



FIFTH COMMITTEE REPORT

16-20 OCTOBER 2006

Two meetings were held this week at the UN in the context of the work of the Fifth Committee on Governance and Oversight namely, "Governance and Oversight: towards a better understanding," a workshop organized by the G77 and an Informal Briefing on Oversight and Governance regarding the work of the Steering Committee on this subject established by the Secretary General. Please find below a summary of the issues raised. This report also includes a summary of the ongoing discussions in regards to the Programme Budget 2006-2007.

GOVERNANCE AND OVERSIGHT

OCTOBER 18, 2006

WORKSHOP OF THE GROUP OF 77 AND CHINA: GOVERNANCE AND OVERSIGHT: TOWARDS A BETTER UNDERSTANDING

Background

On Monday 16 October 2006, a briefing was organized to inform the Fifth Committee of the report of the *Independent Steering Committee for the Comprehensive Review of Governance and Oversight* which was established by the UN Secretary General in response to the 2005 World Summit Outcome Document. A report of this meeting can be found below. The G77 and China organized a workshop two days later called: *Governance and Oversight: Towards a Better Understanding*. The workshop was open to all Member States.

Programme

- 1) Introductory remarks by Ambassador L. Gumbi, Ambassador for South Africa in Vienna.
- 2) First session: "The need for assurance and accountability" by Jon Lukomnik, Managing Partner of Sinclair Capital L.L.C.
- 3) "Risk management and the control environment" by Graham Joscelyne, Managing Director of Enterprise Risk Advisory Services at UHY Advisors
- 4) "The Role of Audit Committees" by Kenneth Daly, Executive Director of KPMG's Audit Committee Institute

Summary

Ambassador Gumbi opened the meeting, stressing the primacy of Member States at the UN and that Member States want strong oversight bodies. As the Fifth Committee has to consider highly technical recommendations by the Independent Steering Committee for the Comprehensive Review of Governance and Oversight, this workshop was organized to help inform Member States and to enhance a common understanding of the issues involved. The workshop would not focus on specific proposals as presented earlier in the week.

Jon Lukomnik stated that his perspective was that of the investors. **Good governance matters because bad governance results in a loss of roughly 3 trillion dollars per year**, i.e. 500 dollars per person, mostly because of waste, fraud, and inefficiency. McKinsey & Company, a management consulting firm, produced a report that exemplified that **investors dislike risk but that management likes it**. We all know how corporate executives can squander our money, such as happened at Enron, Worldcom and others. Management at times suspends its own ethics and **often the waste is due to sloppy oversight rather than theft**. Of the \$769 billion lost by companies, it was the doing of some 60 out of 3000 companies. According to the Brookings Institute,

the corporate scandals resulted in a \$35 billion loss to the US. The methodology for improving this is to: 1) align interests of the investors and management, 2) have independent oversight; and 3) have an appropriate flow of information. **Boards typically do not function well because of the three ‘I’s: Information, Influence, and Incompetence.** An uninformed board cannot provide oversight. How board members are elected is crucial – often they have a special relationship with the CEO who for instance provides them with certain perks like the use of company jets. It used to be that as a board member, you only had to look grave and sage and say “I don’t think so” once in a meeting.

As to combating insufficient INFORMATION, a Board of Directors should insist on:

- receiving the working papers well in advance
- hiring its own experts without going through the CEO
- hiring independent counsel in case of conflict
- determining the compensation for consultants in advance.

With regards to INFLUENCE:

- All members of audits should be independent
- There should be no payments to directors apart from meeting fees. There should be no finding fees for acquisition or consultancy fees for directors

As to INCOMPETENCE:

- All members should show up for the meetings. A minimum of 75% of attendance should be required.
- There should be sufficient orientation and training for all board members
- There should be self-evaluation of the Board and of individual directors
- There should be an independent nomination process to get the right people on board

It used to be that CEO’s were hired for life. Of the poorly performing CEOs, in the early nineties, only one out of 90 CEOs were let go. In 2004, this increased to 4 times as many dismissals.

The representative of Nigeria asked what framework would be appropriate for the UN. **What** would be the benefits and **risks if we do not implement the recommendations** put forward by the Steering Committee?

Lukomnik replied that during his 15 years in the public sector, he came to understand that **accountability is key.** There should be disclosure on how resources are allocated to all constituencies. **Building trust** in a governing body **should be a first among Member States**, for the benefit of the citizens of the world. It should be noted that to remove the suspicion of governance failure and to overcome suspicion is very time-consuming and difficult.

Finland was pleased to hear confirmation that bad governance is expensive and raised a question related to personal accountability and independent oversight mechanisms.

Lukomnik noted that excellent, well-intentioned, people can often overcome bad structures while bad people can circumvent good ones. Structures should make it easier for well-intentioned individuals and make it more difficult for those with more basic instincts. At the UN one has sovereign immunity but because of transparency, there is a “reputational” risk for those who behave badly. **Robust oversight is necessary and results should be published.** As to independent oversight, it is important who nominates the members of the oversight body. In the corporate world, an independent recruiting firm is generally hired which looks for possible nominations based on criteria established beforehand. As to the UN, he does not know. **How the members are nominated is very important and also who gets to elect them.** There should be **disclosure of relationships, professional and educational credentials and these should be checked.** As to compensation levels, consultants can give advice. How the members of an oversight body report back is where assurance is provided. Both the front and end process is important in this situation.

A question was raised in regards to scandals in companies where poor leadership is not the only cause. Investment bankers and auditing firms also contribute to the failures. Stock options for CEOs attribute to the scandals as well. But surely the UN is a completely different organization.

Lukomnik replied that in all situations, **information is power**. The UN is not directly comparable to companies or most public institutions. **But there are always sets of rules, measures, safety regulations** etc. As in a soccer game, the rules should be set in advance and governments should determine the playing rules and act as referee. Typically, reforms are set by the investors.

J. Graham Joscelyne explained that his perspective was that of a practitioner of auditing and risk-management. To achieve greater accountability one should move from:

- impunity → real liability
- acceptance → skepticism
- fragmentation → coordination
- blind faith → limited trust
- wastefulness → stewardship
- reaction → prevention
- carelessness → accountability

Trust needs to be verified, from different perspectives, broadly across the organization, and more deeply in sensitive areas. A review process should be independent of management, coherent and integrated. **Risk management is absolutely a key factor in good governance**. Everyone, even the G77 and China, will somewhere have a blind spot, something they cannot see. Management confirms the objectives, risks, and control environment; the internal audit verifies, the external audit verifies, and the Audit Committee provides a holistic perspective. **A framework for control environment requires assessing the risks in advance so that they can be managed more effectively**.

Algeria expressed appreciation for the expertise offered at the workshop but underlined that the UN has its own culture. Though we are universal, we are unique in our diversity. The **oversight system can be perfected but an eruption of consultants would be unfortunate**. It is up to Member States to tell you what can do for us and not the other way around. We might want to invite a wolf in sheep's clothing but we would want to control him. The GA may have a blind spot but it also has 384 eyes of its own.

Finland took note that in corporate culture, all levels are accountable.

Singapore had two questions: what is accountability without a notion of enforcement and sanctions. As to control environment, doesn't the leadership set the tone?

India also wondered about the costs and where governments fit in.

Joscelyne noted that **there is indeed cost involved in changing habits**. **But when systems are in place**, the costs of overseeing it become less and less as **it almost becomes part of the institutional DNA**. Joscelyne presented the COSO framework.

Kenneth Daly, whose views are shaped by his work for KPMG's Audit Committee Institute stated that **an audit committee needs a charter detailing its duties and responsibilities**. The audit committee should be relatively small – 3 or 4 members, and be independent. Face to face interaction is crucial with the Chief Financial Officer, the Controller, Legal Department, and the CEO. **The agenda should be set by all members of the Audit Committee**. Audit committees need to be customized – no size fits all. **Four factors are important to the success of an audit committee**: 1) right charter (clear and complete), 2) have the full support of the government body, 3) should have sufficient resources, and 4) the right people should sit on the committee. The members should be independent and knowledgeable. Impediments to a successful audit committee are a lack of clear understanding of its duties and responsibilities, misunderstanding of the governing body, lack of independence, insufficient resources and inadequate communications. Often agendas are overloaded and there may be lack of support from the organization. One should realize that **the existence of an audit committee does not guarantee result**.

Mexico asked whether the external environment – the activities in the field – and the involvement of 192 countries could be incorporated in a risk analysis.

Egypt wondered about **risk exposure that cannot be managed** (e.g. natural disasters). Is there a way that one can minimize the margins? How does risk management change the day to day operations – gradually? **How will the auditing and oversight layers interact?** What added value can we expect from an Audit Committee? As to the challenges – who appoints the members, how to ensure independence in the appointment/selection process, and who will be able to terminate them? Also, **who watches the watcher?**

The United Kingdom wondered who should determine the control framework and what would be the criteria to nominate members of the audit committee.

Joscelyne answered that there are always **risks regarding political and operational issues**. But **when incorporating risk management one should ensure that the mandates are specific enough**. You cannot control a hurricane but can consider humanitarian responses in advance. One should gradually incorporate risk assessment which does not mean it will be done slowly. He argued that **a control framework should be set by the governing body** and that management has a responsibility to react to it.

Daly explained that the vocabulary used is possibly in the way – it is impossible to eliminate risk but the gross risk may be reduced to a residual risk at levels where you would like it to be. The interaction between audit and oversight layers is a bit like vanilla-fudge ice cream, not easily separated. Good stewardship of resources involves knowledgeable accounting, clarity about how controls work (both directive and preventative) and intelligence about how operations work.

Gambia noted that there is added value to **an audit committee** but would it not just **create another layer of bureaucracy?**

Daly replied that every committee may have a blind spot, but **how to evaluate the external auditor?** Management is likely to point out any such blind spot. **The importance of an audit committee is that it can show the public what is going on.**

OCTOBER 16, 2006

INFORMAL BRIEFING ON GOVERNANCE AND OVERSIGHT REVIEW

Background

At the 2005 World Summit, the General Assembly (GA) requested that the UN Secretary General (SG) submit an independent and external evaluation of the auditing and oversight system of the UN and its specialized agencies as well as the roles and responsibilities of management in this regard. The evaluation would take place within the context of overall governance arrangements. To this end, the SG established an ***Independent Steering Committee for the Comprehensive Review of Governance and Oversight*** consisting of six members,¹ assisted in its technical work by PricewaterhouseCoopers. The informal briefing was organized to introduce the report and to allow the Member States to exchange views with three of the members of the Steering Committee.

Documents

The first part of the Committee's report is contained in A/60/883/Add.1 & Add.2 and **examines governance and oversight principles** and practices in general as well as current UN practices; **identifies gaps and makes**

¹ Mervyn E. King (South Africa), Chairman, Guy Almeida Andrade (Brazil), Jean-Pierre Halwachs (Mauritius), Shinji Hatta (Japan), Andrew Likierman (United Kingdom), Kamlesh S. Vikamsey (India).

recommendations with regards to governance and oversight. The accompanying report from the Secretary-General is contained in A/60/883. Related documents are: A/60/901 dealing with proposals for strengthening the Office of Internal Oversight Services and A/60/846/Add.7 dealing with updated terms of reference for the proposed Independent Audit Advisory Committee.

Summary

Deputy Secretary General Mark Malloch Brown introduced three of the six members of the Steering Committee: Guy Almeida Andrade of Brazil, Andrew Likierman of the United Kingdom and Kamlesh S. Vikamsey of India. Also present was Richard Golding of PricewaterhouseCoopers. Malloch Brown urged the Fifth Committee to take immediate action on a number of recommendations made by the Steering Committee in light of the fact that the current SG's tenure would end in 2 months. He singled out **two** of the **recommendations** for immediate action: 1) the **establishment of an Independent Audit Advisory Committee**, consisting of **independent experts** and for which terms of reference need to be developed, and 2) the **strengthening of the Office of Internal Oversight Services (OIOS)**.

The three members of the Steering Committee presented some of the main recommendations and stressed that there was unanimous agreement among the members of the Steering Committee and the consulting experts. The research was truly global and involved looking for the best practices internationally, while respecting the uniqueness of the UN. The recommendations highlighted included:

- A UN Code of Governance which would establish a benchmark for all UN entities. An important benchmark would be the 'comply or explain' principle. The flexibility that 'explain' allows is due to the huge organizational differences between the UN and its Funds, Programmes, and Agencies.
- Strengthen results-based management in budgets and reporting
- Implement a risk management framework
- Improve the accountability of the Secretariat
- Internal controls should lie with the management in line with best international practices
- The members of the Independent Audit Advisory Committee should be nominated independently and be approved by Member States.
- The internal audit should be strengthened with the aim of achieving a higher rate of implementation
- The Joint Inspection Unit (JIU) should be discontinued

South Africa, on behalf of G77 and China, reportedly stated that this meeting was understood to be an exchange of views between the Committee members and Member States rather than a formal introduction of the report. A review on governance had been requested by Member States in 2002 in light of the corporate failures at that time – not because it was assumed that the UN too had failed – but to see if the UN was vulnerable to similar risks. “Unfortunately, the Secretariat never got round to it ... due to various reasons.” In March, Member States adopted a resolution which made it clear that any review should be mindful of the international nature of the organization, the prerogatives of Member States, and should also provide information on how management serves Member States. South Africa added that **it did not intend to go into any specific proposals** today but would like to benefit from the presence of the members of the Steering Committee. It was reportedly **noted that a crucial issue, i.e. limiting the participation of all Member States, was regrettably to be found in the report** and South Africa finds it difficult to understand why this idea was reintroduced after Member States clearly pronounced their opposition to this. A better sense of the methodology used would be appreciated. As to a UN Code of Governance, how do you **align the sovereignty and equality of each Member State** to such a code of conduct? Further questions concerned the mandates of the Security Council for which budgets have to be approved by the GA.

Finland, on behalf of the European Union, reportedly found it useful to have the briefing but had some questions and remarks. Though there are important parallels between the private sector and international organizations, it was believed that **the report had the private sector too much in mind**. The UN's governing body is much bigger. The implementation of risk management posed some questions. Expressing interest in the Independent Audit Advisory Committee (IAAC), Finland reportedly stated that **the report was confusing**. Is it an advisory committee for Member States without an executive function? **The idea that it would**

function as a filter between the Secretariat and Member States was not a welcome one as we would still want the OIOS to see us and report to us, though maybe less often. Could the role of the IAAC be clarified, as well as the selection of candidates? Who would make the nominations? As to the OIOS, the evaluation processes needs to be strengthened but shouldn't it be part of any manager's job? It would increase a sense of ownership. As to a central evaluation function – what would it actually do? Finland reportedly **did not agree with the section on the Office of Legal Affairs.**

India aligned itself with the remarks made by South Africa but reportedly wondered **why the OIOS was not consulted on substantive issues.** The procedures of the Committee for Program Coordination need to be improved. As to the nominations for the IAAC, why would the authority for nominations be delegated to the Secretariat?

Singapore reportedly **did not welcome the 'comply or explain' idea in the UN Code of Governance.** Why is it not 'Comply or Else.' Isn't what the UN needs, effective enforcement of existing rules?

Egypt reportedly added that **sticking to existing methods was surely the key to fight a lack of accountability.** As to how the best practices identified in the report could be applied to the UN, there could be difficulty, as the UN is such a unique organization. As to the IAAC, how would it work with respect to the other layers dealing with the same issues? Egypt reportedly **does not understand the recommendation to abolish the JIU** and also wonders about the procedure for dealing with the Committee's report – would the fifth committee be expected to **adopt it in its entirety?**

Jamaica reportedly **agreed with Egypt** stating that the **adoption of the report in its entirety is unlikely,** as major objections had already been noted. The **IAAC should not be under the authority of the OIOS.**

The Steering Committee reportedly replied to the queries regarding the **Independent Audit Advisor Committee (IAAC)** stating that it would not be **an executive committee and that it would be an arm of the General Assembly.** The IAAC would act as a facilitator; would be a body of independent experts and its work would be mostly technical, to filter reporting to the GA and stakeholders. The **OIOS would focus on the internal audit.** As to the concern of South Africa regarding limiting the role of the Fifth Committee, one Steering Committee member reportedly stated that reconsidering the size of the Fifth Committee – as is, it is like the GA – constituted a systematic problem. As to the unique nature of the UN, the Steering Committee adapted the principles where necessary. With regards to **risk management, it is a useful tool to help determine how limited resources should be spent.** The difficulty with the OIOS is that it has a mixed mandate. There is no clear distinction between the role of management and the role of audit, which is a standard practice throughout the world. **OIOS feels that its mandate should not be changed** and the JIU has not welcomed the recommendation for its discontinuation but they were consulted. As to adopting the recommendations, the Steering Committee provides a comprehensive framework but **not every recommendation need to be adopted as is.** With regard to the methodology used, terms of reference were established, 10 countries and 11 IGOs were looked at, as well as governance practices at private industry, 30 UN entities were examined – all in all 4-5 months and a 150 meetings. The Committee also consulted MS groupings.

Pakistan reportedly stated that the **premise on which the report is based is weak.** An important factor remains a lack of trust between management and Member States. As to the size of the Fifth Committee, it was noted that the Security Council is "the most unique body in the world," and that its role was not being questioned. Also, they believed the **review focused too much on structures rather than output.**

South Africa thanked the Steering Committee for explaining the methodology used. Reportedly, South Africa added that with regards to a code of conduct, **would the GA be expected to report on its conduct,** and if so, to whom? Would individual delegates be expected to provide financial disclosure? Member States are sovereign bodies. Isn't the **Charter the UN's code of conduct?** If we cannot accept a code of conduct, are there other **internal controls available?**

Tanzania reportedly noted that though the Fifth Committee is large, it is not too large and wasn't the ACABQ established to deal with certain matters more effectively?

Singapore reiterated that with regard to the "comply or explain" principle, it should not equal a "comply or excuse" principle.

The Steering Committee stressed that the report deals with complicated issues and it is difficult to provide the answers Member States deserve in a short time. The recommendations are based on best practices and evidence from around the world.

In the last statement, Algeria thanked the members of the Steering Committee but **stressed that they should realize that they were addressing sovereign Member States**. Algeria added that it worried about the costs for services provided by PricewaterhouseCoopers, and reportedly concluded: "Thank you, but leave the Fifth Committee and the ACABQ alone.

Week 16-20 October

PROGRAM BUDGET FOR THE BIENNIUM 2006-2007 (ITEM 117)

SUMMARY OF STATEMENTS

Finland, on behalf of the European Union, would like to continue to search for other options in preventing the loss caused by bulk mail, with regard to establishing a contingent liability reserve for the UN Postal Administration. They are, **"not yet fully convinced to create a new fund to cover the risk, while a working capital fund already exists."** As to the report on the **Identification of additional resources for the Development Account**, the EU thought that the **report was unable to provide a set of concrete proposals**, and the EU wanted to discuss the report further during informal consultations in order to obtain "an outcome to clarify the identification of savings."

South Africa, on behalf of the G77 and China, stated that the **objectives for funding the Development Account have not been fulfilled**. The Group believes that, based on the report, the issue is not identifying resources, but "ensuring that there is a system in place so that, once a productivity gain is identified, approval is to be sought of the General Assembly for the transfer of the associated resources to the budget section of the Account." The G77 also wanted to emphasize "an alternative approach presented in the report [to] suspend provisions of financial regulations 5.3 and 5.4 in respect of surpluses, to allow for the transfer of a share of funds to the Development Account." The Group also asked for more information on the modalities and the impact on the Financial Regulations and Rules, for the proposal to "establish a reserve for contingent liabilities for postal service for previously issued UN Postal Administration stamps." Furthermore, they requested clarification "of the ACABQ's view that, in order to reach the target of \$3.3 million, it would be prudent to consider further streamlining UNPA operations, if possible, and providing requisite service with even greater efficiency."

The United States noted that the SG's report stated that there was **no reliable method for determining the cost of outputs and service and for this reason, efficiency savings could not be identified**. The U.S. also stated that its delegation has advocated for **a cost-accounting system** in order to allow for [information on efficiency savings] to be known and supported the adoption of International Public Sector Accounting Standards."

Pakistan stated that **"it is vital to ensure adequate and predictable financing of the projects once they are launched from available means."** They also believe it crucial to identify additional sources for the sustainability of the Development Account. The utilization of system wide savings and efficiencies has proved unreliable and insufficient. Furthermore, Pakistan stated that **the report did not meet the request of the General Assembly for the "identification of additional funding sources other than the savings,"** and no concrete modality was recommended in the report. Pakistan also expects a **"fair increase in the allocation of**

the Development Account” to “supplement developing countries national efforts to promote socio-economic development.”

Contributors: Lydia Swart, Irene Martinetti, Julia Hurley

In case of errors or omissions, please contact
fifthcommitteereport@centerforunreform.org.