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Financial regulations

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Financial regulations

Financial regulations of UNIDO

Note by the Secretariat

Informs the Committee of proposed initial amendments to UNIDO's financial regulations in light of the adoption of the International Public Sector Accounting Standards (IPSAS) by 2010 as approved by the General Conference at its twelfth session (decision GC.12/Dec.14).

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I. Introduction

1. The General Conference, at its twelfth session (Vienna, 3-7 December 2007), approved the adoption of International Public Sector Accounting Standards (IPSAS) at UNIDO, effective 1 January 2010, as part of the United Nations system-wide adoption of these Standards (GC.12/Dec.14). UNIDO is preparing to be ready in its processes by the end of 2009 to capture data and information that will allow the Organization to be IPSAS-compliant and prepare its financial statements for 2010 based on the new standards. UNIDO has regularly kept Member States informed of progress made in IPSAS implementation through progress reports. An updated progress report on IPSAS implementation has been submitted to the current session of the Programme and Budget Committee (IDB.36/6-PBC.25/6).

2. Member States were informed in document IDB.33/5-PBC.23/5 that revisions to the financial regulations will be necessary in order for UNIDO to be IPSAS-compliant. Taking into consideration the ongoing initiative for harmonization of the financial regulations and rules within the United Nations system, an initial interim review of UNIDO's financial regulations has taken place, and only those regulations that would immediately require to be amended for IPSAS compliance have been identified at this stage.

II. Proposed revisions to the financial regulations

3. The proposed changes are both minimal and preliminary and will be followed by additional changes once further impact of IPSAS implementation on UNIDO's financial regulations have been identified. The complete text of the Financial Regulations of UNIDO was last issued in document PBC.22/CRP.2. The annex to the present document contains the proposed amendments to the financial regulations deemed immediately necessary for IPSAS-compliance effective 1 January 2010. The major proposed changes are highlighted in the paragraphs below.

4. The amendments to the financial regulations at this stage are primarily definitional and propose changing the financial period for preparation of financial statements from its current two years to one year, while retaining the current biennial budget cycle. This distinction is important as while the budget cycle remains biennial the financial cycle will be annual. So far, the fiscal cycle has been the same for both purposes. The term "fiscal period" has now been replaced with "biennium", consisting of two consecutive calendar years, the first of which shall be an even year (regulation 2.1 proposed amendment). The financial period for the preparation of annual financial statements has been redefined to consist of a calendar year (hereinafter referred to as a financial year), starting from 1 January until 31 December inclusive (regulation 2.2 proposed addition). The reference to establishment and maintenance of accounting records in regulation 10.2 (a) has been amended from "consideration to the United Nations accounting standards" to "in accordance with the accounting standards framework applicable to the United Nations system organizations".

5. IPSAS stipulates preparation of annual financial statements.¹ It should be noted in this context that presently UNIDO prepares interim financial accounts for the first year of the biennium. UNIDO's current financial regulations (financial regulation 10.7) provide for interim accounts for the first year of each biennium. Although there is no audit opinion required for the first year, annual financial statements are prepared and presented to the governing bodies.

6. While IPSAS standards do not specifically recommend annual audits, the United Nations system-wide Task Force on Accounting Standards approved, at its meeting in June 2007, the following IPSAS-related policy for annual audits:

“Acknowledging that the frequency of the audit is determined by the Governing Body, it is recommended that organizations have their annual financial statements audited each year, when they begin presenting IPSAS-compliant statements” (CEB/2007/HLCM/FB/7).²

7. In light of the above, the Committee may consider recommending to the Board that as an exception, an annual audit be carried out for the year 2010, within the existing budget for audit fees. The year 2010 will be a defining year since UNIDO aims to be IPSAS-compliant that year. Should Member States require the assurance from the External Auditor that UNIDO has achieved IPSAS-compliance for 2010, an exceptional external audit of financial statements for the year 2010 would be necessary. Given the schedule of meetings of the governing bodies in 2011, the presentation of the annual audit report for 2010 will be transmitted to the governing bodies as soon as practicable and placed on the agenda for discussion at the next scheduled meeting of the relevant governing body.

8. Thereafter, for subsequent years, the issue of institutionalizing annual audits or retaining the current regulations (financial regulations 10.7 and 11.10) will be resubmitted to the governing bodies of UNIDO in 2011, once the implications are fully understood and the approach of the United Nations system as a whole been assessed, to enable the Member States to make an informed decision. Since several organizations have deferred the implementation deadline of IPSAS, this clarity from the system is not yet available.

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.36/11-PBC.25/11;

“(b) Decides to submit to the General Conference at its thirteenth session for consideration and adoption the interim amendments to the Financial Regulations of UNIDO as set out in the annex of

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

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

document IDB.36/11-PBC.25/11 and deemed necessary for IPSAS adoption effective 1 January 2010;

“(c) Requests the External Auditor to conduct the annual financial audit for the year 2010 within the approved budgetary provisions for external audit fees.”

Annex

Interim amendments to the Financial Regulations of UNIDO

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.

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 3.8: 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.

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

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 change;
- (b) No change;
- (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) No change;
- (b) No change;
- (c) For each financial year of the biennium, Members shall contribute one half of the total approved amount;
- (d) No change.

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

- (a) No change;
- (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) No change;
- (d) No change.

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) No change;

(d) No change;

(e) No change.

ARTICLE VI. VOLUNTARY CONTRIBUTIONS AND OTHER INCOME

Regulation 6.5:

(a) No change;

(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.

ARTICLE VIII. INVESTMENT OF FUNDS

Regulation 8.2: [At least once a year,] 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.

ARTICLE IX. INTERNAL CONTROL

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.

ARTICLE X. THE ACCOUNTS

Accounts and schedules

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, [showing its status of appropriations] 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.

Annual financial report

Regulation 10.6: At the beginning of the second financial year of each 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 financial year of the biennium concerned.

Submission of accounts

Regulation 10.7: The final accounts for the biennium shall be submitted by the Director-General to the External Auditor not later than 31 March following the end of the biennium 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

Regulation 11.10: The External Auditor's reports, together with the audited financial statements, shall be completed by not later than 1 June, following the biennium 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. [The report on the interim accounts shall be completed by not later than 1 June, following the calendar year to which it relates and shall be submitted to the Programme and Budget Committee.]