**REPORT OF THE EXTERNAL AUDITOR, FINANCIAL PERFORMANCE REPORT AND PROGRAMME PERFORMANCE FOR THE BIENNIUM 1996-1997**

**FINANCIAL REGULATIONS**

**Note on audit-related matters**

Submitted by the Secretariat

**Summary**

Brings to the attention of the governing bodies information provided by the External Auditor on matters emanating from the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency.

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I. ANNEX TO THE FINANCIAL REGULATIONS

2. At its thirty-seventh session (December 1996) the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency agreed on a revised text of the additional terms of reference governing external audit. The purpose of the revised audit opinion is to combine a proper concern for the main elements with scope for variation to suit individual circumstances. On 15 January 1997 the Chairman of the Panel sent the revised text to the Secretary-General of the United Nations, with a request that all organizations be encouraged to adopt it.

3. At its meeting in August 1997, the Consultative Committee of the Panel generally supported the proposals put forward by the Chairman of the Panel, although some reservations had been expressed by the World Intellectual Property Organization, the International Telecommunications Union, the Universal Postal Union and the World Food Programme. As these reservations do not concern UNIDO, the External Auditor has requested that the revised audit opinion be brought to the attention of the governing bodies and has suggested a corresponding amendment to paragraph 5 of the annex to the financial regulations, which contains additional terms of reference governing the audit of UNIDO. It may be noted that the revised text of paragraph 5 was approved by the United Nations General Assembly at its fifty-second session (resolution 52/212). The suggested text for paragraph 5 of the annex to the financial regulations, corresponding to the revised audit opinion, is provided in annex I to the present document.

4. The intersessional working group on proposed amendments to the financial regulations may wish to take into consideration this suggested modification.

II. SPECIAL INDEPENDENT AUDITS REQUESTED BY EXTRABUDGETARY DONORS AND REVIEWS REQUESTED BY MEMBER STATES

5. In the past the question has arisen whether UNIDO should allow Member States and other donors to carry out independent audits and reviews of its activities. In that context, the Panel of External Auditors had noted that in some specialized agencies there was increasing pressure by Member States and extrabudgetary donors for special audits.

6. On 10 December 1997, the Chairman of the Panel of External Auditors wrote to the Secretary-General of the United Nations that, in principle, both extrabudgetary donors and Member States should be prepared to rely on the competence of the Organization and the normal internal and external audit arrangements. He added that the Panel had welcomed in particular the clear statement of the Administrative Committee on Coordination that secretariats of organizations and agencies in the United Nations system have no authority to conclude arrangements for audit by national authorities without the prior approval of the competent legislative bodies. In a letter dated 23 February 1998, the Secretary-General of the United Nations answered that the United Nations fully shares the position and consistently follows it in practice by not submitting itself for any audits by national authorities. The text of both letters is reproduced in annex II to the present document.

III. AUDITING STANDARDS

7. At its thirty-sixth session (1994) the Panel of External Auditors adopted a revised English text of the Common Auditing Standards and at its thirty-seventh session (1996) a French version of the Standards. Auditing standards provide minimum guidance for the auditor that helps determine the extent of auditing steps and procedures that should be applied in the audit. The new text confirms the principles introduced in the current standards but reflects more closely the wording used by the International Federation of Accountants (IFAC) and the International Organization of Supreme Audit Institutions (INTOSAI). In particular, the standards now include new sections which clarify issues of ethics and independence of the External Auditor.

8. The Panel also agreed that individual Panel members might wish to bring the current auditing standards to the attention of their governing bodies. The text of the Common Auditing Standards in English and French adopted by the Panel of External Auditors is provided in conference room paper PBC.14/CPR.2.
IV. ACTION REQUIRED OF THE COMMITTEE

9. The Committee may wish to consider the adoption of the following draft conclusion:

“"The Programme and Budget Committee:

“(a) Takes note of the information on audit-related matters provided by the External Auditor and contained in document PBC.14/5-IDB.20/6;

“(b) Requests the intersessional working group on proposed amendments to the financial regulations to take into consideration the proposal of the Panel of External Auditors for paragraph 5 of the annex to the financial regulations as contained in annex I to document PBC.14/5-IDB.20/6;

“(c) Recommends to the Industrial Development Board the adoption of the following draft decision:

‘The Industrial Development Board recommends that the General Conference take note of the information provided at the request of the External Auditor in document IDB.20/6-PBC.14/5 on audit-related matters.’"
Annex I

SUGGESTED REVISION TO PARAGRAPH 5 OF THE ANNEX TO THE FINANCIAL REGULATIONS

5. The External Auditor shall express and sign an opinion on the financial statements of the Organization. The opinion shall include the following basic elements:

(a) The identification of the financial statements audited;

(b) A reference to the responsibility of the management of the United Nations Industrial Development Organization and the responsibility of the External Auditor;

(c) A reference to the audit standards followed;

(d) A description of the work performed;

(e) An expression of opinion on the financial statements as to whether:

- The financial statements present fairly the financial position as at the end of the period and the results of the operations for the period;

- The financial statements were prepared in accordance with the stated accounting policies; and

- The accounting policies were applied on a basis consistent with that of the preceding financial period.

(f) An expression of opinion on the compliance of transactions with the financial regulations and legislative authority;

(g) The date of the opinion;

(h) The External Auditor’s name and position; and

(i) Should it be necessary, a reference to the report of the External Auditor on the financial statements.

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1Based on the revised audit opinion of the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency at its thirty-seventh meeting (December 1996).
His Excellency Mr. Kofi Annan  
Secretary-General  
United Nations  
New York, NY 10017  

Excellency,  

I am writing to you, in your capacity as Chairman of the Administrative Committee on Coordination, on a matter considered by the Panel of External Auditors of the United Nations, Specialized Agencies and the International Atomic Energy Agency at its thirty-eighth session in Rome on 8-9 December 1997.  

This matter relates to the Panel’s concern over the continued pressure from donors and Member States for United Nations organizations to allow independent audits and reviews of their activities. You will recall that I discussed this with you when we met in July 1997 and I was pleased to have your support on the position taken by the Panel. I can now advise that the Panel, at its meeting in December 1997, reaffirmed the position set out in my letter of 18 January 1993 to your predecessor. In this, I reported the Panel’s view that, in principle, both extrabudgetary donors and Member States should be prepared to rely on the competence of the Organization and the normal internal and external audit arrangements.  

In this regard the Panel was pleased to note that the Advisory Committee on Administrative and Budgetary Questions, in its first report on the proposed programme budget for biennium 1998-99 (A/52/7), further endorsed the Panel’s position. In particular, the Panel welcomed the Advisory Committee’s clear statement that secretariats of organizations and agencies in the United Nations system have no authority to conclude arrangements for audit by national authorities without the prior approval of the competent legislative bodies. The Panel hopes that this important requirement will be respected by all the organizations in the United Nations system.  

Accept, Excellency, the assurances of my highest consideration.  

[Signed]  

JOHN BOURN  
Chairman, Panel of External Auditors
THE SECRETARY-GENERAL

23 February 1998

Dear Sir John,

In reference to your letter of 10 December 1997 concerning the inadmissibility of independent audits of the United Nations, I have taken note of your position and its further endorsement by the Advisory Committee. Please be assured that the United Nations fully shares the position stated in your letter and consistently follows it in practice by not submitting itself for any audits by national authorities.

I will continue to uphold this position also in my capacity as Chairman of the Administrative Committee on Coordination.

Yours sincerely,

[Signed]

Kofi A. Annan

Sir John Bourn
Chairman
Panel of External Auditors
New York