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Programme and Budget Committee**Thirtieth session**

Vienna, 25-26 June 2014

Item 5 of the provisional agenda

**Financial situation of UNIDO, including
unutilized balances of appropriations****Financial Regulations of UNIDO****Note by the Secretariat**

1. The Financial Regulations of UNIDO were originally approved by the General Conference on 12 November 1987 in decision GC.2/Dec.25. Since that date, the following amendments have been approved:

Amended regulations	General Conference mandate	Date amended
4.2 (b) and (c)	GC.3/Dec.21	23 November 1989
4.1 (c), (d) and (e), 5.2 (e), 5.3 and 10.1 (b)(iii)	GC.4/Res.23	22 November 1991
4.1 (d) and (e)	GC.5/Dec.15	9 December 1993
3.4 (a), 5.1 (d), 5.2 (b), 10.1 (b), 10.2 (a) and 10.2 (c)	GC.7/Dec.14	4 December 1997
3.2, 5.1 (d), 5.5 (d) and (e) and 10.5	GC.8/Dec.16	3 December 1999
Paragraph 5 of the Annex	GC.11/Dec.17	2 December 2005
2.1, 2.2, 3.1, 3.2, 3.5, 3.8, 3.9, 3.10, 3.12, 4.2, 4.3 (c), 5.1 (c), 5.2, 5.5 (a) and (b), 6.5 (b), 8.2, 9.2, 9.3, 9.4, 10.2, 10.3, 10.6, 10.7, 11.10	GC.13/Dec.12	11 December 2009
10.6, 10.7 and 11.10	GC.14/Dec.16	2 December 2011
11.10	GC.15/Dec.15	6 December 2013

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2. The annex to the present document contains the complete text of the Financial Regulations of UNIDO, including the amendments made at the fifteenth session of the General Conference, as approved by the General Conference in decision GC.15/Dec.15 on 6 December 2013. This document supersedes conference room paper PBC.28/CRP.2 dated 12 April 2012.

Annex

Financial Regulations of UNIDO¹

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¹ As approved by the General Conference (decision GC.2/Dec.25) and amended in decisions GC.3/Dec.21, GC.4/Res.23, GC.5/Dec.15, GC.7/Dec.14, GC.8/Dec.16, GC.11/Dec.17, GC.13/Dec.12, GC.14/Dec.16 and GC.15/Dec.15.

ARTICLE I. APPLICABILITY

Regulation 1.1: The present regulations shall govern the financial administration of the United Nations Industrial Development Organization, hereinafter referred to as the “Organization”.

ARTICLE II. FINANCIAL PERIODS

Regulation 2.1: The financial period for the purpose of the biennial programme and budgets shall consist of two consecutive calendar years (hereinafter referred to as a biennium), the first of which shall be an even year.

Regulation 2.2: The financial period for the preparation of annual financial statements shall consist of a calendar year (hereinafter referred to as a financial year), starting from 1 January and ending on 31 December inclusive.

ARTICLE III. PROGRAMME AND BUDGETS

Preparation of the budgets

Regulation 3.1: The Director-General shall prepare and submit to the Industrial Development Board (hereinafter referred to as the “Board”) through the Programme and Budget Committee, at a time specified in financial regulation 3.5 a draft programme of work for the following biennium, together with the corresponding estimates for those activities to be financed from the regular budget. The Director-General shall, at the same time, submit proposals and financial estimates for those activities to be financed from voluntary contributions to the Organization.

Regulation 3.2: The financial estimates shall cover income and expenditures for the biennium to which they relate and shall be presented in euros.

Regulation 3.3: The financial estimates shall show the income and the expenditures of the Organization under a regular and an operational budget in the following manner.

(a) A regular budget to be financed from assessed contributions, which shall provide for expenditures for administration, research, other regular expenses of the Organization and for other activities, as provided for in annex II of the Constitution;

(b) An operational budget to be financed from voluntary contributions to the Organization and from such other income as is provided for in the present regulations, including reimbursement of support costs of technical assistance activities, which shall provide for expenditures for technical assistance and other related activities.

Form of the budgets

Regulation 3.4:

(a) The regular budget shall be divided into major programmes, programmes and subprogrammes for expenditure as well as into sections for income. It shall also be presented by major objects of expenditure. It shall be accompanied by such information annexes and explanatory statements as may be requested by the General

Conference, the Board or the Programme and Budget Committee as well as such annexes as the Director-General may deem necessary or useful. The regular budget also shall be accompanied by a statement on the main changes in comparison with the previous biennium;

(b) The operational budget shall show the expected income and expenditures in respect of voluntary contributions to the Industrial Development Fund, in respect of such trust funds, reserve and special accounts as have been or may be established by the Director-General and in respect of support costs of technical assistance activities. It shall be accompanied by such information annexes and explanatory statements as may be requested by the Conference, the Board or the Programme and Budget Committee, as well as such annexes as the Director-General may deem necessary or useful.

Review of the budgets

Regulation 3.5: The Director-General shall, in the second year of each biennium, submit a draft programme of work and the corresponding estimates for the regular budget and the operational budget for the following biennium to the Board through the Programme and Budget Committee, as soon as possible and at the latest forty-five days prior to the opening of the session of that Committee.

Regulation 3.6: The Programme and Budget Committee shall consider the proposals of the Director-General and submit to the Board its recommendations on the proposed programme of work and corresponding estimates for the regular and the operational budgets forty-five days prior to the opening of the Board's session. Such recommendations of the Committee shall require a two-thirds majority of the members present and voting.

Regulation 3.7: The Board shall examine the proposals of the Director-General together with any recommendations of the Programme and Budget Committee, and adopt by a two-thirds majority of the members present and voting the programme of work, the regular budget and the operational budget with such modifications as it deems necessary, for submission to the Conference for consideration and approval. The report of the Board, containing the programme of work and related budgets as adopted by the Board, shall be transmitted to all Members as soon as possible and at the latest forty-five days prior to the opening of the regular session of the Conference.

Regulation 3.8: The Conference shall, prior to the end of the second year of a biennium, consider and approve by a two-thirds majority of the Members present and voting the programme of work and the corresponding regular budget and operational budget submitted to it by the Board for the following biennium. The Conference may make amendments in the programme of work and the corresponding budgets, in accordance with financial regulation 3.11.

Supplementary estimates for the current biennium

Regulation 3.9: Supplementary estimates for the current biennium for the regular and operational budgets shall, when required, be submitted by the Director-General. They shall be prepared in a form consistent with the approved budgets, and they shall be reviewed and approved in accordance with the procedure laid down for the initial estimates in regulations 3.5 to 3.8 and 3.11.

Revised estimates for the following biennium

Regulation 3.10: Revised estimates for the following biennium for the regular and operational budgets shall, when required, be submitted by the Director-General. They shall be prepared in a form consistent with the initial estimates in regulations 3.5 to 3.8 and 3.11, and they shall be reviewed and approved in accordance with the procedure laid down for the initial estimates except that the applicable time limits for the submission of documents may be waived if necessary.

Resolutions or decisions involving expenditure

Regulation 3.11: No resolution, decision or amendment involving expenditure which has not already been considered by the Programme and Budget Committee and examined by the Board in accordance with financial regulations 3.6 and 3.7 shall be approved by the Conference unless it is accompanied by a programme and financial implication statement prepared by the Director-General. No resolution, decision or amendment in respect of which expenditures are anticipated by the Director-General shall be approved by the Conference until the Programme and Budget Committee and, subsequently, the Board, meeting concurrently with the Conference, have had an opportunity to act in accordance with financial regulations 3.6 and 3.7. The Board shall submit its decisions to the Conference. The approval by the Conference of such resolutions, decisions and amendments shall require a two-thirds majority of all Members.

Commitments for future bienniums

Regulation 3.12: The Director-General may enter into commitments for future bienniums, provided that such commitments:

- (a) Are for activities which have been approved by the Conference and are expected to continue beyond the end of the current biennium; or
- (b) Are authorized by specific decisions of the Conference.

ARTICLE IV. BUDGETARY APPROVAL

Authorization to incur obligations and to make payments

Regulation 4.1:

(a) Approval by the Conference of the programme of work and corresponding regular budget shall constitute an authorization to the Director-General to incur obligations and to make payments for the purposes thus approved and within the appropriations approved therefor;

(b) Approval by the Conference of the proposals and corresponding operational budget shall constitute an authorization to the Director-General to incur obligations and to make payments for the purpose of implementing the activities indicated in the operational budget and within the financial resources available for the operational budget;

(c) The Director-General is expected at any time to monitor income and expenditure under the operational budget and shall take the initiative to reduce

expenditure as soon as it becomes clear that actual income will not be sufficient to support expected expenditure levels.

Current and future bienniums

Regulation 4.2:

(a) Regular budget appropriations shall be available for obligation during the biennium to which they relate;

(b) Regular budget appropriations shall remain available for twelve months following the end of the biennium to which they relate, to the extent that they are required to discharge obligations in respect of goods supplied and services rendered during that biennium and to liquidate any other outstanding obligation of that biennium. The unencumbered balance of the appropriations at the end of a biennium shall be surrendered to the Members at the end of the first financial year following the biennium after deducting therefrom any contributions from Members relating to that biennium which remain unpaid, and shall be credited to the Members in proportion to their assessed contributions in accordance with the provisions of financial regulations 4.2 (c) and 5.2 (d);

(c) At the end of the twelve-month period referred to in subparagraph (b) above, the then remaining balance of any regular budget appropriations retained shall be reported in detail by the Director-General to the External Auditor for examination and review and, after deducting therefrom any contributions from Members relating to the biennium of the appropriations which remain unpaid, shall be surrendered to the Members in proportion to their assessed contributions at the end of the second financial year following the biennium to which the appropriations relate, provided, however, that before the respective share of the balance is surrendered to any Member that has outstanding regular budget obligations to the Organization, those obligations shall first be brought to account. Any unliquidated regular budget obligation of the biennium in question shall at that time either be cancelled or, where the obligation remains a valid charge, transferred as an obligation against the current appropriations.

Transfer of expenditures

Regulation 4.3:

(a) No transfer of expenditures shall take place between the regular budget and the operational budget;

(b) No transfer between major objects of expenditure within the regular budget may take place, except when approved by the Conference in accordance with regulation 3.11;

(c) Transfers within major objects of expenditure of the regular budget may be made by the Director-General, who shall inform the Board, through the Programme and Budget Committee, and the Conference thereof as soon as possible provided that in the first biennium following its creation, a Professional-level post may not be transferred to another programme or subprogramme.

ARTICLE V. PROVISION OF FUNDS FOR THE REGULAR BUDGET

Appropriation and assessment

Regulation 5.1:

(a) The appropriations approved for regular budget expenditures, subject to the adjustments effected in accordance with the provisions of regulation 5.2, shall be financed by mandatory contributions from the Members in accordance with a scale of assessments established by the Conference as provided in Article 15 of the Constitution;

(b) Pending the receipt of such contributions, the appropriations may be financed from the Working Capital Fund;

(c) For each financial year of the biennium, Members shall contribute one half of the total approved amount;

(d) Each assessment shall be established in euros.

Regulation 5.2: For each of the financial years of the biennium, the assessment of Members shall be adjusted in respect of:

(a) Supplementary appropriations for which contributions have not yet been assessed;

(b) Half of the estimated miscellaneous income to the regular budget for the biennium and credits in respect of income not previously taken into account;

(c) Contributions resulting from the assessment of new Members as provided in financial regulation 5.6;

(d) Any balance of the appropriations surrendered to Members under financial regulation 4.2 (b) and (c).

Tax equalization

Regulation 5.3: When a staff member, notwithstanding Section 18 (b) of the Convention on the Privileges and Immunities of the United Nations or Section 19 (b) of the Convention on the Privileges and Immunities of the Specialized Agencies, as applicable, is subject to national income taxation and pays taxes in respect of the salaries or emoluments paid to him or her by the Organization, and if a tax reimbursement agreement exists between the Organization and the Member State levying such taxes, then that Member State shall refund the Organization the amounts it has disbursed to staff members for such taxes under the terms of such an agreement.

Working Capital Fund

Regulation 5.4:

(a) Upon the recommendation of the Programme and Budget Committee and, subsequently the Board, the Conference by a two-thirds majority of the Members present and voting shall determine the amount and purposes of the Working Capital Fund;

(b) The source of moneys for the Fund shall be advances from Members, which shall be made in the proportion of the scale of assessments established by the Conference for the contributions of Members to the regular budget. The advances shall be carried to the credit of the respective Members who made the advances;

(c) Advances made from the Fund to finance approved regular budget appropriations shall be reimbursed as soon as and to the extent that contributions or advances from Members are available for that purpose;

(d) Advances may be made only for the purposes and within the terms and conditions determined by the Conference in accordance with subparagraph (a) above. Except when they are recoverable from some other source, the advances may be reimbursed through the submission of supplementary estimates for the regular budget;

(e) Income derived from investment of the Fund shall be credited to the General Fund.

Collection of contributions and advances

Regulation 5.5:

(a) After the Conference has approved the estimates for the regular budget, established the scale of assessments and determined the amount and purposes of the Working Capital Fund, the Director-General shall as soon as possible with respect to each year of the biennium:

- (i) Transmit the relevant documents to Members;
- (ii) Inform Members of their obligations in respect of annual contributions to the regular budget and of advances to the Working Capital Fund;
- (iii) Request Members to remit their contributions and advances;

(b) Contributions and advances shall be due and payable in full within thirty days of the receipt of the communication of the Director-General, referred to in subparagraph (a) above, or as of the first day of the financial year to which it relates, whichever is later. As of 1 January of the following financial year, the unpaid balance of such contributions and advances shall be considered to be one year in arrears;

(c) Payments made by a Member shall be credited first to the Working Capital Fund and then to the contributions due, in the order in which the Member was assessed;

(d) Advances to the Working Capital Fund shall be assessed and paid in euros;

- (e) Contributions to the regular budget are established in euros.

Contributions from new Members

Regulation 5.6: New Members shall be required to make a contribution to the regular budget for the year in which they become Members and to provide their proportion of the total advances to the Working Capital Fund at rates to be determined by the Conference.

ARTICLE VI. VOLUNTARY CONTRIBUTIONS AND OTHER INCOME

Voluntary contributions, including gifts, bequests and subventions

Regulation 6.1: Voluntary contributions, whether or not in cash, may be accepted by the Director-General on behalf of the Organization, provided that the purposes for which the contributions are made are consistent with the policies of the Organization. The acceptance of such contributions, which directly or indirectly involve additional financial liability for the Organization, shall require the consent of the appropriate governing bodies of the Organization.

Industrial Development Fund

Regulation 6.2: The Industrial Development Fund shall be financed by voluntary contributions to the Organization and such other income as is provided for in the present regulations. The Director-General shall administer the Industrial Development Fund in accordance with the general policy guidelines governing the operations of the Fund that are established by the Conference, or by the Board acting on behalf of the Conference, and in accordance with the present regulations.

Trust funds, reserve and special accounts

Regulation 6.3: Trust funds, reserve and special accounts may be established by the Director-General and shall be reported to the Board through the Programme and Budget Committee. Such funds and accounts shall be administered in accordance with the present regulations.

Regulation 6.4: The purposes and limits of each trust fund, reserve and special account shall be clearly defined. The Director-General may, when necessary in connection with the purpose of a trust fund, reserve or special account, promulgate special financial rules to govern the operation of such a fund or account and report thereon to the Board through the Programme and Budget Committee.

Regulation 6.5:

(a) Moneys accepted for purposes specified by the donor shall be treated as trust funds or special accounts under financial regulations 6.3 and 6.4;

(b) Moneys accepted in respect of which no purpose is specified shall be treated as miscellaneous income and reported as “gifts” in the accounts of the financial year.

Crediting of interest or other income

Regulation 6.6:

(a) Interest or other income derived from a contribution to the Industrial Development Fund shall be credited to the Fund’s general account, unless it has been provided in the applicable agreement with the donor that it shall be credited to a sub-account of the Fund;

(b) Interest and other income derived from a trust fund or special account shall be credited to the trust fund or special account concerned, unless otherwise provided in the applicable agreement with the donor.

ARTICLE VII. CUSTODY OF FUNDS

Regulation 7.1: The Director-General shall designate the bank or banks in which the funds of the Organization shall be kept, bearing in mind the need to minimize the number and scale of foreign exchange transactions.

ARTICLE VIII. INVESTMENT OF FUNDS

Regulation 8.1: The Director-General may invest moneys not needed for immediate requirements. The investment of moneys standing to the credit of any trust fund, reserve or special account, within the operational budget, shall be subject to any directives of the appropriate authority in respect of each such fund or account and having regard to the particular requirements as to the liquidity of funds in each case.

Regulation 8.2: The Director-General shall include in the financial statements submitted to the Programme and Budget Committee and the Board a statement of the investments currently held.

Regulation 8.3: Income derived from investments shall be credited as provided in the rules relating to each fund or account.

ARTICLE IX. INTERNAL CONTROL

Regulation 9.1: The Director-General shall:

(a) In accordance with regulation 12.1 establish detailed financial rules and procedures in order to ensure:

- (i) Effective financial administration and the exercise of economy;
- (ii) Effective custody of the assets of the Organization;

(b) Except where advance or progress payments are specifically provided for in the contract, as may be required by normal commercial practice and the interest of the Organization, ensure that all payments are made on the basis of supporting vouchers and other documents which show that the services or goods have been received and have not previously been paid for;

(c) Designate the officers who may receive moneys, incur commitments or obligations and make payments on behalf of the Organization;

(d) Maintain an internal financial control and internal audit, which shall provide for an effective current examination and/or review of financial transactions in order to ensure:

- (i) The regularity of the receipt, custody and disposal of all funds and other financial resources of the Organization;
- (ii) The conformity of obligations and expenditures with the appropriations or other financial provisions voted by the Conference, or with the purposes and rules relating to trust funds and special accounts;
- (iii) The economical use of the resources of the Organization.

Regulation 9.2: Obligations for the current biennium or commitments for current and future bienniums shall be incurred only after allotments or other appropriate authorizations have been made in writing under the authority of the Director-General.

Ex gratia payments

Regulation 9.3: The Director-General may make such ex gratia payments as he deems to be necessary in the interest of the Organization. A statement of such payments shall be submitted with the annual financial accounts.

Writing-off of losses or deficiencies

Regulation 9.4: The Director-General may, after full investigation, authorize the writing-off of losses of cash, supplies, equipment and other assets other than arrears of assessed contributions, provided that if such write-off involves a substantial amount as determined in the financial rules, the write-off shall require prior approval of the Board upon recommendation of the Programme and Budget Committee. A statement of all such amounts written off during each financial year shall be submitted to the External Auditor with the annual financial accounts.

Contracts and purchases

Regulation 9.5: The Director-General shall as a part of the financial rules establish rules for the procurement of equipment, supplies and other requirements, including rules governing invitation of tenders and the calling of proposals.

ARTICLE X. THE ACCOUNTS

Accounts and schedules

General Fund

Regulation 10.1:

- (a) There shall be a General Fund for the purpose of accounting for those expenditures of the Organization which are to be financed from the regular budget;
- (b) To the General Fund shall be credited:
 - (i) The contributions to the regular budget paid by Members pursuant to financial regulation 5.1;
 - (ii) Any advances made from the Working Capital Fund to finance expenditures of the regular budget;
 - (iii) Miscellaneous income to the regular budget, including income from investment of the Working Capital Fund and the General Fund, proceeds from the provision or rental of goods or services or adjustments arising subsequent to the closing of an operational budget account, such as a trust fund, special account, project, etc.

Regulation 10.2:

(a) The Director-General shall establish such accounts and maintain such accounting records as are necessary, in accordance with the accounting standards framework applicable to the United Nations system organizations;

(b) The Director-General shall prepare and submit financial accounts for each financial year, including:

- (i) A statement of financial position;
- (ii) A statement of financial performance;
- (iii) A statement of changes in net assets/equity;
- (iv) A cash flow statement;
- (v) A comparison of budget and actual amounts on the basis of the budget; and
- (vi) Notes, comprising a summary of significant accounting policies and other explanatory notes;

(c) For the regular budget, the Director-General also shall prepare and submit:

- (i) The original budget appropriations;
- (ii) Any supplementary appropriations;
- (iii) The appropriations as modified by any transfers;
- (iv) Credits, if any, other than the appropriations voted by the Conference;
- (v) The amounts charged against those appropriations and/or other credits.

Operational budget accounts

Regulation 10.3: The Director-General shall establish such accounts and maintain such accounting records as are necessary for the purpose of accounting for the income and expenditures of the operational budget, including the Industrial Development Fund and any trust fund, reserve or special account, during each financial year.

Regulation 10.4: Appropriate separate accounts shall be established and maintained for each trust fund, reserve and special account.

Currency of accounts

Regulation 10.5: The accounts of the Organization shall be presented in euros. Accounts and accounting records may, however, be kept in such currency or currencies, as the Director-General may deem necessary.

Annual financial report

Regulation 10.6: At the beginning of each financial year of the biennium, the Director-General shall submit to the Programme and Budget Committee a financial report on significant financial developments that have affected the Organization during that financial year of the biennium.

Submission of accounts

Regulation 10.7: The final accounts for each financial year of the biennium shall be submitted by the Director-General to the External Auditor not later than 15 March following the end of the financial year to which they relate.

ARTICLE XI. EXTERNAL AUDIT

Appointment of an External Auditor

Regulation 11.1: An External Auditor, who shall be the Auditor-General (or an officer exercising an equivalent function) of a Member State, shall be appointed in the manner and for the period decided by the Conference.

Regulation 11.2: If the External Auditor ceases to hold office as Auditor-General (or equivalent function) in his own country, his tenure of office as External Auditor shall thereupon be terminated and the Member State to which he belongs will designate as External Auditor his successor in the office of Auditor-General. The External Auditor may not otherwise be removed during his tenure of office, except by the Conference.

Scope of audit

Regulation 11.3: The audit shall be conducted in conformity with generally accepted common auditing standards and, subject to any special direction of the Conference, in accordance with the additional terms of reference set out in the annex to the present regulations.

Regulation 11.4: The External Auditor may make observations with respect to the economy, efficiency and effectiveness of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of the Organization.

Regulation 11.5: The External Auditor shall be completely independent and solely responsible for the conduct of the audit.

Regulation 11.6: The Conference, the Board or the Programme and Budget Committee may request the External Auditor to perform certain specific examinations and to issue separate reports on the results.

Facilities

Regulation 11.7: The Director-General shall provide the External Auditor with the facilities required for the performance of the audit.

Regulation 11.8: For the purpose of making a local or special examination or of effecting economies of audit costs, the External Auditor may engage the services of any national Auditor-General (or officer exercising an equivalent function) or commercial public auditor of known repute or any other person or firm who, in the opinion of the External Auditor, is technically qualified.

Reporting

Regulation 11.9: The External Auditor shall issue a report on the audit of the financial statements and relevant schedules, which shall include such information as he deems necessary with regard to matters referred to in financial regulation 11.4 and in the additional terms of reference.

Regulation 11.10: The External Auditor's reports, together with the audited financial statements, shall be completed not later than 20 April and shall be transmitted through the Programme and Budget Committee to the Board in accordance with directions given by the Conference. The Programme and Budget Committee shall examine the financial statements and the audit reports and submit recommendations to the Board, which shall forward them to the Conference with such comments, as it deems appropriate.

ARTICLE XII. GENERAL PROVISIONS

Financial rules

Regulation 12.1: Subject to the present regulations, the Director-General shall issue financial rules, which shall govern the administration of all financial activities and transactions of the Organization. The Director-General may in the financial rules delegate authority to officials of the Organization. The Director-General shall report to the Board through the Programme and Budget Committee on the issuance of financial rules.

Entry into force and amendments

Regulation 12.2: The present regulations shall become effective as of the date of their approval by the Conference, unless otherwise specified by the Conference. They may be amended only by the Conference.

ANNEX TO THE FINANCIAL REGULATIONS

Additional terms of reference governing the audit of the United Nations Industrial Development Organization

1. The External Auditor shall perform such audit of the accounts of the Organization, including all trust funds and special accounts, as he deems necessary in order to satisfy himself:

(a) That the financial statements are in accord with the books and records of the Organization;

(b) That the financial transactions reflected in the statements have been in accordance with the rules and regulations, the budgetary provisions and other applicable directives;

(c) That the securities and moneys on deposit and on hand have been verified by certificate received direct from the Organization's depositories or by actual count;

(d) That the internal controls, including the internal audit, are adequate in the light of the extent of reliance placed thereon;

(e) That procedures satisfactory to the External Auditor have been applied to the recording of all assets, liabilities, surpluses and deficits.

2. The External Auditor shall be the sole judge as to the acceptance in whole or in part of certifications and representations by the Director-General and may proceed to such detailed examination and verification as he chooses of all financial records, including those relating to supplies and equipment.

3. The External Auditor and his staff shall have free access at all convenient times to all books, records and other documentation which are, in the opinion of the External Auditor, necessary for the performance of the audit. Information classified as privileged and which the Director-General (or his designated senior official) agrees is required by the External Auditor for the purposes of the audit and information classified as confidential shall be made available on application. The External Auditor and his staff shall respect the privileged and confidential nature of any information so classified which has been made available and shall not make use of it except in direct connection with the performance of the audit. The External Auditor may draw the attention of the Conference or the Board to any denial of information classified as privileged which in his opinion was required for the purpose of the audit.

4. The External Auditor shall have no power to disallow items in the accounts but shall draw to the attention of the Director-General for appropriate action any transaction concerning which he entertains doubt as to legality or propriety. Audit objections to these or any other transactions arising during the examination of the accounts shall be communicated immediately to the Director-General.

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.

6. The report of the External Auditor on the financial operations of the period should mention:

(a) The type and scope of his examination;

(b) Matters affecting the completeness or accuracy of the accounts, including where appropriate:

(i) Information necessary to the correct interpretation of the accounts;

(ii) Any amounts which ought to have been received, but which have not been brought to account;

(iii) Any amounts for which a legal or contingent obligation exists and which have not been recorded or reflected in the financial statements;

(iv) Expenditures not properly substantiated;

(v) Whether proper books of accounts have been kept where in the presentation of statements there are deviations of material nature from the generally accepted accounting principles applied on a consistent basis, these should be disclosed;

(c) Other matters which should be brought to the notice of the Conference or the Board, such as:

(i) Cases of fraud or presumptive fraud;

(ii) Wasteful or improper expenditure of the Organization's money or other assets (notwithstanding that the accounting for the transaction may be correct);

- (iii) Expenditure likely to commit the Organization to further outlay on a large scale;
 - (iv) Any defect in the general system or detailed regulations governing the control of receipts and disbursements or of supplies and equipment;
 - (v) Expenditure not in accordance with the intention of the Conference after making allowance for duly authorized transfers within the budget;
 - (vi) Expenditure in excess of appropriations as amended by duly authorized transfers within the budget;
 - (vii) Expenditure not in conformity with the authority which governs it;
- (d) The accuracy or otherwise of the supplies and equipment records as determined by stock-taking and examination of the records;
- (e) If appropriate, transactions accounted for in a previous period concerning which further information has been obtained or transactions in a later period concerning which it seems desirable that the Conference or the Board should have early knowledge.
7. The External Auditor may make such observations with respect to his findings resulting from the audit and such comments on the Director-General's financial report as he deems appropriate to the Conference or to the Board or to the Director-General.
8. Whenever the External Auditor's scope of audit is restricted or he is unable to obtain sufficient evidence, the External Auditor shall refer to the matter in his opinion and report, making clear in the report the reasons for his comments and the effect on the financial position and the financial transactions as recorded.
9. In no case shall the External Auditor include criticism in his report without first affording the Director-General an adequate opportunity of explanation on the matter under observation.
10. The External Auditor is not required to mention any matter referred to in the foregoing that, in his opinion, is insignificant in all respects.
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