



PAN AMERICAN HEALTH ORGANIZATION
WORLD HEALTH ORGANIZATION



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PAHO FINANCIAL REGULATIONS

Proposed Revision to the Financial Regulations

1. Introduction and Background

At the direction of the World Health Assembly, the World Health Organization (WHO) conducted a study of its Financial Regulations and based thereon undertook a comprehensive revision of those Regulations. In addition to changes which were specific to WHO, changes included: reflection of compliance with the United Nations system accounting standards, reorganization of information to reflect the financial cycle, reclassification of some articles of the regulations as rules, and substantial editing that included elimination of extraneous and duplicative information along with appropriate use of gender-neutral terminology.

PAHO Financial Regulations as they currently exist are in need of revision, since they are no longer consistent with WHO Regulations and do not fully reflect current accounting, reporting, and modern business practices.

2. Current Situation

Following the changes made by WHO, we have completed a comprehensive review of our existing Regulations, analyzed WHO changes, and redrafted our Regulations based on that analysis. The proposed revised Regulations conform, to the extent practical and possible, to those adopted by WHO in May 2000 and reflect our compliance with the United Nations system accounting standards. Annex 1 of this document compares and generally explains the changes proposed to each of the Regulations and Annex 2 contains the proposed revised Financial Regulations.

3. Action by the Executive Committee

Should the Executive Committee agree with the proposed revision of the Financial Regulations, it may wish to adopt a resolution along the following lines:

Proposed Resolution

THE 130th SESSION OF THE EXECUTIVE COMMITTEE

Having considered the Director's presentation on the revisions proposed to the Financial Regulations in Document CE130/23; and

Taking into consideration that the revisions will provide greater conformity with the Financial Regulations of the World Health Organization as approved by the World Health Assembly (Resolution WHA53.6) and will bring the PAHO Financial Regulations into compliance with the United Nations system accounting standards,

RESOLVES:

To recommend to the 26th Pan American Sanitary Conference the adoption of a resolution along the following lines:

THE 26th PAN AMERICAN SANITARY CONFERENCE,

Having considered the recommendation of the Executive Committee and the proposed revisions to the Financial Regulations as they appear in Annex 2 of Document CSP26/__; and

Taking into consideration that the revisions to the Regulations will, to the extent practical and possible, provide conformity between the Financial Regulations of the World Health Organization and the Pan American Health Organization, and bring the PAHO Financial Regulations into compliance with the United Nations system accounting standards,

RESOLVES:

To approve the revisions to the Financial Regulations of the Pan American Health Organization as they appear in Annex 2 of Document CSP26/__ .

PAN AMERICAN HEALTH ORGANIZATION

Comparison between Proposed and Existing Financial Regulations

Regulation I - Applicability and Delegation of Authority

This Regulation combines existing Articles I and XIV into one Regulation. It clarifies that delegations of authority are to be made in writing and introduces a new paragraph 1.4 which clarifies the requirement that the Director will establish Financial Rules that will govern implementation of the Regulations. Wording is changed to include the use of gender-neutral terminology in this and all other revised Regulations.

Regulation II - The Financial Period

No change.

Regulation III - The Budget

Paragraph 3.1 is changed to make reference to and provide linkage to the Constitution. The previous reference to the *proposed program and budget* as a *budget estimate* has been changed throughout the Regulations to *budget proposal*. Other changes are not substantive and are primarily for clarity.

Regulation IV - Regular Budget Appropriations

This Regulation specifies the authorized use of unobligated appropriations which was previously included in the Rules. It clarifies the treatment of unliquidated obligations at the end of the biennium and introduces terminal disbursement language. The Regulation was edited for clarity and reorganized to follow the sequence in which activities occur.

Regulation V - Provision of Regular Budget Funds

Previous paragraphs 5.3 through 5.10 have been reclassified and are now included under Regulation VI - Assessed Contributions and Regulation VII - Working Capital and Borrowing. They were edited for clarification and an erroneous reference has been corrected.

Regulation VI - Assessed Contributions

Consistent with current practice, where the Director advises Members of its quota contributions, references to the Organization of American States performing this function have been deleted. Other changes are primarily editing for clarification and simplicity and include the elimination of the 30-day potential grace period on assessment payments and the additional statement that unbudgeted payments of new Members will be credited to Miscellaneous Income.

Regulation VII - Working Capital Fund

This Regulation is generally a rewrite of existing paragraphs with some modifications. Reference to the original 1949 funding of the Fund has been dropped as being extraneous. All references to the General Fund have been deleted as adoption of the United Nations system accounting standards precludes the need for this. The existing Article 6.4 has been changed to proposed paragraph 7.4 to authorize transfers from the Working Capital Fund "to replenish existing funds to authorized ceilings."

Regulation VIII - Miscellaneous and Other Income

This Regulation has been rewritten to summarize and clarify the components of Miscellaneous Income. Other Income Regulations have been reorganized for clarification and a reference to program support costs has been added. An error or mistake in the previous Regulation has been corrected. That is, inclusion of contributions made by France, the Netherlands, and the United Kingdom on behalf of their territories in the Americas in Miscellaneous Income has been dropped. These contributions are considered as quotas in the budget process. Paragraph 8.4 has been linked to the Constitution.

Regulation IX - Funds

This Regulation has been redrafted for consistency with WHO and to express the concept of fund accounting. It also clarifies that the Director has authority to establish funds that may be used for capital expenditures.

Regulation X - Custody of Funds

Although implicit in existing Regulations, this Regulation clarifies that the Director has the authority to appoint asset managers. It also reflects developments in the financial services industry where there is growing legal segregation of banking and asset management for regulatory reasons.

Regulation XI - Investment of Funds

This Regulation changes the presentation of how investment income is handled. The existing Regulation which states that investment income is to be credited to the source Fund or Account has been changed to require that such income is credited to Miscellaneous Income unless otherwise provided. It clarifies the current policy of crediting Miscellaneous Income for investment earnings related to extrabudgetary activities unless otherwise specified by the Director. The explicit reference to the reporting of investments has been deleted since this is covered by proposed Regulation XIII. This Regulation includes a new requirement for investment policies and guidelines which corresponds to good financial practice.

Regulation XII - Internal Control

The internal control provisions have been revised to reflect modern practice. Specifically, they have been expanded to cover not only financial assets but also the way in which the Organization is managed. The Regulation has been expanded to clearly distinguish between the internal control structure and the internal audit function. Following the lead of WHO, previous Regulations on advances and progress payments and the rules on competitive procurement have been reclassified as Rules. The previous internal control Regulation on ex gratia payments and losses and write-offs has been transferred to Regulation XIII on Accounts and Financial Reports.

Regulation XIII - Accounts and Financial Reports

This Regulation has been changed to indicate that accounts will be maintained in accordance with the United Nations System Accounting Standards. The detailed listing of required account or financial reports has been deleted, since these are included in the Standards which are applicable to both interim and final financial reports. The date for submission of the final financial reports to the External Auditor has been changed from 31 March to 15 March in order to ensure timely transmission of certified financial statements to Member States. The requirement that the Director submit a statement of losses written off during a financial period to the External Auditor has been changed to require that such a statement be included in the final accounts.

Regulation XIV - External Audit

This Regulation has been simplified and shortened by transferring considerable details to the Appendix entitled *Additional Terms of Reference Governing the External Audit of the Pan American Health Organization*. The Regulation which required the External Auditors to submit their report to the Directing Council no later than 15 April has been corrected to require that the report be submitted to the Director by that date. The previous requirement was not realistic given the fact that Directing Council sessions are

held in September. All other changes to this Regulation are either for clarification or of an editorial nature.

Regulation XV - Resolutions Involving Expenditures

No change proposed.

Regulation XVI - General Provisions

The previous Regulations entitled General Provisions and Special Provisions have been combined into one. Other changes are for clarification or of an editorial nature.

Appendix - Additional Terms of Reference Governing the External Audit of PAHO

Except for the editing and rearrangement of paragraphs, there is little change of substance in this section. More detail has been provided related to the auditor's opinion and the principle of materiality has been expressed.

FINANCIAL REGULATIONS OF THE PAN AMERICAN HEALTH ORGANIZATION

Regulation I - Applicability and Delegation of Authority

- 1.1 These Regulations shall govern the financial administration of the Pan American Health Organization.
- 1.2 The Director of the Pan American Sanitary Bureau is responsible for ensuring effective financial administration of the Organization in accordance with these Regulations.
- 1.3 Without prejudice to Regulation 1.2, the Director may delegate in writing to other officers of the Organization such authority as he or she considers necessary for the effective implementation of these Regulations.
- 1.4 The Director shall establish Financial Rules, including relevant guidelines and limits for the implementation of these Regulations, in order to ensure effective financial administration, the exercise of economy, and safeguard of the assets of the Organization.

Regulation II - The Financial Period

- 2.1 The financial period shall be two consecutive calendar years beginning with an even-numbered year.

Regulation III - The Budget

- 3.1 The proposed program and budget for the financial period, as referred to in Article 14.C of the Constitution (hereinafter referred to as "budget proposals"), shall be prepared by the Director of the Pan American Sanitary Bureau.
- 3.2 The budget proposals shall cover income and expenditures for the financial period to which they relate, and shall be presented in United States dollars.
- 3.3 The budget proposals shall be divided into parts, and shall include such information annexes and explanatory statements as may be requested on behalf of the Pan American Sanitary Conference (hereinafter referred to as "Conference"), the Directing Council, or the Executive Committee, and such further annexes or statements as the Director may deem necessary and useful.

- 3.4 The Director shall submit the budget proposals to the Executive Committee for examination.
- 3.5 The Executive Committee shall submit the budget proposals, and any recommendations it may have thereon, to the Conference or the Directing Council.
- 3.6 The budget proposals, together with recommendations made thereon by the Executive Committee, shall be transmitted to all Member States at least thirty days prior to the meeting of the Conference or the Directing Council.
- 3.7 The budget for the following financial period shall be approved by the Conference or the Directing Council in the year preceding the biennium to which the budget proposals relate.
- 3.8 Supplemental proposals may be submitted by the Director when and as he or she may deem necessary.
- 3.9 The Director shall prepare supplemental proposals in a form consistent with the budget proposal for the financial period and shall submit such proposals to the Executive Committee for examination and recommendation. The Director shall submit to the Conference or Directing Council for consideration the supplemental proposals, together with the comments of the Executive Committee.

Regulation IV - Regular Budget Appropriations

- 4.1 The appropriations approved by the Conference or the Directing Council shall constitute an authorization to the Director to incur contractual obligations and make payments for the purposes for which the appropriations were approved and up to the amounts so approved.
- 4.2 Appropriations shall be available for obligation for the financial period to which they relate. Obligations incurred and charged against appropriations during the current financial period, shall cover the cost of goods or services which were contracted during the period and which are to be supplied or rendered during that period or within the year following the end of the period.
- 4.3 Transfers within the total amount appropriated may be made to the extent permitted by the terms of the budget resolution adopted by the Conference or the Directing Council.

- 4.4 Any balance of the appropriation not obligated by the end of the current financial period, shall be used to replenish the Working Capital Fund to its fixed level after which any residual balance will be placed in a Holding Account for subsequent use as decided by the Conference or Directing Council.
- 4.5 Unliquidated or undisbursed obligations at the end of the current financial period, shall be carried forward and remain available for the following financial period to cover the costs of the activities set forth in Regulation 4.2. Any unliquidated balance at the end of the second financial period shall be cancelled and credited to Miscellaneous Income.
- 4.6 Any claims that continue to exist against the Organization under unliquidated obligations cancelled in accordance with regulation 4.5 shall be transferred to new obligations against appropriations established for the current financial period.

Regulation V - Provision of Regular Budget Funds

- 5.1 The appropriations, subject to the adjustments effected in accordance with the provisions of Regulation 5.2, shall be financed by contributions from Member States, according to Article 60 of the Pan American Sanitary Code. Pending the receipt of such contributions, the appropriations may be financed from the Working Capital Fund.
- 5.2 In the assessment of the contributions of Member States, adjustments shall be made to the amount of the appropriations approved by the Conference or Directing Council of the following financial period in respect of:
 - (a) Supplemental appropriations for which contributions have not previously been assessed on the Member States;
 - (b) Contributions resulting from the assessment of new Member States under the provisions of Regulation 6.9 and contributions made by France, the Netherlands and the United Kingdom on behalf of their territories in the Region of the Americas, under the provision of Resolution XL of the V meeting of the Directing Council;
 - (c) The estimated amount of miscellaneous income that shall be routinely credited to approved budget appropriations.

Regulation VI - Assessed Contributions

- 6.1 The Conference or the Directing Council shall adopt the total budget, and the amount of the assessments, determined in accordance with Regulation 5.1, for the financial period. The assessed contributions of Members shall be divided into two equal annual installments. In the first year of the financial period, the Conference or Directing Council may decide to amend the amount of assessments to be applied to the second year of the financial period.
- 6.2 After the Conference or the Directing Council has adopted the budget, the Director shall inform Member States of their commitments in respect of contributions for the financial period and request them to pay the first and second installments of their contributions.
- 6.3 If the Conference or the Directing Council decides to amend the amounts of the assessments, or to adjust the amount of the appropriations to be financed by contributions from Member States for the second year of a biennium, the Director shall inform Member States of their revised commitments and shall request them to pay the revised second installment of their contributions.
- 6.4 Installments of contributions shall be due and payable as of 1 January of the year to which they relate.
- 6.5 As of 1 January of the following year, the unpaid balance of such contributions shall be considered to be one year in arrears.
- 6.6 Contributions shall both be assessed and paid in U.S. dollars.
- 6.7 Payments made by a Member State shall be credited to the Member State's account and applied first against the oldest amount outstanding.
- 6.8 The Director shall submit to the regular session of the Conference or the Directing Council a report on the collection of contributions.
- 6.9 New Members shall be required to make a quota contribution for the financial period in which they become Members. If membership begins at any time during the first year of a financial period, new Members will be assessed for the full two-year period. If membership begins at any time during the second year of a financial period, new Members will be assessed for the second year only. When received, such unbudgeted assessments shall be credited to Miscellaneous Income.

Regulation VII - Working Capital Fund

- 7.1 There shall be established a Working Capital Fund in an amount and for purposes to be determined from time to time by the Conference or the Directing Council. The financing of the Fund will be as set forth in Resolutions adopted by the Conference or Directing Council.
- 7.2 Title to monies credited to the Working Capital Fund shall remain with the Pan American Health Organization.
- 7.3 The Working Capital Fund shall be used to finance the implementation of the regular budget and the Fund shall be reimbursed as soon as and to the extent that assessed contributions and income is available for that purpose.
- 7.4 Transfers from the Working Capital Fund to finance unforeseeable and extraordinary expenses, replenish existing Funds to authorized ceilings, or other authorized purposes shall be reimbursed from regular budgeted funds unless other authorized means are used to replenish the Fund.

Regulation VIII - Miscellaneous and Other Income

- 8.1 Miscellaneous Income shall be applied in accordance with Regulation 5.2 (c) and shall include the following:
 - (a) unliquidated obligations in accordance with Regulation 4.5;
 - (b) interest earnings or investment income in accordance with Regulation 11.2 and 11.3;
 - (c) refunds or rebates of expenditure received after the end of the financial period to which the original expenditure related;
 - (d) proceeds of insurance claims that are not required to replace the insured item, or otherwise compensate for the loss;
 - (e) the net proceeds generated on the sale of a capital asset after allowing for all costs of the acquisition, or improvement, of any asset concerned;
 - (f) net gains or losses on exchange rates;
 - (g) moneys accepted as gifts per Regulation 8.5;

- (h) unbudgeted quota receipts in accordance with Regulation 6.9;
 - (i) income not otherwise specifically referred to in these Regulations.
- 8.2 Any refund of expenditure, or reimbursement for services and facilities provided, received from third parties during the biennium in which the original expenditure was incurred or services and facilities were provided shall be credited against that expenditure.
- 8.3 Any payments received from insurance policies held by the Organization shall be credited towards mitigating the loss that the insurance covered.
- 8.4 Under Article 25 of the Constitution, the Director is authorized to accept and administer donations and bequests, either in cash or in kind, provided that he or she has determined that such contributions can be used by the Organization, and that any conditions which may be attached to them are consistent with the objectives and policies of the Organization.
- 8.5 Moneys accepted in respect of which the donor specifies no purpose shall be reported as "gifts" in the accounts.
- 8.6 Service charges received from procurement services on behalf of Member States, program support charges on extrabudgetary funds, proceeds from the sale of publications and any income generated from services and sales of goods will be used to reimburse all, or part of, the direct and indirect costs incurred by the Organization in respect of the generation and administration of its activities.

Regulation IX - Funds

- 9.1 Funds shall be established to enable the Organization to record income and expenditure. These funds shall cover all sources of income: regular budget, extrabudgetary resources including Trust Funds, and any other source of income as may be appropriate.
- 9.2 Ledger Accounts shall be established for amounts received from donors of extrabudgetary contributions including Trust Funds so that relevant income and expenditures may be recorded and reported upon.
- 9.3 Special Funds or Accounts shall be established by the Director as necessary, as reserves, or to meet the requirements of the Organization, including capital expenditures.

- 9.4 The purpose of any Fund or Account established under Regulation 9.3 shall be specified and shall be subject to these Financial Regulations and such Financial Rules as are established by the Director under Regulation 12.1 and prudent financial management.
- 9.5 The Director, with the prior and written concurrence of a majority of the members of the Executive Committee, shall have the power to borrow funds.

Regulation X - Custody of Funds

- 10.1 The Director shall designate the bank or banks or financial institutions in which funds and securities in the custody of the Organization shall be kept.
- 10.2 The Director may designate any investment (or asset) managers and/or custodians that the Organization may wish to appoint for the management of the funds in its custody.

Regulation XI - Investment of Funds

- 11.1 Investment policies and guidelines shall be drawn up in accordance with best industry practice, having due regard for the preservation of capital and the return requirements of the Organization.
- 11.2 Any funds not required for immediate payment may be invested.
- 11.3 Investment income generated from regular budget resources shall be credited to Miscellaneous Income unless otherwise provided in the regulations, rules or resolutions relating to the Fund or Account from which the invested monies were derived.
- 11.4 Investment income generated from extra-budgetary resources will also be credited to Miscellaneous Income unless otherwise specified by the appropriate authorities.

Regulation XII - Internal Control

- 12.1 The Director shall:
- (a) establish operating policies and procedures in order to ensure effective financial administration, the exercise of economy, and safeguard the assets of the Organization;

- (b) designate the officers who may receive funds, incur financial commitments or obligations and make payments on behalf of the Organization;
- (c) maintain an effective internal control structure to ensure the accomplishment of established objectives and goals for operations; the economical and efficient use of resources; the reliability and integrity of information; compliance with policies, plans, procedures, rules and regulations, and the safeguarding of assets;
- (d) maintain an internal audit function which is responsible for the review, evaluation and monitoring of the adequacy and effectiveness of the Organization's overall systems of internal control. For this purpose, all systems, processes, operations, functions and activities within the Organization shall be subject to such review, evaluation and monitoring.

Regulation XIII - Accounts and Financial Reports

- 13.1 The Director shall establish such accounts as are necessary and shall, in so far as is not otherwise provided for in these Regulations and any Financial Rules established by the Director, maintain them in a manner consistent with the United Nations System Accounting Standards.
- 13.2 Final financial reports shall be prepared for each financial period, and interim financial reports shall be prepared at the end of the first year of each such period. Such financial reports shall be presented in conformity with, and in the formats established under the Standards referred to in regulation 13.1, together with such other information as may be necessary to indicate the current financial position of the Organization.
- 13.3 The financial reports of the Organization shall be presented in United States dollars. The accounting records may, however, be kept in such currency or currencies as the Director may deem necessary.
- 13.4 The financial reports shall be submitted to the External Auditor(s) not later than 15 March following the end of the financial period to which they relate.
- 13.5 The Director may make such ex gratia payments as deemed to be necessary in the interest of the Organization. A statement of such payments shall be included with the final accounts.

- 13.6 The Director may authorize, after full investigation, the writing-off of any asset other than arrears of contributions. A statement of such losses written off shall be included with the final accounts.

Regulation XIV - External Audit

- 14.1 The Conference or the Directing Council shall appoint External Auditor(s) of international repute to audit the accounts of the Organization. Auditor(s) appointed may be removed only by the Conference or the Directing Council.
- 14.2 Subject to any special direction of the Conference or the Directing Council, each audit which the External Auditors(s) performs/performs shall be conducted in conformity with generally accepted common auditing standards and in accordance with the Additional Terms of Reference set forth in the Appendix to these Regulations.
- 14.3 The External Auditor(s), in addition to rendering its opinion on the account, may make such observations as he/she/they may deem necessary with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls, and in general, the administration and management of the Organization.
- 14.4 The External Auditor(s) shall be completely independent and solely responsible for the conduct of the audit.
- 14.5 The Conference or the Directing Council may request the External Auditor(s) to perform certain specific examinations and issue separate reports on the results.
- 14.6 The Director shall provide the External Auditor(s) with the facilities required for the performance of the audit.
- 14.7 For the purpose of making a local or special examination or for effecting economies of audit cost, the External Auditor(s) may engage the services of any national Auditor-General (or equivalent title) or commercial public auditors of known repute or any other person or firm that, in the opinion of the External Auditor(s) is technically qualified.
- 14.8 The External Auditor(s) shall issue a report including its opinion, on the audit of the biennium financial report prepared by the Director pursuant to Regulation XIII. The report shall include such information as he/she/they deem(s) necessary in regard to Regulation 14.3 and the Additional Terms of Reference.

- 14.9 The report(s) of the External Auditor(s) shall be completed and provided to the Director together with the audited final accounts no later than 15 April following the end of the financial period to which the final accounts relate. The Director will provide the report to the Executive Committee which shall examine the interim and final financial reports and the audit report(s) and shall forward them to the Conference or the Directing Council with such comment as he or she may deem necessary.

Regulation XV - Resolutions involving Expenditures

- 15.1 The Conference, the Directing Council, and the Executive Committee shall not make decisions involving expenditures unless it has before it a report from the Director on the administrative and financial implications of the proposal.
- 15.2 Where, in the opinion of the Director, the proposed expenditure cannot be made from the existing appropriations, it shall not be incurred until the Conference or the Directing Council has made the necessary appropriations, unless such expenditure can be made under the conditions of the resolution of the Directing Council relating to the Emergency Procurement Revolving Fund.

Regulation XVI - General Provisions

- 16.1 These Regulations shall be effective as of the date of their approval by the Conference or the Directing Council and may be amended only by the Conference or the Directing Council.
- 16.2 In case of doubt as to the interpretation and application of any of the foregoing Regulations, the Director is authorized to rule thereon.
- 16.3 The Financial Rules established by the Director as referred to in Regulation 1.4, and the amendments made by the Director to such Rules, shall be confirmed by the Executive Committee and reported to the Conference or the Directing Council for its information.

Appendix

ADDITIONAL TERMS OF REFERENCE GOVERNING THE EXTERNAL AUDIT OF THE PAN AMERICAN HEALTH ORGANIZATION

1. The External Auditor(s) shall perform such audit of the accounts of the Pan American Health Organization, including all Trust Funds, Special Funds and Special Accounts, as he/she/they deem necessary in order to satisfy himself/herself/themselves:
 - (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 of the Organization;
 - (c) that the securities and funds on deposit and on hand have been verified by the certificates received direct from the Organization's depositaries or by actual count;
 - (d) that the internal controls, including the internal audit, are adequate in view of the extent of reliance placed thereon;
 - (e) that procedures satisfactory to the External Auditor(s) have been applied to the recording of all assets, liabilities, surpluses and deficits.
2. The External Auditor(s) shall be the sole judge as to the acceptance in whole or in part of certifications and representations by members of the staff of the Organization and may proceed to such detailed examination and verification as he/she/they choose(s) of all financial records including those relating to supplies and equipment.
3. The External Auditor(s) and 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(s), necessary for the performance of the audit. Information classified as privileged and which the Director agrees is required by the External Auditor(s) for the purposes of the audit, and information classified as confidential, shall be made available upon request. The External Auditor(s) and 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(s) may

draw the attention of the Conference or the Directing Council to any denial of information classified as privileged which, in his/her/their opinion, was required for the purpose of the audit.

4. The External Auditor(s) shall have no power to disallow items in the accounts but shall draw to the attention of the Director for appropriate action any transaction that creates doubt as to legality or propriety. Audit objections, to these or any other transactions, arising during the examination of the accounts shall be immediately communicated to the Director.
5. The External Auditor(s) shall express and sign an opinion on the financial statements of the Organization. The opinion shall include the following basic elements:
 - (a) identification of the financial statements audited;
 - (b) a reference to the responsibility of the entity's management and responsibility of the External Auditor(s);
 - (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:
 - (i) the financial statements present fairly the financial position as at the end of the period and the results of the operations for the period;
 - (ii) the financial statements were prepared in accordance with the stated accounting policies;
 - (iii) 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(s') name and position;
 - (i) the place where the report has been signed;

- (j) should it be necessary, a reference to the report of the External Auditor(s) on the financial statements.
6. The report of the External Auditor(s) to the Conference or Directing Council on the financial operations of the financial period should mention:
- (a) the type and scope of 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 that 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 a material nature from a consistent application of generally accepted accounting principles, these should be disclosed.
 - (c) other matters that should be brought to the notice of the Conference or the Directing Council 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 or the Directing Council, 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 that governs it.
- (d) the accuracy or otherwise of the supplies and equipment records as determined by stocktaking and examination of the records.

In addition, the report may contain reference to:

- (e) transactions accounted for in a previous financial period, concerning which further information has been obtained, or transactions in a later financial period concerning which it seems desirable that the Conference or the Directing Council should have early knowledge.
7. The External Auditor(s) may make such observations with respect to his/her/their findings resulting from the audit and such comments on the financial report as he/she/they deem(s) appropriate to the Conference or the Directing Council or to the Director.
 8. Whenever the External Auditor's(s') scope of audit is restricted, or insufficient evidence is available, the External Auditor's(s') opinion shall refer to this matter, making clear in the report the reasons for the comments and the effect on the financial position and the financial transactions as recorded.
 9. In no case shall the External Auditor(s) include criticism in any report without first affording the Director an adequate opportunity of explanation on the matter under observation.
 10. The External Auditor(s) is/are not required to mention any matter referred to in the foregoing which is considered immaterial.