

INTERNAL CONTROLS

Modern, well-managed internal control systems are recognized worldwide as essential -- the first operational "line of defense" -- for organizational accountability, goal achievement, efficient operations, avoidance of waste and loss, and reliable financial reports. During the 1990-1993 period, the General Assembly repeatedly urged action to strengthen internal controls, through more stringent oversight and assurance of compliance, stating that it:

"13. Requests the Secretary-General ...

(c) To implement stringent inventory controls on non-expendable property and to report thereon ... [in 1991],

(d) To institute without delay more effective control on the payment of all allowances and benefits to staff members and to report on measures taken in this regard ... [in 1991];

14. Reaffirms the importance of strict compliance with financial regulations and rules on the subject of unliquidated obligations, and requests ... a thorough report ... [in 1991];"

"Financial reports ... statements, ... reports of the Board of Auditors," General Assembly resolution 45/235 of **21 December 1990**.

"I.2. Requests the Secretary-General to review and develop procedures and norms, including workload analyses, to justify [the management of all aspects of staff posts], ... and to report thereon ..."

"Questions relating to the proposed programme budget for the biennium 1992-1993", General Assembly resolution 46/185 B of **20 December 1991**.

"13. Emphasizes the need to continue to ensure overall efficient and prudent management by the Secretary-General of all the resources entrusted to the UN by Member States for the implementation of all its mandates and, in particular, stresses the need to ensure full accountability and responsibility in the management and use of these resources;

14. Notes with concern the lack of cash reserves and the cash flow problems [of the Organization] ...;"

"Improving the financial situation of the United Nations," General Assembly resolution 47/215 of **23 December 1992**.

"III.3. Requests the Secretary-General ...

4.(a) To provide adequate resources and to identify clearly units, at appropriate levels, for the implementation of all programmes and activities ...;

4.(f) To propose improvements in programme delivery and the termination of activities considered obsolete or redundant ...;

7. To ensure ... the rationalization of the working arrangements within each department ... to ensure that resources are used in the most effective way and that the programme managers are fully responsible and accountable;"

"Review of the efficiency of the administrative and financial functioning of the United Nations ...", General Assembly resolution 47/212 B of **20 May 1993**.

The UN Board of Auditors also reported similar findings of very serious management problems. An article thereon cited

"Mismanagement, waste, abuse and in some cases fraud. These are among the findings by the U.N. Board of Auditors in its examination of Secretariat operations cited by the United States in a presentation to the General Assembly's budget-writing Fifth Committee.

The [U.S. representative] stated that the Secretariat 'has not made significant progress' in addressing these problems.

Referring to the current audit report [and affirming his status as a U.N. supporter, he] said it led to the conclusion that "existing mechanisms alone are unable to administer and safeguard funds entrusted to the organization.'

The Board's report identified serious deficiencies and abuses in program management, use of staff, payment of staff allowances and benefits and in procurement and property management, he said."

"Auditors' report blasts U.N. for waste, fraud", Diplomatic World Bulletin (New York), **October 19-26, 1992**, p. 1.

Although internal controls had traditionally been considered simple compliance tools, a major US accountants' study in 1992 urged all large organizations to develop an integrated internal control systems framework. It also stressed the need to continually revise and rethink these systems to promote efficiency and effectiveness and enhance legal compliance. The study identified five main internal control components:

- (a) control environment -- the foundation which sets the tone;
- (b) risk assessment to identify and assess factors that could jeopardize achieving objectives;
- (c) control activities to help ensure that management objectives are carried out;
- (d) information and communication to keep staff informed and aware and produce necessary reports and information; and
- (e) monitoring to assess the internal system's performance over time.

[Note: adapted from the "Executive summary" of the report, Integrated control - Integrated framework, four vols., Committee of Sponsoring Organizations of the Treadway Commission, September 1992, American Institute of Certified Public Accountants (AICPA), Publications Division Jersey City, New Jersey, **1992** (available at <http://www.coso.org/> under Publications.)

The UN Secretariat made the various standard responses to these pressures -- assurances, talk of activity underway, and statements of good intentions. But, as part of the followup on its management accountability resolution of 1993, the General Assembly called again in early 1997 (and again in 1999 and 2001) for decisive action to strengthen control and monitoring mechanisms, stating that it:

"I.3. Regrets the unsuccessful efforts to develop a management environment and culture in the Organization that enables staff members to contribute their maximum potential, effectiveness, and efficiency; ...

"II.3. requests the Secretary-General to issue specific administrative instructions to establish clearly the responsibility and accountability of programme managers for proper use of human resources, as well as sanctions in accordance with staff rule 112.3 for any financial loss suffered by the United Nations as a result of gross negligence, including improper motivation, willful violation of or reckless disregard for the staff Regulations and Rules and established policies regulating recruitment, placement and promotion; ...

6. Welcomes the intention of the Secretary-General to streamline administrative procedures and eliminate duplication, in relation to human resources management, through delegation of authority to programme managers, and requests him to ensure, before delegating such authority, that well-designed mechanisms of accountability, including the necessary internal monitoring and control procedures, as well as training, are put in place, and to report to the General Assembly [in 1998]; ..."

"Human resources management", General Assembly resolution 51/226 of **25 April 1997**.

The Secretary-General responded in 1998 with a very brief and rather dismissive report. Observing that an international auditors' body had developed "best practice" guidelines for internal control in 1992, he reported that:

"Over the years, the United Nations has established ... internal controls ... most of which dovetail with the ... INTOSAI guidelines. ...

However, audits and inspections indicate that our internal control system shows gaps and deficiencies and that it requires consistent and continuous improvement and strengthening. While in some areas internal controls are slack or inefficient, in others many detailed ... requirements already in place are stifling initiative and flexibility ...

... The Secretary-General has decided to adopt the Guidelines ...

[They] provide minimum acceptable standards of internal controls. The United Nations funds and programmes ... are at liberty to adopt a more extensive and specific system of internal controls, suitable to their areas of activity. ..."

"Guidelines for internal control standards: Report of the Secretary-General", UN document A/52/867 of **8 April 1998**, paras. 6-11.

[Note: The report referred to is Internal Control Standards Committee, "Guidelines for internal control standards", International Organization of Supreme Audit Institutions (INTOSAI) of September **1992**. It is available at www.intosai.org]

The Secretary General recommended in this 1998 report that the General Assembly join him in the gesture of endorsing the 1992 INTOSAI guidelines. His report rather carelessly abused the

Treadway Commission basic components cited above for internal controls. Concerning "(a) set the tone," the UN breezily chose an approach of "endorse, and strengthen if you choose," and as to "(e) monitor ... performance," the UN simply chose not to mention it at all. The UN report also notably ignored any mention of excellent supplementary guidance for reporting on effectiveness of internal control standards which INTOSAI had issued in 1997, a year before the Secretary-General issued his own report.

[Note: The 1997 INTOSAI implementation guidelines are presented in the report Internal Control Standards Committee, "Guidance for reporting on the effectiveness of internal controls: SAI experiences in implementing and evaluating internal controls", International Organization of Supreme Audit Institutions (INTOSAI), 1997, at www.intosai.org .

Note: for more such casual systems management, see the quotations in the following subsection on UN financial management, and the major and costly stumbles with the UN integrated management information system (IMIS) from the late 1980s on throughout the 1990s.]

In a report required by the General Assembly on management irregularities, in March 2000, the Secretary-General reported casually as "measures to improve internal controls" that

" ... budgetary and accounting controls ... are being strengthened regularly on the basis of recommendations by the oversight bodies; ...

[he] will take steps to ensure publication of the Guidelines as widely as possible, including on the United Nations Intranet ..."

"Follow-up report on management irregularities causing financial losses to the Organization: Report of the Secretary-General ", UN document A/54/793 of **13 March 2000**, para. 21.

A further report in August 2000 on overall "Accountability and responsibility" failed to highlight internal controls at all. IO Watch believes that the Secretary-General's attitude -- merely endorsing general standards and "sending them around", without any efforts to firmly apply them and follow-up on a continuing basis, as outlined by the excellent 1992 COSO and INTOSAI standards cited above -- is a very serious failure of his acknowledged and very real fiduciary responsibility to safeguard the resources that Member States provide.

[Note: the report cited is "Accountability and responsibility: Report of the Secretary-General ", UN document A/55/270 of **3 August 2000**.]

In recent years, establishing and maintaining strong internal control systems and guidance have become very serious regulatory matters for large multinational corporations:

"[In September], shortly before Japan ordered Citigroup to close its private banking unit there for, among other things, ... money laundering, Charles Prince [the chief executive] commissioned an independent examination fired ...three prominent senior executives ... then, at a [Tokyo] news conference, took responsibility for the failings ...

It was an unusually public mea culpa by a ... financial giant ... typically [given to] ... closed-door solutions.

The hurdles confronting any big organization that seeks to redirect ...its culture can be formidable.

[A professor] said chief executives often underestimated employee skepticism.

'The real measure of the success in changing a culture is the kind of conversations employees have around the water cooler,' he said.

Like all major corporations. [Citigroup] is racing to meet a [yearend] ... deadline requiring it to declare in its annual report that its internal financial controls are in place and effective. ... [under] the Sarbanes-Oxley Act ...

U.S. standards for financial disclosure and control.

Prince still has plenty of time to correct any deficiencies. But the fact that the bank may still be grappling with its internal control system ... underscores the steep challenge Prince confronts... to clear Citigroup's regulatory hurdles."

"Timothy L. O'Brien and Landon Thomas, Jr., "Chief tackles Citigroup's culture", International Herald Tribune, **November 9, 2004**.

[Note: Citigroup is indeed a giant – the world's biggest bank, employing about 300,000 people, operating in more than 100 countries, and with revenue of \$77.4 billion in 2003.]

In sharp contrast, even the brief and casual UN internal controls discussions of yesteryear, as discussed above, seem now to have disappeared entirely from any Secretariat reporting. However, in light of recent UN staff "water-cooler" concerns about *inter alia* corruption-fighting and non-accountability in the UN reported in 2004; the UN Global Compact which seeks to guide corporate behaviour; and especially the slow and closed-door UN investigation of massive multi-billion dollar scandals in its oil-for-food programme in Iraq, it certainly seems time for the UN to start assessing its own internal control system functioning much more seriously and publicly.

IO Watch believes that the cavalier Secretariat treatment of the critical internal management controls process can be traced back to the Secretary-General's April 1998 assertion, cited above, that "many detailed ... requirements already in place are stifling initiative and flexibility". IO Watch also concludes that the Secretariat's strong desire has been to "free the managers", as discussed in detail in the next subsection of this archive, and to continue to avoid subjecting Secretariat managers to actual management accountability, as discussed throughout the rest of this archive.

For more discussion of internal control problems and gaps, see this archive's subsections under Recent Developments on Management culture deterioration , Global Compact hypocrisy , and the Iraq oil-for-food programme .]