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**Financial regulations**

**Programme and Budget Committee**

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**Financial regulations**

**Financial Regulations of UNIDO**

**Note by the Secretariat**

Following the adoption of interim amendments to the Financial Regulations of UNIDO (decision GC.13/Dec.12), the present document proposes further amendments in order to comply with the International Public Sector Accounting Standards (IPSAS).

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## I. Introduction

1. In accordance with General Conference decision GC.12/Dec.14, UNIDO has adopted the International Public Sector Accounting Standards (IPSAS), effective January 2010. With a view to achieving IPSAS compliance, the General Conference decided to adopt interim amendments to the Financial Regulations of UNIDO (decision GC.13/Dec.12), as set out in the annex of the same decision.

2. A further review of the Financial Regulations of UNIDO, taking into account the auditing requirements of IPSAS standards and principles, has now been completed. Accordingly, the present document provides an update on the issues related to IPSAS-compliant financial regulations and informs the Committee of proposed further amendments to the financial regulations.

## II. Proposed IPSAS-related revisions to the financial regulations

3. The proposed changes consist of amendments to financial regulations 10.6, 10.7 and 11.10 pertaining to the institutionalization of annual audits at UNIDO. The annex to the present document contains the actual amendments to the financial regulations, whereas the background and context of these changes are summarized in the paragraphs below.

4. In light of the adoption of IPSAS by UNIDO, effective January 2010, Member States were informed of transitional auditing measures for 2010, the first year of IPSAS compliance. As reported in documents IDB.36/11, paragraphs 5 to 8, and IDB.38/5, paragraphs 31 to 33, an exceptional external audit of financial statements for the year 2010 was found necessary. Given the schedule of meetings of the policymaking organs in 2011, Member States were informed that the presentation of the annual audit report for 2010 would be transmitted to the policymaking organs as soon as practicable. It is therefore foreseen that the first IPSAS-compliant audit report, including the audited statements, will be issued to the thirty-ninth session of the Board.

5. IPSAS stipulates the preparation of annual financial statements.<sup>1</sup> The United Nations Task Force on Accounting Standards recommended that “organizations have their annual financial statements audited each year, when they begin presenting IPSAS-compliant statements” (CEB/2007/HLCM/FB/7).<sup>2</sup> The Task Force recommendation was based on the consideration that while IPSAS does not specify that the required annual financial statements shall also be audited, without audit attestation, there is little assurance that the financial statements represent a reliable view of the financial condition of the organization. The information contained in unaudited financial statements has significantly less value for accountability and decision-making. The benefits to be gained from IPSAS adoption would be considerably reduced if no annual audits were performed on annual financial statements of an organization.

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<sup>1</sup> IPSAS 1: Presentation of financial statements, paragraph 66, states that “financial statements shall be prepared at least annually.”

<sup>2</sup> United Nations System Chief Executives Board for Coordination (CEB), High-level Committee on Management (HLCM), Finance and Budget Network (FB).

6. Institutionalizing annual audits would be advantageous also for the External Auditor. First, the volume of items that must be reviewed by the External Auditor would be less, when reviewing the statements each year, compared to two years of transactions. Second, the increased frequency of audits should result in an enhanced resolution of issues due to their earlier identification.

7. While the preparation of the Organization's first IPSAS-compliant financial statements for 2010 was challenging due to the first-time incorporation of a number of structural changes to policies and processes required for IPSAS-compliance, it is hoped that the complexity of this exercise would be significantly reduced with time. It is expected that for the coming years, the production and audit of annual financial statements could be completed by 15 March of each financial year, for submission to the External Auditor, and subsequently to the policymaking organs in the order specified in the revised financial regulation 11.10 and in compliance with the regular schedule of meetings of the policymaking organs. It is therefore foreseen that the External Auditor's reports and the audited financial statements shall be completed not later than 20 April for the first year of the biennium and 1 June for the second year of the biennium, following the financial year to which they relate. In line with established practice, these documents shall be transmitted through the Programme and Budget Committee to the Industrial Development Board in accordance with directions given by the General Conference. Again, in continuation of the established practice, the Committee shall examine the financial statements as well as the audit reports and submit recommendations to the Board, which shall forward them to the Conference with such comments, as it deems appropriate.

8. In light of the above, the proposed amendments to the financial regulations institutionalize the annual audits of IPSAS-compliant financial statements as presented in the annex to the current document. In accordance with Article 8.3 (c) of the Constitution as well as financial regulation 12.2, these amendments shall be presented through the Committee to the Board for submission to the General Conference for consideration and adoption.

### **III. Action required of the Committee**

9. The Committee may wish to consider recommending to the Board the adoption of the following draft decision:

“The Industrial Development Board:

“(a) Takes note of the information contained in document IDB.39/6-PBC.27/6, including the proposed amendments to the financial regulations deemed necessary for compliance with the International Public Sector Accounting Standards (IPSAS);

“(b) Decides to submit to the General Conference at its fourteenth session for consideration and adoption the amendments to the Financial Regulations of UNIDO as set out in the annex of document IDB.39/6 - PBC.27/6;

“(c) Also decides that the External Auditor shall conduct an annual financial audit for each financial year (1 January to 31 December inclusive), for the total external audit fee included in the respective biennial budgets.”

## Annex

# Proposed amendments to the Financial Regulations of UNIDO

## ARTICLE X. THE ACCOUNTS

### Accounts and schedules

### Annual financial report

Regulation 10.6: At the beginning of [the second] each financial year of [each] 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 [the first] that financial year of the biennium [concerned].

### 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 [31] 15 March following the end of the [biennium] financial year to which they relate. [Annual accounts for the first financial year of each biennium shall be submitted by the Director-General to the External Auditor not later than 31 March following the end of the financial year concerned.]

## ARTICLE XI. EXTERNAL AUDIT

### Reporting

Regulation 11.10: The External Auditor's reports, together with the audited financial statements, shall be completed by not later than [1 June] 20 April for the first year of the biennium and 1 June for the second year of the biennium, following the [biennium] financial year to which they relate 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.