



Distr.  
GENERAL  
IDB.30/4  
PBC.21/4  
9 March 2005

United Nations Industrial Development Organization

ORIGINAL: ENGLISH

## Industrial Development Board

Thirtieth session  
Vienna, 20-23 June 2005

## Programme and Budget Committee

Twenty-first session  
Vienna, 10-12 May 2005  
Item 9 of the provisional agenda

### FINANCIAL REGULATIONS

#### Amendment to the annex to the financial regulations

Submitted by the Secretariat

Draws attention to additional terms of reference governing the audit of UNIDO and seeks the approval of the governing bodies to amend the annex to the financial regulations.

1. The purpose of the present report is to seek approval by the governing bodies to bring paragraph 5 of the annex to the financial regulations<sup>1</sup> (additional terms of reference governing the audit of the United Nations Industrial Development Organization), in line with the practice being followed by the External Auditor since the 1994-1995 biennium. The changes, inter alia, relate to the responsibility of the management of UNIDO and the responsibility of the External Auditor when expressing an opinion on the financial statements of the Organization.

#### I. BACKGROUND

<sup>1</sup> The financial regulations are contained in document IDB.25/CRP.4 of 23 April 2002.

2. Until the biennium 1992-1993 (document IDB.13/7-PBC.10/8), the financial statements included an opinion on the statements by the External Auditor without indicating the responsibility of management, except that the financial statements included a certification, signed by the Director-General and the Director, Financial Services, stating: "The appended statements, numbered I to VII, and relevant schedules, are approved".

3. With effect from the biennium 1994-1995 (IDB.16/2-PBC.12/2), i.e. following the appointment of a new External Auditor (President, Federal Court of Audit, Germany), the responsibility of the management and the External Auditors has been stated in the audit opinion. Furthermore, a detailed certification of the financial statements signed by the Director-General and the Director, Financial Services, is included in the financial statements, inter alia, stating that they take responsibility with regard to the preparation and

For reasons of economy, this document has been printed in a limited number. Delegates are kindly requested to bring their copies of documents to meetings.

integrity of the financial statements. This practice has been followed since that time, including for the biennium 2002-2003.

4. In 1998, in a note on audit-related matters (IDB.20/6-PBC.14/5), the attention of the governing bodies was drawn to information provided by the External Auditor (President, Federal Court of Audit, Germany) on matters emanating from the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency, which required a change in text to paragraph 5 of the annex to the financial regulations. The purpose of the revised audit opinion was to combine a proper concern for the main elements with scope for variation to suit individual circumstances. This change had already been approved by the United Nations General Assembly at its fifty-second session (resolution 52/212, in 1997).

5. At its fourteenth session the Programme and Budget Committee adopted conclusion 98/5, in which it took note of the information contained in document IDB.20/6-PBC.14/5 and requested 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 IDB.20/6-PBC.14/5 ...". The Committee recommended to the 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".

6. The reports of the intersessional working group on proposed amendments to the financial regulations do not indicate that the group took up the audit-related matters. However, the Board recommended that the General Conference take note of the information provided at the request of the External Auditor in document IDB.20/6 on audit-related matters (IDB.20/Dec.3), and the General Conference did so at its eighth session (decision GC.8/Dec.11).

## II. THE ISSUE

7. In a recent review, it was noted that the financial regulations currently in force in UNIDO (IDB.25/CRP.4, dated 23 April 2002) do not reflect the

proposed change of text of paragraph 5 of the annex relating to audit-related matters, as proposed in 1998 (paragraph 4 above).

8. The Secretariat is of the view that the adoption by the General Conference of decision GC.8/Dec.11 does not constitute authorization to amend paragraph 5 of the annex to the financial regulations, since the actions consistent with PBC conclusion 98/5 have not taken place. Taking note of the information (para. 6 above) does not equate approving an amendment, which would be included in a decision adopted by the Conference. Thus, the General Conference has not amended paragraph 5 of the annex to the financial regulations.

9. In order to ensure that the paragraph 5 of the annex to the financial regulations is brought in line with the proposal originally made in document IDB.20/6-PBC.14/5, as well as with the actual practice being followed by the External Auditor with effect from the 1994-1995 biennium (both the current External Auditor and his predecessor), a specific decision by the governing bodies is required, thus complying with the recommendation of the External Auditor, the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency, and the United Nations General Assembly resolution. The current text of paragraph 5 of the annex to the financial regulations and the proposed amended text are provided in the annex to the present document.

## III. ACTION REQUIRED BY THE COMMITTEE

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

"The Programme and Budget Committee:

(a) Takes note of the information provided in document IDB.30/4-PBC.21/4;

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

"The Industrial Development Board recommends that the General Conference approve the revised text to the paragraph 5 of the annex to the financial regulations, as contained in annex to document IDB.30/4-PBC.21/4."

**Annex**

**Paragraph 5 of the annex to the financial regulations  
Additional terms of reference governing the audit of the  
United Nations Industrial Development Organization**

Current text	Revised text – changes in bold
<p>The External Auditor shall express and sign an opinion in the following terms:</p> <p>“I have examined the following appended financial statements, number ... to ..., properly identified, and relevant schedules of the United Nations Industrial Development Organization for the financial period ended 31 December 20... . My examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as I considered necessary in the circumstances”, and which shall state, as appropriate, whether:</p> <p>(a) The financial statements present fairly the financial position as at the end of the period and the results of its operations for the period then ended;</p> <p>(b) The financial statements were prepared in accordance with the stated accounting principles;</p> <p>(c) The accounting principles were applied on a basis consistent with that of the preceding financial period;</p> <p>(d) Transactions were in accordance with the financial regulations and legislative authority.</p>	<p>The External Auditor shall express and sign an opinion <b>on the financial statements of the Organization. The opinion shall include the following basic elements:</b></p> <p><b>(a) The identification of the financial statements audited;</b></p> <p><b>(b) A reference to the responsibility of the management of the United Nations Industrial Development Organization and the responsibility of the External Auditor;</b></p> <p><b>(c) A reference to the audit standards followed;</b></p> <p><b>(d) A description of the work performed;</b></p> <p><b>(e) An expression of opinion on the financial statements as to whether:</b></p> <ul style="list-style-type: none"> <li>• The financial statements present fairly the financial position as at the end of the period and the results of the operations for the period;</li> <li>• The financial statements were prepared in accordance with the stated accounting policies; and</li> <li>• The accounting <b>policies</b> were applied on a basis consistent with that of the preceding financial period;</li> </ul> <p><b>(f) An expression of opinion on the compliance of transactions with the financial regulations and legislative authority;</b></p> <p><b>(g) The date of the opinion;</b></p> <p><b>(h) The External Auditor’s name and position; and</b></p> <p><b>(i) Should it be necessary, a reference to the report of the External Auditor on the financial statements.</b></p>