



INTERNATIONAL TELECOMMUNICATION UNION

**MANAGEMENT AND BUDGET GROUP  
OF THE COUNCIL (MBG)**

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## **CONTRIBUTION BY THE UNITED STATES OF AMERICA**

Attached is a contribution by the United States of America on the establishment of an independent External Audit Committee.

## Audit Committee

In 2007, this committee considered the question of whether or not the International Telecommunication Union should establish an audit committee. Before and since that time, WMO, WIPO, ILO, ICAO, UNHCR now have audit committees. The WHO will have considered the question at its May Executive Board Meeting.

The United States suggests that the ITU Financial Regulation Committee consider this issue again. To assist the discussion, we submit to the Committee a position paper adopted by the Representatives of the Internal Audit Services (RIAS) recommending that UN agencies develop audit committees. In addition, we attach the Institute of Internal Auditors (IIA) endorsement of that RIAS position paper noting that

The IIA “definitely agree[s] that independent audit committees are an essential part of an effective governance process within every organization and we commend the overall RIAS’ recommendation that audit committees should be implemented in all entities of the United Nations system. We also commend RIAS for developing a tool to aid their members in establishing an effective independent audit committee.”

We suggest that the group discuss possible options for developing an appropriate independent external audit committee for the ITU and bearing in mind the function and structure of audit committees at other UN agencies.

# THE AUDIT COMMITTEE IN UNITED NATIONS ENTITIES AND MULTILATERAL INSTITUTIONS

## Position Statement from Representatives of Internal Audit Services of the United Nations entities and Multilateral Institutions (RIAS)

### Purpose of Position Statement

The purpose of this position statement is to present RIAS' views on what they consider are generally accepted audit committee principles and some identified good practices for adoption by UN entities and other similar multilateral institutions. RIAS recognise that the audit committee has become a key governance and oversight requirement for all types of modern organisations.

The purpose of the audit committee—as an independent advisory expert body—is primarily to assist the governing body, and the executive head of a UN entity and other multilateral institutions as appropriate, in fulfilling their oversight and governance responsibilities, including the effectiveness of internal controls, risk management and governance processes. The audit committee must add value and must strengthen accountability and governance functions; not duplicate them.

The position statement provides a description of generally accepted audit committee principles and some identified good practices on the purpose, responsibilities, composition (membership, experience, qualifications and independence) and operations of audit committees. The position statement is not intended to provide a comprehensive description of the responsibilities and functioning of an audit committee.

RIAS firmly believe that effective independent audit committees should be implemented in entities of the United Nations system and other multilateral institutions. RIAS recognise that there are significant differences in the statutory requirements, operations, and structures of the various types of United Nations entities and other similar multilateral institutions. As such, the audit committee's structure and arrangements should be determined within the context of the specific organisation's legal and governance framework and reflecting the principles and good practices that have been identified. RIAS hope that the position statement will be of practical help in making current audit committee arrangements better and encourage any organisations without audit committees to set them up as soon and as well as possible.

## Recommendation

**RIAS recommend the establishment of effective and independent audit committees with written charters approved by their governing bodies and composed of independent, objective, experienced and competent members.**

RIAS acknowledge that an effective independent audit committee provides valuable assistance to a governing body and management. In particular, it helps to:

- Ensure review of the quality of financial reporting, governance, risk management and internal controls in an entity.
- Ensure management takes appropriate action on audit recommendations.
- Ensure the independence, effectiveness and objectivity of the internal audit/oversight<sup>1</sup> and external audit functions.
- Strengthen communication among stakeholders, external and internal auditors and management.

**The following matrix (Annex 1) provides a list of generally accepted audit committee principles and some identified good practices for United Nations entities and other similar multilateral institutions.**

In the preparation of this position paper, RIAS has consulted The Institute of Internal Auditors. RIAS endorse the general guidance contained in the Institute’s document “The Audit Committee: Purpose, Process, Professionalism”<sup>2</sup> as an additional set of useful, informative and practical general advice for a well functioning and effective audit committee.

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<sup>1</sup> Oversight is generally understood under the dictionary definition as bodies, units and processes that provide “supervision” and “watchful care” in an organization. Oversight mechanisms can be considered “operational”, that is, they tend to base their analyses and reports on primary data, and generally use the reporting of other organizations mostly for background information. Those that are operational would include the various internal oversight mechanisms of the organizations – those performing audit, evaluation, inspection, monitoring, and investigation – and the following external oversight mechanisms: the United Nations Board of Auditors (BOA), the external auditors of the specialized agencies and the International Atomic Energy Agency (IAEA), and JIU. In contrast, the other oversight mechanisms, especially the Advisory Committee on Administrative and Budgetary Questions (ACABQ), the Committee for Programme and Coordination (CPC) and the International Civil Service Commission (ICSC), could be considered “review/policy” oversight mechanisms, since they use to a large extent data collected, analyzed and prepared by other organizations, to which they add their own examination and analysis. (Source: Oversight Lacunae in the United Nations System (JIU/REP/2006/2)).

<sup>2</sup><http://www.theiia.org/guidance/standards-and-practices/additional-resources/audit-committees-board-of-directors/>

## Generally Accepted Audit Committee Principles and Some Identified Good Practices

	Accepted Principles	Some Identified Good Practices
<b>Purpose</b>	The audit committee, as an independent advisory expert body, should assist the governing body and the executive head of the entity as appropriate, in fulfilling their oversight and governance responsibilities.	<ul style="list-style-type: none"> <li>➤ The audit committee assists primarily the governing body and, as needed, the executive head of the entity, as independent advisory expert body.</li> <li>➤ The audit committee helps ensure the governing body has independent and objective assurance on the effectiveness of the entity's controls, risk management, governance practices and accountability processes.</li> <li>➤ Oversight responsibilities include a) the integrity and appropriateness of financial and other reporting practices, b) the effectiveness of internal controls, risk management, tone at the top and governance practices, c) the performance of the internal audit/oversight function, d) the monitoring process for compliance with laws, regulations, and integrity and ethics (e.g. code of conduct), and e) the external auditors' qualifications and independence.</li> </ul>
<b>Authority</b>	The audit committee should have all the necessary authority to fulfil their responsibilities.	<ul style="list-style-type: none"> <li>➤ The audit committee has free and unrestricted access to any information, staff—including internal auditors—and external auditors or any external parties that is necessary to fulfil their mandate and roles and responsibilities.</li> <li>➤ The head of internal audit/oversight and the external auditors have unrestricted and confidential access to the chairperson of the audit committee.</li> </ul>
<b>Composition</b>	The audit committee and its members should be independent and objective.	<ul style="list-style-type: none"> <li>➤ The audit committee is composed entirely of independent external members of the entity.</li> <li>➤ The audit committee reports directly to the governing body.</li> <li>➤ The audit committee has no management powers or executive responsibilities.</li> <li>➤ All members of the audit committee are approved by the governing body.</li> </ul>
	The size of the audit committee should be determined by the size of the governing body and of the United Nations entity.	<ul style="list-style-type: none"> <li>➤ The audit committee comprises a minimum of three members and normally not more than five.</li> <li>➤ The quorum for the committee is a majority of the members.</li> <li>➤ Members serve in a personal capacity, therefore alternates are not allowed.</li> </ul>

	Accepted Principles	Some Identified Good Practices
	<p>Members of the audit committee should have collective skills, knowledge and experience to fulfil their responsibilities.</p>	<ul style="list-style-type: none"> <li>➤ Skills mix includes good management experience and understanding of finance, accounting, financial reporting in the public sector or UN entities/other multilateral institutions, internal controls and risk management, internal and external audits, governance and knowledge of the entity.</li> <li>➤ At least one member is a financial expert with good knowledge of generally accepted accounting principles and financial statements, internal controls and procedures for financial reporting.</li> <li>➤ Members of the audit committee are oriented and trained on the committee's objectives and responsibilities, internal and external audit functions, risk management and functions/operations of the UN entity.</li> <li>➤ Members of the audit committee are free of any real or perceived conflict of interest.</li> </ul>
	<b>Responsibilities</b>	
<b>Risk and Controls</b>	<p>The audit committee should review— together with the internal auditors, external auditors and management— and advise the governing body, at least annually, on the effectiveness of the entity's internal control systems, including the entity's control assurance statements and risk management and governance practices.</p>	<ul style="list-style-type: none"> <li>➤ The audit committee reviews with management and the internal and external auditors the effectiveness of the entity's internal controls and any related significant findings and recommendations together with management's responses, including the timetable for implementing recommendations.</li> <li>➤ The audit committee reviews, at least annually, the entity's risk management process and risk profile. It reviews the entity's process for assessing significant risks or exposures and the steps management has taken to manage and mitigate risks.</li> <li>➤ The audit committee reviews, through the results of internal and external audits, the entity's policies, systems and practices to ensure the appropriateness of internal controls over financial reporting, efficiency and effectiveness of operations, safeguarding of resources, and compliance with laws, regulations and rules.</li> </ul>
<b>Financial Statements</b>	<p>The audit committee should review and advise the governing body on the financial statements of the entity, including the external auditors' opinion on the financial statements, and management letters and other reports arising from the external audit of the entity's financial statements.</p>	<ul style="list-style-type: none"> <li>➤ The audit committee reviews and be familiar with the accounting and reporting principles, policies, standards and practices that the entity has applied in preparing its financial statements and other financial information reported by the entity.</li> <li>➤ The audit committee reviews the annual report of the entity and other significant accountability reports to ensure that, to the best of their knowledge, there are no material misstatements or omissions.</li> <li>➤ The audit committee reviews the reports from the external auditors.</li> </ul>

	Accepted Principles	Some Identified Good Practices
Internal Audit/Oversight	<p>The audit committee should review and advise the governing body on the appropriateness of the independence of the internal audit/oversight function; the internal audit/oversight resources and staffing; and the performance of the internal audit/oversight function.</p>	<ul style="list-style-type: none"> <li>➤ The audit committee reviews the performance of internal audit/oversight function including the review of risk assessment processes, plan and budgets (including making an assessment of the appropriateness of oversight resources), and periodic external quality assessment.</li> <li>➤ All internal audit/oversight reports are made available to the audit committee for their consideration.</li> <li>➤ The audit committee reviews periodic activity reports on the results of the internal audit/oversight function.</li> <li>➤ The head of internal audit/oversight reports periodically to the audit committee on the implementation of management's action plans for implementing internal audit recommendations and on the effectiveness of the actions taken. The head of internal audit/oversight reports all areas where management has accepted a level of risk that is unacceptable to the entity.</li> <li>➤ The audit committee reviews the appropriateness of the internal audit/oversight charter.</li> <li>➤ The audit committee is consulted on the appointment, renewal and dismissal of the head of internal audit/oversight.</li> <li>➤ The audit committee reviews management's responsiveness to internal audit/oversight findings and recommendations.</li> </ul>
External Audit	<p>The audit committee should review and advise the governing body on the scope and approach of the external auditor's planned examination and the reports there from.</p>	<ul style="list-style-type: none"> <li>➤ The audit committee ensures that the entity's management has appropriate mechanisms to support the external auditors in carrying out their work.</li> <li>➤ The audit committee considers the work plan of the external auditors.</li> <li>➤ The audit committee periodically meets with the external auditors and seek their comments and advice on matters of risks, controls and governance.</li> <li>➤ The audit committee assesses the performance of external auditors and make recommendations to the governing body.</li> <li>➤ The audit committee is consulted and provide advice on the appointment of the external auditor (including on the costs for the audit).</li> </ul>

	Accepted Principles	Some Identified Good Practices
<b>Reporting</b>	<p>The audit committee should report to the governing body on the committee's activities, issues and results, and on its own effectiveness in discharging its responsibilities.</p>	<ul style="list-style-type: none"> <li>➤ The audit committee prepares a report after every meeting, an annual report, and any special report if required, to the governing body and executive head. The annual report should confirm whether the committee has fulfilled all its responsibilities established in the charter and achieved its stated objectives for the period.</li> <li>➤ The reports of the audit committee are distributed to the external auditors, and others as deemed necessary, in accordance with the reporting structure of the entity.</li> <li>➤ The committee's annual report includes its assessment of the performance of the internal audit/oversight function (such as actual achievements against work plans) and external audit, and recommendations, if necessary, for the improvement of risk management, controls and governance processes.</li> <li>➤ The audit committee reviews its own performance at least annually.</li> </ul>
<b>Values and Ethics (Compliance)</b>	<p>The audit committee should maintain and promote effective communication with the governing body (or other governing and legislative authority), the management, the head of internal audit/oversight and the external auditors.</p> <p>The audit committee should review, at least annually, the systems established by the entity to maintain and promote international civil service values; and to ensure compliance with laws, regulations, policies and high standards of integrity and of ethical conduct to prevent conflicts of interest, misconduct and fraud.</p>	<ul style="list-style-type: none"> <li>➤ Management has a good understanding of the audit committee's purpose and responsibilities.</li> </ul> <ul style="list-style-type: none"> <li>➤ The audit committee obtains regular updates regarding any litigation, including assessments of related contingent liabilities, investigations, frauds, ex gratia and special payments.</li> <li>➤ The audit committee reviews the appropriateness and adequacy of anti-fraud policies, whistle-blowing arrangements and ethics provisions.</li> <li>➤ The audit committee reviews the appropriateness of the system in place to receive, investigate and take actions on the allegation of the fraud and misconduct.</li> </ul>

	<b>Accepted Principles</b>	<b>Some Identified Good Practices</b>
<b>Operations (Functioning)</b>	<p>The audit committee should be established by a charter or terms of reference approved by the governing body.</p>	<ul style="list-style-type: none"> <li>➤ United Nations entities are generally governed by a legislative body, governing body, council, or commission. In circumstances where UN entities are managed by a chief executive or other governance structures, the audit committee is established, but it is modified to fit the specific organizational structure.</li> <li>➤ The audit committee is accountable to the governing body.</li> <li>➤ The appropriateness of the charter is reviewed annually by the audit committee, requesting the governing body's approval for proposed changes.</li> <li>➤ A charter establishes the independence, objectivity, authority, responsibilities, functioning and structure of the audit committee. Reporting of the audit committee is established in the charter.</li> <li>➤ The authority, responsibilities and structure of the audit committee, established in a charter, are provided in the governing law of the UN entity.</li> </ul>
	<p>The audit committee should establish an annual plan to ensure the committee's responsibilities and the stated objectives for the period will be effectively addressed.</p>	<ul style="list-style-type: none"> <li>➤ The committee's annual plan is submitted to the governing body.</li> </ul>
	<p>The audit committee should meet as necessary to fulfil their responsibilities.</p>	<ul style="list-style-type: none"> <li>➤ The audit committee meets 3 to 4 times a year or more as necessary.</li> <li>➤ Meeting agendas are prepared and provided in advance to members. The meetings are scheduled at least 12 months in advance, with sufficient time to report to the governing and/or legislative body.</li> <li>➤ Minutes or reports of meetings are documented and approved.</li> <li>➤ The audit committee establishes a set of working procedures to assist them in executing their responsibilities.</li> </ul>
	<p>The audit committee should have adequate resources in order to fulfil their responsibilities.</p>	<ul style="list-style-type: none"> <li>➤ The audit committee is assisted as necessary by secretarial function.</li> <li>➤ If necessary, the audit committee has the ability to obtain independent counsel or other experts to advise the committee.</li> <li>➤ All confidential documents and information submitted to or obtained by the audit committee remain confidential.</li> </ul>
	<p>Standards for tenure, terms and conditions of service, conflict of interest,</p>	<ul style="list-style-type: none"> <li>➤ These standards are preferably included in the audit committee's charter. They are closely in line with such systems as prevail in the entity itself.</li> </ul>

	Accepted Principles	Some Identified Good Practices
	<p>discipline, liability indemnification, security clearance, travel authorization and conditions, remuneration and mechanisms to address disagreements should be established.</p>	<ul style="list-style-type: none"> <li>➤ Payment of travel costs, per diem and other out of pocket expenses to members of the audit committee are considered.</li> <li>➤ The members of the audit committee are appointed and serve for at least three years, and may be reappointed for a second and final term of two to three years. To ensure continuity at the start-up phase of the audit committee, initial terms may be less than three years so that appointments can be staggered over a period of time.</li> <li>➤ The members of the audit committee are required to complete the entity's own financial and conflicts of interest declaration and disclosure processes.</li> <li>➤ Former managerial staff of the entity are not appointed as committee members for five years following separation from the entity. Audit committee members are not appointed in the entity for a period of five years following the expiry or discontinuation of their term of appointment.</li> <li>➤ Decisions of the audit committee are by consensus. If consensus does not prevail, dissenting reports are appropriate.</li> </ul>



David A. Richards  
Certified Internal Auditor  
President

February 27, 2008

Representatives of Internal Audit Services (RIAS)  
United Nations Organizations and Multilateral Financial Institutions

Via e-mail: Min, Byung-Kun – WG Facilitator, min2@un.org

RE: RIAS Position Statement  
Principles and Practices of Audit Committees

Dear Sir/Madam:

The Institute of Internal Auditors (IIA) appreciates the opportunity to respond to the position statement *Principles and Practices of Audit Committees*. We definitely agree that independent audit committees are an essential part of an effective governance process within every organization and we commend the overall RIAS' recommendation that audit committees should be implemented in all entities of the United Nations system. We also commend RIAS for developing a tool to aid their members in establishing an effective independent audit committee.

To strengthen and clarify the responsibilities and/or operations of audit committees, we have the following recommendations and suggestions for your consideration.

#### OVERALL

Evaluating and promoting proper governance and high ethical standards; monitoring the tone at the top; and overseeing the organization's ethical environment should be specifically included as a purpose of the audit committee.

#### RISK AND CONTROLS

Include internal audit in statement that "*the audit committee should review with management and the external auditors the effectiveness of the entity's internal controls ...*" Including the internal audit activity aids them in keeping abreast of the key risks of the organization.

#### INTERNAL AUDIT/OVERSIGHT

- The audit committee should require that the internal audit activity be conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing (Standards)* - this includes having a Quality Assurance and Improvement Program in place. The *Standards* are the basic principles required to provide effective internal audit services.
- The committee should review the results of the Quality Assurance and Improvement Program, including internal or external quality assessments, and as necessary; ensure that remedial action is taken.
- Ensure that the internal audit activity has access to the audit committee and encourage communications beyond scheduled committee meetings.
- Ensure that the internal audit activity includes an assessment of compliance and ethics risk in their audit plan.

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#### EXTERNAL AUDIT

Clarify that the audit committee should establish a direct reporting relationship with the external auditors.

#### VALUES AND ETHICS

- Ensure that a fraud prevention and detective program is established.
- Ensure that the board receives a copy of the code of conduct and related training.

The IIA welcomes the opportunity to discuss these recommendations with you. In addition, as requested we have attached further reference material related to audit committees. If The IIA can be of further assistance, please contact me.

Best Regards,



David A. Richards, CIA

#### **About The Institute of Internal Auditors**

The IIA is the global voice, acknowledged leader, principal educator and recognized authority of the internal audit profession and maintains the *International Standards for the Professional Practice of Internal Auditing (Standards)*. These principles-based standards are recognized globally and are available in 25 languages. The IIA represents more than 140,000 members across the globe, and has 247 affiliates in 92 countries that serve members at the local level.