes of many [UN] problems. I refer to such issues as recruitment and promotion policies, the administration of justice, management reporting systems, staffing and financing of peacekeeping operations and contract management.

A vast amount of work remains to be done before the United Nations has management structures and a management culture adequate to the great tasks entrusted to it.... "

"Report of the Office of Inspections and Investigations", UN document A/49/449, **28 September 1994**, pages 5-6.

[Note: a decade later, IO Watch believes that there is good reason to doubt that any such sanctions have ever been applied to to any of the hundreds of UN Secretariat managers, except in a few cases where there was heavy media exposure, or threats of such exposure.]