

**CONCLUSIONS OF THE MEETING
OF THE FINANCE AND BUDGET NETWORK**

(Vienna, 30-31 August 2006)

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INTRODUCTION

1. The Finance and Budget Network held its annual face-to-face meeting in Vienna on 30-31 August 2006 and was hosted by the International Atomic Energy Agency (IAEA). The meeting was chaired by **Mr. Gary Eidet**. The agenda as adopted is provided in Annex I. The list of participating organizations and their representatives is provided in Annex II.
2. The first half day of the meeting hosted the organizations' representatives in the Finance and Budget Network, as well as the members of the Task Force on Accounting Standards, for a joint session on International Public Sector Accounting Standards (IPSAS).
3. The Task Force on Accounting Standards had been meeting already for two days (28-29 August) at the same venue.

I. ACCOUNTING STANDARDS: JOINT SESSION OF THE FB NETWORK AND THE HLCM TASK FORCE ON ACCOUNTING STANDARDS

4. The joint session on IPSAS included presentations by three guest speakers, **Sir Andrew Likierman**, Professor of Management Practice at London Business School and member of the Governance and Oversight Review Expert Steering Committee; **Mr. Mike Hathorn**, Deputy Chairman, IPSAS Board, and recently appointed external expert to the UN System IPSAS Adoption Steering Committee; and **Mr. Sabiniano G. Cabatuan**, Chair of the Technical Group of the Panel of External Auditors.
5. The joint session also included two presentations on "*Approaches to accrual budgeting within the UN System*", by **ICAO** and by **UNDP**.
 - (a) **Briefing on the status of the IPSAS project [Jay Karia and Gwenda Jensen]**
(CEB/2006/HLCM/26)
6. The Chairman of the Task Force on Accounting Standards provided a brief summary of the discussion and conclusions of the previous two days, and presented the IPSAS Adoption Project progress report.
7. The Steering Committee established within the Task Force and the IPSAS Project Team had made considerable progress. The plans called for ambitious deadlines.
8. It was recalled that the United Nations in the past three years has participated with the status of observer in the meetings of the IPSAS Board. General consensus emerged on the importance to continue to support the IPSAS Board – whose commitment to IPSAS convergence with IAS/IFRS was confirmed - and perhaps even encourage more contributions from member states and others.

9. The Panel of External Auditors had been actively involved in the process of IPSAS adoption, and this involvement would continue during the entire implementation process.

10. The Chairman of the Task Force stressed the critical importance of considering the budgeting processes with the necessary depth of analysis in preparing and carrying out the implementation of IPSAS across the UN system. This joint session represented a step in the direction of adding the budget perspective to the current accounting focus of the IPSAS project.

11. The governance of the Task Force would continue with Jay Karia as the Chairperson, supported by a newly appointed Deputy Chair, Eric Whiting of WFP.

12. The Task Force had discussed and recommended an amendment to be inserted in paragraph 3 of UNSAS. The recommended amendment would allow organizations to gradually adopt IPSAS by 2010. The amended paragraph 3 would read as follows (*changes in Italic*):

[Where individual organizations find it necessary to depart from the practice set out in the standards they should disclose the reasons for doing so in the statement of significant accounting policies included in their financial statements. *Where an organization departs from the practices set out below in order to apply:*

a) An IPSAS standard(s); and/or

b) An IFRS/IAS standard(s) applicable to a topic, when no IPSAS exists for a topic,

The organization is deemed to comply with UNSAS, so long as the organization complies with:

a) The IPSAS individual standard(s) in its entirety; and/or IFRS/IAS individual standard(s) in its entirety; and

b) All remaining UNSAS requirements.]



Conclusions and Action Points

13. The next meeting of the Task Force would be a video conference in October/November with a face to face meeting before the end of the year.

14. Accounting policy focus groups would be established in key locations (Vienna, Geneva, Rome and New York) to select and review specific topics for further guidance.

15. The UNSAS amendment was unanimously endorsed by the Finance and Budget Network.

(b) “Moving government from cash to accruals in budgeting, control and reporting - lessons from the UK experience” [Sir Andrew Likierman] (CEB/2006/HLCM/27)

16. Sir Andrew Likierman presented the experience of the UK governments’ transition from cash to accrual. Key benefits realized as a result of switching to accrual accounting included the more efficient use of resource and improved accounting controls.

17. Among other points, Sir Andrew indicated that the requirement for quality accounting skills was likely to increase significantly as a result of IPSAS implementation, and that training plans in this connection had to be carefully designed, with due consideration to consistency across the system and appropriate timeframes (i.e. need to avoid “early training”).

18. Highlighting the critical importance of an effective communication strategy both within the project team and externally, to include all stakeholders in the project, Sir Andrew referred the audience to a booklet produced by the UK government, “Implementing resource based financial management”, as an example of good training and communication tool. The booklet was now available on the FB Network website at: <https://fb.unsystemceb.org/documents/200608>.

19. During a transition period of two years, comparative cash-based and accrual-based financial reporting was produced, after which projections were now done on an accrual basis, with cash implications for government borrowing.

20. Answering questions from the audience, Sir Andrew clarified that the value of fixed assets was on depreciated replacement cost method; that the UK was using a uniform chart of accounts; that an incentive for good capital budget spending was offered through the entitlement to roll over to the following years unspent capital budget allowances; and that departments could carry forward to the following year 5% of their current budgets (although the third year of the triennium was also the first of the following period – i.e. rolling budget – and there was no issue of carry forward across different financial periods).

(c) “Introduction of IPSAS and its implications for the work of the External Auditors” [Sabiniano Cabatuan] (CEB/2006/HLCM/32 and 33)

21. Mr. Cabatuan of the Panel of External Auditors described the concerns facing the Panel of External Auditors with IPSAS adoption by United Nations System organizations.

22. Mr. Cabatuan cautioned that with the recognition of significant employee-related liabilities there may be an issue requiring a going concern qualification because there will be instances where the total liabilities exceed total assets.

23. Network and Task Force members noted that, if current assets exceeded current liabilities and there was an explanation as to how these liabilities would be met in the future, going concern should not be an issue.

(d) “The IPSAS Board and International Organizations” [Mike Hathorn]
(CEB/2006/HLCM/22)

24. Mr. Hathorn’s presentation described the need for transparent financial reporting in the public sector. Mr. Hathorn provided background information about standard development, the current developments and long term strategies, the standard setting process and the membership requirements of the IPSASB.

25. Two issues obtained particular attention by the audience: the requirement for annual audit of financial statements and the applicability of ED 31 to social policy obligations as deferred employee compensation.

26. On the first issue, Mr. Hathorn clarified that IPSAS did not indicate a preference for any audit framework, whose definition should instead be left to individual organizations. Nevertheless he suggested that, in his opinion, annual financial statements should be annually audited.

27. On ED 31 Mr. Hathorn said the IPSASB expected the liability to be recognized for pensions, health benefits and education entitlements, not social welfare provided to the general public.

28. Mr. Hathorn also clarified the funding structure of the IPSASB which, in addition to the recently approved United Nations System contribution of \$100,000 per year, for four years, was based on IFAC’s support and on a five year funding package from the Government of Canada and the Canadian Institute of Chartered Accountants, including the move of IPSASB offices to Toronto. Smaller but increasingly important pledges had recently come from several other sources, such as the EC, Moody’s, the Cayman Islands, and others.

29. At the moment the IPSASB was not structured to provide training nor on-line technical support, but it was looking at developing improved services of this nature through its website.

(e) “Approaches to accrual budgeting within the UN System”: ICAO [Richard Barr and André Parson’s (CEB/2006/HLCM/23); and UNDP [Jocelline Bazile-Finley] (CEB/2006/HLCM/25)

30. ICAO and UNDP presented their approaches to accrual budgeting. The presentations and discussions covered topics including issues of capitalization, capital reserves, annual statements and biennial budgets.

31. Particularly intense discussion was generated in the audience on the issues of capital budgeting and depreciation, and also in connection with project budgeting and donor reporting on extra-budgetary resources.

32. It was also widely recognized that the main issues UN system organizations would be facing with the adoption of IPSAS were in connection with capital assets and recognition of liabilities, namely ASHI.

33. After hearing the presentations and gaining awareness of the considerable variety in implementation strategies that could be chosen for budget-related issues such as capital budgets, capital reserves, annual statements, fixed 1st and 2nd year budgets, and others, Network and Task Force members unanimously supported the commitment to move ahead consistently as a system on such issues, again stressing the need to consider the budgeting processes with the necessary depth of analysis in preparing and carrying out the implementation of IPSAS across the UN system.

Conclusions and Action Points

34. The IPSAS Project Steering Committee would consider the appropriate organizational and governance means through which to ensure adequate attention, analysis and guidance in connection with budget related aspects of IPSAS implementation in UN system organizations. In addition to ICAO and UNDP, the United Nations and UNESCO expressed interest in being actively involved in any future development on these subjects. Other organizations were welcomed to submit their candidature to be active part in this emerging area of work at the inter-agency level. Also, there was a general consensus on the fact that early adopters would actively share their experiences with the organizations that chose to follow the normal implementation schedule.

II. COST RECOVERY POLICIES

35. The FB Network had been working on the issue of support costs on extra-budgetary resources and cost recovery policies for many years, and under several angles. In the past two years UNESCO had led a working group, whose conclusions were presented at the last meeting of the FB Network of July 2005 in New York. Such conclusions included common definitions of Direct Costs, Variable Indirect Costs, and Fixed Indirect Costs. The working group then concluded that its mandate had been fulfilled, but UNESCO would continue to follow as an observer the discussion of UNDG on this matter, and it would launch a survey on Standard Costs for Personnel.

36. Also, during the past months, mainly in the context of their respective management reforms, quite a few organizations had reviewed and/or modified their cost recovery policies. WIPO, the UNDG working group on cost recovery, and UNICEF illustrated the conclusions of their recent work on this matter.

(a) **Final results and discussion of UNESCO's survey on Standard Costs for Personnel [Yolande Valle] (CEB/2006/HLCM/28)**

37. UNESCO presented the final results of the survey on standard costs to the Network and proposed some recommendations based on its findings in relation to cost recovery policy. The objectives of the survey were:

- to obtain global overview of the methodologies used by UN Organizations to build their standard budget costs; and
- to foster further knowledge sharing and collaboration in the HLCM Working Group, especially in connection with the construction of cost recovery schemes.

38. The responses of 17 UN organizations were used in the analysis. Despite evidence showing significant consistency in standard costs composition across the UN system, results indicated significant differences in the standard costs for some countries.

39. UNESCO therefore suggested that, to the extent that UN organizations use the same elements in the calculation of standard costs for personnel, consideration could be given to the development and implementation of a commonly-applied staff cost “price-list” as the basis for cost recovery of extra-budgetary projects.

40. The idea of a more uniform standard cost list was favourably perceived by many organizations, especially in light of standard cost methodology refinements among organizations.

41. On the other hand, some remarks were made by several organizations relating to possible obstacles in the process of development and implementation of common standard costs. The issues raised could be summarized as follows:

- a) Move to uniform standard costs might require modifications to existing payroll systems (even though minimal if only applied for cost recovery purposes).
- b) Maintenance and monitoring of common standard cost data, such as periodical revision and subsequent variance analysis between standard and actual costs, would require continuous efforts and resources in addition to those needed during the initial cost verification and implementation phases.
- c) Cost structure differences among organizations would cause some difficulties in applying universal standard costs (a possible solution to this issue was indicated in the introduction of multiple common standard cost lists depending on organizations’ cost structure or type of projects).



Conclusions and Action Points

42. While welcoming the idea of introducing common standard costs as a very useful internal management tool, many recommended that it should not be restricted to cost recovery purposes,

but rather constructed for the purpose of general improvement and refinement of current budgeting techniques among UN agencies. Several organizations suggested that a further study should be conducted to build a common standard cost methodology and establish system-wide guidelines.

43. The Chairman suggested the establishment of a working group to seek a common approach in standard cost methodology among agencies.

(b) Progress report on WIPO's current work on revised methodologies for costing personnel expenditure in budgeting activities [Carlotta Graffigna]
(CEB/2006/HLCM/24)

44. The World Intellectual Property Organization (WIPO) had recently embarked on the development and testing of a revised methodology for costing personnel resources in preparation for its budget revision exercise for the current biennium (2006/07) and the draft Program and Budget preparation exercise for the next biennium (2008/09).

45. The principal objective of this initiative was to improve the accuracy of the Organization's biennial expenditure budget of which personnel resources represented roughly 70%. The key concept underlying the revision of methodology was to move from using a standard cost per grade to a system of costing by post and by object of expenditure (based on incumbent level) for occupied posts plus an estimate for vacant or new posts. This was seen as a feasible approach in view of the low staff turnover rate in WIPO.

46. The approach adopted was to develop a budget calculation prototype after having defined the budget calculation policy/rule for each object of expenditure. Rules were defined for the revised budget and the new draft budget.

(c) Options for harmonizing cost recovery rates for MDTFs, Joint Programmes, and Joint Offices: progress report on the work of the undg sub-group on Cost Recovery [Bernardo Cocco] (CEB/2006/HLCM/20 and CEB/2006/HLCM/21)

47. As part of the UN Development Group's follow-up to the Triennial Comprehensive Policy Review (A/59/85), the undg Management Group, in collaboration with the HLCM, had agreed to develop interim guidelines on cost recovery for multi donor trust funds (MDTFs), joint programmes, and joint offices. A harmonized cost recovery regime was expected to facilitate United Nations participation in MDTFs in particular, whereby UN agencies received funding from the same donors to implement similar projects.

48. To this end, a dedicated Working Group was created in 2005 comprising the main ExCom agencies (UNDP, UNFPA, WFP and UNICEF, as well as UNESCO in its role as HLCM Observer) and tasked with proposing options available to move toward harmonized cost recovery rates as well identify related opportunities and challenges.

49. The Working Group review highlighted the following considerations:

- Efforts to harmonize the MDTF and joint programmes/offices cost recovery rates should be anchored to the already considerable conceptual alignment of cost recovery principles that has been achieved so far. In particular harmonized cost definitions (direct costs, fixed and variable indirect costs) constituted a key step towards eventual rate harmonization.
- The eventual cost recovery rate harmonization for MDTF and joint programmes/offices would be affected by how rigorously agencies would exercise the classification of direct costs. Agencies involved would need to reach consensus on permissibility of considering certain costs as direct costs. The direct costs definitions found in the EC/EU FAFA should constitute valid guidelines in this case.
- The ITF experience of reaching a more harmonised approach to calculating support costs for projects funded through MDTFs had shown that political good will remained the key to reaching consensus on rate harmonization. This experience should constitute the basis on which to build future efforts and discussions on harmonising cost recovery rates among implementing agencies.

50. On the basis of the above, three options for cost recovery rate harmonization were proposed, the preferred one providing that, once authority to do so from their respective Boards had been secured, agencies could agree on one rate that averaged out each agency's mandated rate.

51. For some this would be a lower-than-mandated rate, raising the possibility of cross-subsidization between funds. However, the harmonized definition of direct costs of project delivery would have to be leveraged and this component built into the budget in such a way as to minimize potential distortions introduced by the reduced rates. The FAFA precedent showed that Agencies could agree along the lines of one rate for indirect costs.

**(d) Presentation on UNICEF's recently revised cost recovery policy
[Terry Brown] (CEB/2006/HLCM/30)**

52. UNICEF offered its definition of cost recovery, as the charge levied on Other Resource projects for the estimated incremental indirect costs to UNICEF associated with taking on the responsibility for implementing them. Cost Recovery was not an Overhead charge nor was it for Headquarters costs.

53. A snapshot on the various frameworks defined during the past years by UNICEF as a basis for adopted cost recovery policies was offered in the presentation, together with a detailed description of the logic underlying the last framework, as adopted in June 2006.

54. Such new framework was structured as follows:
- a) A base recovery rate of 7 per cent for other resources income, with thematic contributions assessed at 5 per cent;
 - b) The previous rate of 5 per cent for non-thematic funding raised by the private sector in programme countries to be maintained;
 - c) A 1-per-cent reduction to be assessed to joint programmes, where the Executive Director considered this was in the best interests of enhancing the collective efforts of United Nations agencies;
 - d) A 1-per-cent reduction to be assessed for contributions over \$40 million, where the Executive Director was satisfied that economies of scale were met.

Conclusions and Action Points

55. The Network welcomed the increasing efforts of UN system organizations towards building cost recovery policies inspired to system-wide consistency and justifiable logic.

56. The Network also indicated once again the desirability of applying the harmonized definition of direct costs, to be built into project budgets in such a way as to minimize potential distortions introduced by the changing or reduced rates.

III. GOVERNANCE AND OVERSIGHT IN UN SYSTEM ORGANIZATIONS

(a) Roles and Responsibility for Accountability & Control [Getachew Engida] (CEB/2006/HLCM/33)

57. UNESCO presented its Accountability & Control framework and introduced the discussion on this subject as an attempt at comparing accountability frameworks, with questions like who is responsible for what within management (OIOS, Controller's Office, Programme, etc.) as well as between management and the governing bodies and the various committees.

58. A particular emphasis was placed in the presentation and subsequent discussion on the role of Internal Audit and Internal Oversight Committees.

59. Internal Audit was part of the internal control system and should be supervised by senior management with access to the Board. If there was a need for an Internal Oversight Committee, its members should normally be senior managers of the organization with possible external members who could bring in specialist skills. An Internal Oversight Committee should not be a replacement/substitute for the Audit Committee/Finance & Administration Commission of the Executive Board of an organization. It should therefore be avoided creating two External Audit functions.

(b) Briefing on the conclusions of the independent evaluation of Governance and Oversight systems [Warren Sach] (A/60/883 plus Add.1 and Add.2)

60. The conclusions of the independent evaluation of Governance and Oversight systems, carried out by PricewaterhouseCoopers under the guidance of a Steering Committee of six independent experts, were published in Secretary General's report A/60/883 (plus addenda 1 and 2) of 10 July 2006.

61. An ad-hoc group of HLCM had been designated in February 2006 to consult with the Steering Committee, to ensure that HLCM's views were fully represented to the Steering Committee and to the Consultants.

62. The United Nations briefed the Network on the structure and the main recommendations of the Steering Committee report, which the ACABQ would examine in September and which would be considered by the General Assembly at its Fall session (whether in the Fifth Committee or in the Plenary was yet to be determined).

63. The report provided an opportunity for the General Assembly to renew the system of governance and oversight within the United Nations. It recommended a series of improvements that affected both management and the governing structures that have served the Organization since its inception. Many of the recommendations were far-reaching and required careful consideration.

64. With regard to the review of the Office of Internal Oversight Services, the Under-Secretary-General for Internal Oversight Services commented separately in a report entitled "Proposals for strengthening the Office of Internal Oversight Services" (A/60/901).

65. With respect to recommendations regarding the Secretariat, the study proposed a series of interrelated and interdependent recommendations, including:

- (a) The comprehensive implementation of results-based management;
- (b) The strengthening of the accountability framework for senior management;
- (c) The implementation of a framework for managing risk through enterprise-wide risk management and assigning responsibility for internal controls;
- (d) Twenty-three recommendations regarding OIOS, including:
 - (i) The prompt operationalizing of the General Assembly decision to establish IAAC;
 - (ii) Functional and organizational changes, including:
 - a. The focus of OIOS on internal audit services;
 - b. The transfer of investigation, evaluation and consulting services to other areas of the Secretariat.

66. Other recommendations were made in the study, that fell solely within the authority of intergovernmental organs.

67. The discussion following these two presentations focused on the structure and composition of Internal Audit Committees across UN organizations, as recently established or in the process of being set up.

68. ILO indicated that they were proposing an Independent Oversight Committee, although Terms of Reference, Composition and reporting lines had yet to be agreed with their Governing Body.

69. WIPO said they had just revised their internal audit charter and set up an Independent Audit Committee, made of nine members, seven of which experts recruited with due attention to geographical representation, and two UN experts in oversight matters. These experts were nominated by the body that corresponded, in WIPO, to ACABQ, and received no remuneration. The Committee met four times a year, reported to the Programme Budget Committee, and interacted with the Internal and External Auditors.

70. FAO said their Internal Audit Committee was composed of three internal members and two external members.

71. WHO and other organizations pointed out that any good framework for internal control should assign a greater role to post-facto monitoring through quality financial and management reporting, rather than merely focusing on up-front control.

72. Nevertheless, it was noted that post-facto control could work effectively only if supported by a modern, comprehensive ERP system, and with the right human resources framework for individual accountability, i.e. a proper rewards and sanctions scheme. In this direction, WHO informed that they were asking all big regional offices' representatives to sign "representation letters".



Conclusions and Action Points

73. Given the attention the issue of internal control was getting in and around the UN system, and the considerable work each organization was carrying out almost concurrently on this subject, it was suggested and agreed that the Finance and Budget Network would explore interest and feasibility for developing a best practice framework for internal control in the UN system, including Human Resources, Procurement, Assets Management, and all other concerned areas. The CEB Secretariat would lead this task initially.

74. The Network re-affirmed that, in such a best practice framework, the internal control should be the responsibility of management. Also, the Network stressed the fact that, in conjunction with the widely supported increase in the "quantity" of audit UN system organizations were becoming subject to, it was critical to seek more "quality" audit as the real priority.

IV. BRIEFING ON THE ACTIVITIES OF THE UNDG WORKING GROUP ON FINANCIAL POLICIES [Eric Whiting]

75. Continuing on a pattern of information sharing and coordination started last year, the Chair of the UNDG Financial Policies Working Group (FPWG) was invited to brief the Network on FPWG's current activities, with the objective of identifying possible areas of cooperation and avoiding duplication of work.

76. Mr. Whiting listed the current areas of work which the FPWG was focusing on:

- a) Policy recommendations on Joint Office pilots' financial management systems, cost-sharing agreements, rules and procedures;
- b) Inter Agency Policy on Common Services related savings to be concluded and agreed upon among Ex-Com Agencies
- c) Policy on the provision of resource commitments to programme countries in accordance with these countries' fiscal years. Work on this item indicated that the need for an alignment between programming cycles and countries' financial periods was not so critical, and that the alignment of cash transfers would be enough.

77. The FPWG Chair indicated that this group was by no means looking at all issues of financial relevance for participating organizations, but rather focusing on issues arising at the country level and seeking coherence and harmonization in rules and procedures among Ex-Com agencies, especially in connection with joint programming.



Conclusions and Action Points

78. It was unanimously reaffirmed that the Finance and Budget Network of the HLCM was the appropriate forum for discussion and decision on financial management matters of actual and potential impact on UN system organizations, and that possible areas of overlapping between the FB Network and the UNDG/FPWG should be constantly monitored and avoided through continuous information sharing among the two bodies.

V. UN SYSTEM FINANCIAL STATISTICS: RESULTS OF THE SURVEY [Remo Lalli] (A/61/203)

79. The CEB Secretariat had just completed its biennial survey on the budgetary and financial situation of the organizations of the UN system. Participation in the survey had been excellent, thanks to the good offices of Network members in their respective organizations. As a result, the collected data was of good quality and represented a valuable source of system-wide information of this type for Member States, for the press, the public, and for the organizations themselves.

80. With respect to previous versions of this exercise, a specific focus had been given to data on extra-budgetary resources, which was now available in considerable detail, including trends across recent years, distribution by country and by organization.

Conclusions and Action Points

81. The CEB Secretariat would make all collected data available on the FB Network website, without access restrictions, as Excel tables. It would also continue to analyze the data and extract the most significant figures, presenting them on the site in charts and tables grouped in meaningful categories.

82. The data collection would also continue as an ongoing exercise, to include data on organizations that have not yet participated in the survey, and to address some specific issues that had emerged after its completion, such as the accounting and reporting for contributions to the UN system by the European Communities.

VI FRAUD PREVENTION [Plenary discussion]

83. This session was a repeat of a similar initiative that was successfully experimented at the 2005 meeting of the Network. Representatives from organizations were invited to share their recent experience on investigations on cases of fraud and corruption. The discussion was not recorded for confidentiality reasons.

VII. FINANCIAL AND ADMINISTRATIVE FRAMEWORK AGREEMENTS WITH THE EC AND THE WB [Chris Kirkcaldy] (Agreements available on the FBN website)

84. In the spring 2006 the United Nations Secretariat, in close consultation with interested organizations of the UN system, including specialized agencies, finalized negotiations with the World Bank for the establishment of a Financial Management Framework Agreement, whose terms could be broadly acceptable to organizations of the UN system, in particular with regard to the single audit principle.

85. The United Nations informed that subsequent negotiations were planned between UNDG agencies and the World Bank with respect to a broader framework agreement, and that the UN negotiation team was made up of legal representatives, with limited representation from the financial management offices.

86. The 3rd Annual Meeting of the Working Group established under article 13.1 of the Financial and Administrative Framework Agreement (FAFA) between the European Communities and the United Nations on 29 April 2003 took place in New York on 3-4 April 2006. The operational conclusions of the meeting indicated action points and timetable to resolve operational

difficulties and to strengthen the Agreement. Among the actions taken since April, there were a draft version of **Reporting Guidelines** for EC contracts and a **Concept note on UN/EC joint training** initiatives.

87. The United Nations noted that more than one billion of US Dollars was channelled every year to the UN system through the FAFA, and it was therefore critical to preserve and improve this instrument.

88. In addition to the highlighted growing interest in reporting (a sub-group led by UNHCR Brussels was working on this subject), the contentious issue remained the one of verification. Some disputes on ineligibility of expenditure of considerable value were currently ongoing, and more were expected to arise in the next two years, due to the EC backlog in carrying out such verifications.

89. Network members stressed the UN position that verification was NOT an audit, i.e. conditions of confidentiality could apply, as framed in the FAFA. This distinction should be constantly re-affirmed, especially given the EC approach to contract out such activities to external firms. The most effective way to do this was a careful and detailed negotiation of the Terms of Reference for each verification, precisely defining their scope and content.

90. The 3rd meeting of the FAFA working group had agreed to develop standard ToR for verifications. A first draft was already available and would be shortly shared with the Network.



Conclusions and Action Points

91. Regarding negotiations on financial agreements with the World Bank, the Network reaffirmed the critical importance of keeping a common and shared profile, with appropriate financial management input, in all discussions whose conclusions could affect the terms of agreements already concluded and that could have repercussions of system-wide nature.

92. On the FAFA, the Network stressed the need for UN organizations to collectively hold a firm position in support of the single audit principle, especially in connection with the upcoming discussions on the standard Terms of Reference for verification activities.

VIII. STATUS OF U.S. TAX REIMBURSEMENT ARRANGEMENTS AND NEXT STEPS [Gary Eidet] (CEB/2006/HLCM/29)

93. Following the ILO Administrative Tribunal (ILOAT) judgment establishing that the "last income" method was the only acceptable method for determining US tax reimbursement, the HLCM at its 9th session of April 2005 had reviewed the results of a survey conducted by IAEA on organizations' current methods of reimbursement (CEB/2005/HLCM/R.7) and, taking note of the report, had *reiterated its view that those organizations currently applying the "first income" method should collaborate on negotiations with the government of the United States.*

94. IAEA presented an updated survey showing little change from the one done in March 2005. Furthermore, there had been no resolution of the associated issues; and attempts to renegotiate “first income” Tax Reimbursement Agreements (TRAs) by several organizations with the US had failed. Organizations which applied the “last income” method of reimbursement had financed the additional amount from their own budgets.

95. IAEA therefore reiterated the need for organizations which had “first income” TRAs to collaborate in negotiations with the US with a view to establish reimbursement agreements based on the “last income” method.

96. Ultimately, UN system organizations should attain “exemption” of national income taxes on UN income, which will obviate the need for tax reimbursement agreements or scheme, or tax equalization fund.

Conclusions and Action Points

97. The Network took note of the analysis and recommendations presented in CEB/2006/HLCM/29 and agreed that those organizations which had “first income” TRAs would appoint IAEA as the lead organization to negotiate with the US on, inter alia, the following issues:

- a) A new, uniform, system-wide Tax Reimbursement Agreement based on the last income” method.
- b) Reimbursement of the taxes paid on contributions to a Provident Fund.
- c) Reimbursement of taxes paid by staff members funded by voluntary contributions.

IX. LONG-TERM CARE AND APPENDIX D [Remo Lalli]

98. The Human Resources Network at its meeting of March 2006 had recommended the establishment of two joint working groups on the subjects of long-term care and appendix D, recalling the fact that “...more and more organizations were quietly financing long-term care out of their individual medical scheme [...]. The issue of long-term care had also been raised by FAFICS/AFICS and was currently researched by them [...]. HLCM had requested the HR Network some time ago to update the Appendix D provisions and that the UN should be the lead agency for this. The United Nations representative emphasized that it would be necessary to join forces with the FB Network on this as the insurance section of the UN was under the authority of the UN Comptroller”.

99. Since then, the HR Network had established the two working groups, which had not met yet:

- The group on **Long Term Care** was led by **ILO (Clifford Kunstler, Executive Secretary of the Staff Health Insurance Fund)**. IAEA and UNESCO had nominated representatives in it.
- The group on **Appendix D** was led by **UNDP (Duncan Barclay, Chief, Human Resources Policy)**. An external consultant would also be hired to work on this project. The United Nations, ILO, FAO, UNESCO, IAEA and UNICEF had nominated representatives in the group.

Conclusions and Action Points

100. The Network acknowledged the enormous financial implications that any policy change or other decision on these two subjects would have, and agreed that it would be appropriate to join forces with the HR Network since the beginning of the working groups' activity.

101. FB Network members therefore agreed to consult internally with their respective Human Resources Offices on this issue, and nominate a representative from Finance/Budget Offices in the established working groups.

X. ANY OTHER BUSINESS

(a) Proposed establishment of a new HLCM Network - Supply (Procurement and Logistics) Network [Saburo Takizawa] (Note of 26 July 2006)

102. In a note to HLCM of 26 July 2006 UNHCR had proposed that HLCM at its fall session of 30 September and 1 October considered the establishment of a Supply Network (Procurement and Logistics), along with the HR, FB and ICT Networks. This was being proposed given the growing importance of, and interest in, the supply chain in the UN system, and also because the implementation of IPSAS would have significant impact on assets management.

103. UNHCR had then agreed with the Acting Secretary of HLCM to prepare a paper outlining the background and detail of such proposal before the Fall session of HLCM, after consulting with some main stakeholders like Inter-Agency Procurement Working Group (IAPWG) and organizations with considerable procurement activity, like UNICEF, WFP, the United Nations, and others.

Conclusions and Action Points

104. The Network acknowledged the considerable interlinks that exist in any organizations, including the ones belonging to the UN system, between procurement activities and financial management issues. It therefore welcomed this proposal, and suggested that any further development on this initiative should be carried out taking into consideration the governance mechanisms and roles of any other existing UN community of work in this area, such as the IAPWG, the UNDG, and others, so to avoid overlap and duplication of work, with the objective of bringing discussion and decision-making on this matter under the purview of the HLCM.

(b) Date and Location of the Next FB Network Meeting

105. The Chairman recalled that, apart from ad-hoc meetings on specific issues, the Network met twice a year, via video-conference in late winter and face-to-face in late Summer/early Fall.

106. The Network agreed that possible dates for its next video-conference would be considered later, once the schedule of the upcoming Fall meetings of the Task Force on Accounting Standards would have been defined.

107. The Chairman also recalled that, following a well established practice, the face-to-face meeting took place one year in Europe and, the following, in North-America. He therefore asked North-America based Organizations to explore their availability to host the next 2007 meeting, and inform the CEB Secretariat accordingly. **PAHO** kindly expressed interest to be the next host at its Headquarters in Washington DC.

XI. DEMONSTRATION BY AGRESSO ON VERSION 5.5 OF ITS ERP SYSTEM SUITED FOR THE REQUIREMENTS OF UN ORGANIZATIONS [IAEA]

108. After the closing of the official session of the Finance and Budget Network, Agresso was invited to give a demonstration on its ERP system. Interested organizations attended this presentation. Any relevant documentation would be available with IAEA.

Agenda and Meeting Documents

(All documents available at: <https://fb.unsystemceb.org/documents/200608>)

➤ **Wednesday, 30 August, morning (9:00 – 13:00)**

Opening of the meeting by the Chairman, Mr. Gary Eidet, Director, Division of Budget and Finance, IAEA, and Spokesperson of the FB Network.

- 1) Accounting Standards: Joint session of the FB Network and the HLCM Task Force on Accounting Standards.
 - a) Briefing on the status of the IPSAS project, for FB Network members who are not part of the Task Force [Jay Karia and Gwenda Jensen] (CEB/2006/HLCM/26).
 - b) Presentation: “Moving government from cash to accruals in budgeting, control and reporting - lessons from the UK experience” [Sir Andrew Likierman, member of Governance and Oversight Review Expert Steering Committee] (CEB/2006/HLCM/27).
 - c) Presentation: “Introduction of IPSAS and its implications for the work of the external auditors” [Mr Sabiniano Cabatuan, Director of External Audit, Philippines, United Nations Board of Auditors] (CEB/2006/HLCM/31 and 32).
 - d) Presentation: “The IPSASB and International Organizations” [Mr Mike Hathorn, Deputy Chairman, IPSASB, UN System IPSAS Adoption Steering Committee Member] (CEB/2006/HLCM/22)
 - e) Presentation: “Approaches to accrual budgeting within the UN System:
 - ICAO [Richard Barr and André Parson’s] (CEB/2006/HLCM/23)
 - UNDP [Jocelline Bazile-Finley] (CEB/2006/HLCM/25)

➤ **Wednesday, 30 August, afternoon (14:30 – 18:30)**

- 2) Cost recovery policies:
 - a) Final results and discussion of UNESCO's survey on Standard Costs for Personnel [Yolande Valle] (CEB/2006/HLCM/28)
 - b) Progress report on WIPO's current work on revised methodologies for costing personnel expenditure in budgeting activities [Carlotta Graffigna] (CEB/2006/HLCM/24)
 - c) Progress report on the work of the UNDG sub-group on Cost Recovery [Bernardo Cocco] (CEB/2006/HLCM/20 and 21)
 - d) Presentation on UNICEF's recently revised cost recovery policy [Terry Brown] (CEB/2006/HLCM/30)

➤ **Wednesday, 30 August, evening (18:30 – 20:00): Reception offered by IAEA.**

➤ **Thursday, 31 August, morning (9:00 – 13:30)**

- 3) Governance and Oversight in UN System Organizations:
 - a) Roles and Responsibility for Accountability & Control [Getachew Engida] (*CEB/2006/HLCM/33*)
 - b) Briefing on the conclusions of the independent evaluation of Governance and Oversight systems [Warren Sach] (*A/60/883*)
- 4) Briefing on the activities of the UNDG working group on Financial Policies [Eric Whiting]
- 5) UN system financial statistics: results of the survey [Remo Lalli] (*A/61/203*)
- 6) Fraud prevention: new round of informal exchange of information on current investigation on cases of fraud and corruption.
- 7) Financial and Administrative Framework Agreements with the EC and the WB: briefing on recent developments [Chris Kirkcaldy]
- 8) Status of U.S. Tax Reimbursement arrangements and next steps [Gary Eidet and Richard Hilliard] (*CEB/2006/HLCM/29*)
- 9) Long-term care and Appendix D: update on status of work and nomination of FBN candidates for the joint HLCM/HR Network/FB Network working groups [Remo Lalli]
- 10) Any other business.
 - a) Proposed establishment of a new HLCM Network - Supply (Procurement and Logistics) Network [Saburo Takizawa] (*Note of 26 July 2006*)

➤ **Thursday, 31 August, afternoon – OPTIONAL session (14:30 – 15:30)**

- 11) Demonstration by Agresso on version 5.5 of its ERP suited for the requirements of UN organizations [IAEA]

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