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Reports on the work of the Standing Committee
Programme budgets, management, financial control
and administrative oversight

**Biennial Programme Budget 2010-2011
of the Office of the United Nations High Commissioner for Refugees**

Addendum

Report by the Advisory Committee on Administrative and Budgetary Questions*

* Submission date related to timing of meetings of ACABQ on 10-11 September 2009 and transmission of report to UNHCR on 25 September 2009.

I. GENERAL

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report entitled *Biennial programme budget 2010-2011 of the Office of the United Nations High Commissioner for Refugees* (A/AC.96/1068). The Committee also had before it the following documents:

- (a) *Global strategic priorities* (EC/60/SC/INF.2);
- (b) *Proposal for a revision of the financial rules* (EC/60/SC/CRP.24);
- (c) *Financial report and audited financial statements for the year ended 31 December 2008 and report of the Board of Auditors on the voluntary funds administered by the United Nations High Commissioner for Refugees* (A/64/5/Add.5);¹
- (d) *Measures taken or proposed in response to the recommendations in the report of the Board of Auditors to the General Assembly on the accounts of the voluntary funds administered by the United Nations High Commissioner for Refugees for the year ended 31 December 2008* (A/AC.96/1067/Add.1);
- (e) *Summary report on main risk areas rose in the report of the Board of Auditors on the accounts for 2008* (EC/60/SC/CRP.20).

2. During its consideration of the reports, the Advisory Committee met with the Deputy High Commissioner and other representatives of the High Commissioner, who provided additional information and clarification.

3. The Committee also met with representatives of the Board of Auditors regarding its report on UNHCR for the year ended 31 December 2008. The Committee further sought advice from the Board regarding the revised approach for the adoption of the International Public Sector Accounting Standards (IPSAS) by UNHCR and the proposed revisions to the UNHCR Financial Rules. The comments of the Board on those issues and the recommendations of the Committee are reflected in sections IV and V below.

II. PROPOSED BIENNIAL PROGRAMME BUDGET 2010-2011

A. Expenditures for 2008 and revised budget for 2009

4. Information with respect to the expenditures for 2008 and the revised budget for 2009 is contained in paragraphs 1 to 17, as well as in tables I to III of the proposed budget. Total expenditures for 2008 amounted to \$1,597,473,300 and the revised budget for 2009 amounts to \$2,210,307,500 (A/AC.96/1068, table II). Figure E presents the expenditures for 2008, revised budget for 2009 and the proposed budget for 2010-2011, by region and headquarters.

¹ Containing A/AC.96/1064 and A/AC.96/1067

B. Biennial programme budget 2010-2011

5. The estimated requirements amount to \$3,007,200,000 for 2010 and \$2,780,000,000 for 2011, respectively. While the budget for field operations represents the totality of the needs identified through the Global Needs Assessment process, budgets for the global programmes and for Headquarters have been prioritized. Further, the budgets for 2010 are prepared at a significant level of detail and the budgets for 2011 are still tentative (*ibid.*, paras. 109 and 145). UNHCR indicates that, since the new budget structure varies considerably from the current one and the estimated requirements for the Field are comprehensive, there is no direct comparison between the biennial programme budget for 2008-2009 and the proposed biennial programme budget for 2010-2011. A breakdown of the proposed budget for 2010, by region and by pillar, is provided in figure F. The estimated distribution of resources by country and by global programmes for the period 2008-2011 is provided in table V.

C. New budget structure and presentation

6. The proposed biennial programme budget for 2010-2011 is presented in the new budget structure which consists of four components or “pillars”, namely, Global Refugee Programme, Global Stateless Programme, Global Reintegration Projects and Global IDP Projects (A/AC.96/1068, para.142). The Global Refugee and Global Stateless Programmes will be funded on the basis of “programme” funding, as is currently the case with the Annual Programme Budget, while the Global Reintegration and IDP Projects will operate on the basis of “project” funding, as is currently the case with Supplementary Programme Budgets (*ibid.*, para. 27). The Advisory Committee further notes that the proposed budget for 2010-2011 is not only presented in a new budget structure, but is also based on an assessment of needs rather than on the expected availability of funds (see paras. 13-14 below).

7. In terms of oversight, the Advisory Committee notes from the budget that, the Executive Committee will approve all four components of the new biennial programme budget, while supplementary budgets for new operations proposed after an annual session of the Executive Committee shall be reported to the Standing Committee for consideration (*ibid.*, paras. 27 and 29).

8. A brief account of the evolution of UNHCR’s budget structure is provided in paragraphs 22 to 29 of the budget document. UNHCR’s current unified budget structure, which has been used since 2000, consists of the annual programme budget and the supplementary programme budget. As the challenges of managing operations in respect of internally displaced persons and, more generally, supplementary programmes became more prevalent, UNHCR initiated informal consultations with donors on a possible redesign of the budget structure in 2007. It is indicated in the budget document that the Standing Committee approved the new budget structure in March 2008, with effect from the biennium 2010-2011.

9. To the Advisory Committee, the new structure raises a number of issues, such as the means of prioritization and its impact on the ability of the High Commissioner to respond to emerging situations. The Committee is concerned that discrepancies in the presentation of needs in various documents may arise, since the proposed budget is based on comprehensive needs assessment in the Field, while the consolidated appeals process led by the Office for the Coordination of Humanitarian Affairs (OCHA) is still based on the expected availability of funds. Upon enquiry, the Committee was informed that the harmonization with OCHA may take one to two years. The Committee believes that it is imperative that sound judgement and coordination be exercised during the process to ensure that donors get consistent messages from the different agencies.

10. Another issue of concern is related to the funding and earmarking of UNHCR activities. The Advisory Committee recalls that the proposed new budget structure is intended to reflect a shared goal of improved predictability and reduced earmarking of funding for UNHCR operations (A/AC.96/1040/Add.1, para. 15). However, in the view of the Advisory Committee, given the funding gap UNHCR has experienced, while the division of resources into four components could guarantee funding for the global refugee and stateless programmes (pillars 1 and 2), it may also lead to the potential for further earmarking by donors and to insufficient funding for the global reintegration and IDP projects (pillars 3 and 4). The Advisory Committee encourages UNHCR to further its efforts on fund raising and donor relations to ensure that all needs groups are covered.

11. With respect to the presentation of the budget document, the Advisory Committee notes the information provided on progress with respect to the structural and management change process (see sect. III below), as well as the Results Framework and the global strategic priorities (see para. 15 below). However, the link between those initiatives and resource requirements is not clearly explained. Furthermore, limited attention is given to providing justification for the allocation of resources and posts. For example, it is simply stated that the number of posts approved under the 2009 revised annual programme budget was 4,824, and the numbers being proposed under the 2010 and 2011 budgets are 7,782 and 7,786, respectively (*ibid.*, para. 152). Upon enquiry, the Committee was informed that the 4,824 posts for 2009 did not include the posts under the supplementary programme. The Committee recommends that future budgets provide fuller explanations for changes in post and non-post resources.

12. Regarding the results-based budgeting, as indicated in paragraphs 142 and 143, the new budget structure of the proposed budget for 2010-2011 is presented under pillars, goals and Rights Groups. It is explained that a Rights Group is a thematic group of objectives representing the area of impact in UNHCR operations. The Advisory Committee sees this initiative as an effort at greater transparency by providing a thematic screen through which deployment of resources can be reviewed.

D. Global Needs Assessment and Global Strategic Priorities

13. According to UNHCR, the proposed biennial programme budget for 2010-2011 reflects the full range of its budgetary needs as determined in the Global Needs Assessment (ibid., para. 133). Information with respect to the Global Needs Assessment is contained in paragraphs 111 to 135 of the budget document, including background, methodology, planning and review, and priorities and prioritization. Also according to UNHCR, the Global Needs Assessment has aligned needs assessments, planned responses and resource mobilization mechanisms, through the use of the new Results Framework and the results-based management software application, *Focus*. As a result, information can now be more readily accessed, analysed and consolidated.

14. UNHCR acknowledges that, as in previous years, it is unlikely that the Office will know the precise level of voluntary contributions at the beginning of 2010. All offices will, therefore, be obliged to plan for what they will implement first, and then to expand activities as more funds are made available. General guidance has been provided to the Field to prioritize activities that are central to UNHCR's mandate, and this guidance has been consolidated into a common set of Global Strategic Priorities (ibid., paras. 134 to 135).

15. The Global Strategic Priorities, presented in document EC/60/SC/INF.2, reflect areas of critical concern to UNHCR in which the Office seeks improvement during 2010-2011 within the context of the Global Needs Assessment (A/AC.96/1068, para.136). Each priority includes an indicator measuring progress as well as a description of the current situation and a target to be achieved in 2010-2011. These targets are UNHCR's best estimates of what could be achieved if funds budgeted for 2010-2011 are made available to the office. The Global Strategic Priorities will guide all offices in identification of priority activities and in allocation of resources (ibid., paras. 139 to 141).

E. Support budget

16. The Advisory Committee notes that UNHCR is changing how posts are attributed to programme and programme support functions. According to UNHCR, this change is made necessary by the introduction of the results framework which calls for a refinement of the classification of posts to better reflect staff costs that represent direct inputs into the delivery of the framework for protection and solutions, and the indirect costs needed to support delivery (ibid. paras.160 to 161). The current definitions for the posts in the three categories of programme, programme support, management and administration, and criteria for the allocation of the posts, are provided in paragraphs 157 to 158 of the budget. The revised categorization of programme and programme support posts is shown paragraphs 161 and 162 of the budget.

17. The Advisory Committee notes that this change gives the appearance that programme support costs will be reduced by \$131.2 million for 2010. It is indicated in the budget that programme support costs for 2010 would amount to \$239.7 million (8 per cent) under the revised approach, compared with \$370.9 million (12.3 per cent) under the current classifications. For 2009,

programme support is currently budgeted at \$326.6 million (14.8 per cent) for the revised annual programme budget (ibid. para. 149). In the view of the Advisory Committee, the revised approach to categorization of posts will make it even more important for the Executive Committee, when reviewing future budgets, to be attentive to any proposed growth of support functions placed in programme areas.

18. The Committee further notes that no change has been made to the category of management and administration and the proposed requirement for 2010 is \$94.6 million (3.1 per cent), compared with \$100.3 million (4.5 per cent) for the revised annual programme budget for 2009 (ibid., para. 149).

F. Regular budget

19. Financing of UNHCR under the regular budget of the United Nations is described in paragraphs 31 to 37 of the budget document. For the biennium 2008-2009, the regular budget appropriation amounts to \$79 million, equivalent to 39.7 per cent of the estimated overall management and administration costs of \$198.8 million. For the biennium 2010-2011, the Secretary-General has proposed an amount of \$81 million from the regular budget. The General Assembly is yet to approve the proposed programme budget for 2010-2011 at its sixty-fourth session.

G. “New or additional activities – mandated-related” Reserve

20. The Advisory Committee recalls that the Reserve was established by the Executive Committee in 2006 to provide UNHCR with the budgetary capacity to accommodate unforeseen and unbudgeted activities, which are consistent with activities and strategies in the approved biennial programme budget and the mandate of UNHCR (A/AC.96/1055/Add.1, para. 9). The Reserve is established at \$50 million for each financial year, or at a higher level if so decided by the Executive Committee. The Executive Committee authorized UNHCR to increase the 2007 appropriation level to \$75 million, and approved the same level for 2008.

21. For 2009, the Executive Committee approved an initial appropriation of \$50 million which was increased to \$75 million at the fifty-ninth session. As at 31 July 2009, \$69.7 million had been transferred from the Reserve and UNHCR expects further contributions to the Reserve during the remainder of 2009. UNHCR, therefore, proposes that the Executive Committee raise the level of the Reserve from \$75 million to \$90 million for 2009 (A/AC.96/1068, paras. 39 to 40). The Advisory Committee has no objection to the proposed increase.

22. With regard to the future of the Reserve, it is indicated in the budget document that, for the biennium 2010-2011, when UNHCR implements a new budget structure based on comprehensive needs assessment, the need for this Reserve should theoretically become obsolete. However, since it

is still possible that donors may request UNHCR to implement completely unforeseen activities requiring additional funding, UNHCR proposes that the Reserve be maintained at an annual level of \$20 million (ibid., para. 41) . The Advisory Committee has no objection to this proposal.

III. STRUCTURAL AND MANAGEMENT CHANGE PROCESS

23. The Advisory Committee recalls that it was briefed on the UNHCR structural and management change process in the context of its consideration of the UNHCR 2008-2009 biennial programme budget proposal (A/AC.96/1040/Add.1, paras. 19 to 25). The Committee was later informed that UNHCR expected to complete the change process by end of 2008 or early 2009 during its review of the proposed revision to the biennial budget. The Committee recommended then that UNHCR report on the progress made and impact of the change process and other initiatives in the context of the biennial programme budget for 2010-2011 (A/AC.96/1055/Add.1, paras. 16 to 18).

24. Developments with respect to the change process are reported in paragraphs 42 to 73 of the proposed programme budget for 2010-2011. The Advisory Committee notes that the reform process has influenced a wide range of areas, including the introduction of the results-based management software application, *Focus*, and the global management accountability framework; the establishment of the global service centre and learning centre in Budapest; the conduct of headquarters and field reviews; and efforts on regionalization and decentralization. UNHCR believes that it has embarked on a full transition towards a culture of results-based management by integrating the five key initiatives, namely, the results framework, *Focus* software, the global needs assessment, the revised budget structure and the global management accountability framework (ibid., para. 43).

25. The Advisory Committee welcomes the efforts made and progress achieved by UNHCR in the structural and management process, in particular the emphasis on results-based management, the reduction of personnel in Headquarters, the relocation of a number of administrative functions to Budapest and the savings achieved, and the strengthening of the Field. However, the Committee notes that the proposed programme budget does not offer much information regarding concrete efficiency gains realized through the implementation of the initiatives, which admittedly may not have been possible at this early stage. The Committee expects that such information will be included in future budget submissions. Furthermore, efforts to improve supply management and the proposed increase of 39 related posts are not clearly explained in the budget document (ibid., paras. 56 to 60). The added value of regionalization and the roles of the regional offices could also have been better illustrated. The Committee expects that UNHCR will continue to monitor and assess the implementation of the initiatives and inform the Executive Committee accordingly.

IV. REVISION OF UNHCR'S FINANCIAL RULES

26. A significant revision to UNHCR's Financial Rules is proposed in document EC/60/SC/CRP.24. UNHCR indicates that the proposed revisions are based on three major justifications, namely, (a) a progressive implementation of the International Public Sector Accounting Standards (IPSAS) during 2010 and 2011; (b) the revised budget structure, and (c) other changes, including modification of the structure of the Rules and removal of outdated concepts and terminology. Upon request, the Advisory Committee was provided with a paper by UNHCR, including reasons for the proposed changes, as well as categorization of the changes based on the three justifications. While the paper facilitated the Committee's consideration of the proposed changes under the three categories, it was not inclusive of all the revisions. For example, the proposed removal of the reference to the Office of Internal Oversight Services was omitted. The Advisory Committee recommends that the Executive Committee be provided with a similar paper containing all the proposed changes under the three categories and with proper justifications.

27. Subsequent to its discussions with the Board of Auditors, the Advisory Committee concludes the following with respect to the proposed changes to the UNHCR Financial Rules:

(a) Revisions linked to the progressive implementation of IPSAS are not necessary at this stage, and the Committee recommends against the approval of the proposed revisions;

(b) While it is necessary to make changes related to the adoption of the new budget structure, some clarifications are required prior to the approval of the changes by the Executive Committee;

(c) Since the other changes proposed are not urgent for immediate action and some of them require further review, the Advisory Committee recommend that these changes be considered at a later date, after further justifications and examination.

In this connection, the Advisory Committee notes that there is an exercise under way to harmonize the financial regulations and rules among the United Nations organizations, which UNHCR could benefit from.

A. Implementation of IPSAS

28. The Advisory Committee notes from the budget document that, since UNHCR is not able to implement IPSAS by 1 January 2010 as planned, it has adopted an incremental implementation approach with significant areas deferred to 2010 and completion foreseen in 2011. UNHCR aims to publish IPSAS-compliant financial statements as of 31 December 2011 (A/AC.96/1068, para. 76; also see A/64/5/Add.5, paras.73-80). Upon enquiry, the Committee was informed that, following the progressive approach envisaged by UNHCR, the proposed revisions would replace some of the current wording with language that is neutral to both IPSAS and the United Nations system accounting standards (UNSAS) and would be compliant with both. The Committee learned from the Board of Auditors that, given the differences between IPSAS and UNSAS, it was not possible for IPSAS and UNSAS to co-exist and for Financial Rules to be compliant or neutral to

both. For example, it was “in accordance with the United Nations system accounting standards” that the Board issued its opinion on UNHCR’s financial statements ended 31 December 2008 (A/64/5/Add.5, Chap.III). The Board could not undertake such an audit in accordance with both standards.

29. The Board of Auditors emphasized that UNCHR was not in a position to implement IPSAS until it moved to accrual accounting. The Board did not accept the progressive approach proposed by UNHCR because UNHCR intended to apply accrual accounting only at the end of the process. Therefore, according to the Board, UNHCR would need to continue to submit its accounts and statements under UNSAS. However, if UNHCR wishes to gain experience in progressively applying IPSAS methods, it could do so by preparing IPSAS-based accounts on a pro forma basis and attaching them as annexes to its financial statements. These annexed statements would not be subject to audit. Under this approach, it would not be necessary to revise the Financial Rules until UNHCR is prepared to fully implement IPSAS.

30. In this regard, the Advisory Committee was informed by the Board of Auditors that, in response to the difficulties encountered by a number of organizations in implementing IPSAS, the Board was preparing a paper to be shared among the organizations. This paper would clarify the requirements to be met prior to implementing IPSAS. Further, the Board stated its willingness to review UNHCR’s revisions to financial rules in relation to full adoption of IPSAS, as it would do for other organizations. The Advisory Committee therefore recommends that UNHCR submit to the Board its comprehensive revisions to the Financial Rules for full adoption of IPSAS when appropriate.

31. In its review of the proposed revisions related to IPSAS, the Advisory Committee notes that UNHCR has proposed to delete references in its Financial Rules to the Financial Regulations of the United Nations (art. 1.5 and 1.6). Upon enquiry, the Committee was informed that the deletion was intended to provide for the inconsistency that would arise from the phased implementation of IPSAS. However, since the phased implementation is not possible (see para. 29 above), the deletion is not necessary: accordingly, the Advisory Committee does not recommend the deletion of references to the United Nations Financial Regulations.

B. The new budget structure

32. The Advisory Committee was informed that the proposed revisions in relation to the adoption of the new budget structure would be required for the implementation of the biennial programme budget from January 2010. However, the Committee finds that some of the revisions, including definitions, are not self-evident and therefore need further clarification, including the following:

(a) Definitions of “Biennial budget”, “annual budget” and “annual programme budget” (art. 1.10 (h), (i) and (j)). While it is understood that the “biennial budget” includes the four pillars, as well as the reserves, and the “annual budget” means a budget for one year, corresponding to the

breakdown of the biennial budget, UNHCR proposes to maintain the current term “annual programme budget” with a different definition. Under the existing Financial Rules, “annual programme budget” shall mean those activities which are approved annually by the Executive Committee, including the Reserves, which form part of the Biennial Programme Budget, and under the revision, it shall mean the annual budget for the activities under the Pillar 1-Global Refugee Programme and the Pillar 2-Global Stateless Programme, including the Reserves. Given that UNHCR has moved to a biennial programme budget, definitions of “annual budget” and “annual programme budget” in financial rules do not appear to provide a clear indication of its new budget structure.

(b) In the proposed budget, it is indicated that the Global Refugee and Stateless Programmes (pillars 1 and 2) are clearly “firewalled” from the Reintegration and IDP Projects (pillars 3 and 4). Funds received from the programmes cannot be moved to the projects for reintegration or for IDPs (A/AC.96/1068, para. 28). However, in article 2.2.1 of the proposed Financial Rules, transfers of surplus may be made by the High Commissioner between the Annual Programme Fund and the other funds and special accounts. In addition, surplus and savings are used interchangeably in article 2.7 (a). The Advisory Committee recommends that UNHCR clarify what transfers could be made between the two sets of pillars.

(c) For the “New or additional activities – mandated-related” Reserve, UNHCR proposes that the Reserve be maintained at an annual level of \$20 million (see para. 22 above), but it is stipulated in article 2.2.7 that the Reserve shall be constituted at \$50 million for each financial year.

C. Other changes

33. Upon enquiry, the Advisory Committee was informed that the proposed changes under this category were not necessary for operations. The Committee finds a number of the proposals questionable, such as the removal of the reference to the conduct of internal and external audits by the Office of Internal Oversight Services (OIOS) and the Board of Auditors (BOA) (art. 9.1). According to UNHCR, these proposals were made with a view to aligning the language with that of the financial rules of some other agencies that did not make specific reference to OIOS or the Board of Auditors. Nevertheless, the Advisory Committee sees no requirement for these changes.

34. The Advisory Committee also notes that two additions to the Financial Rules relate, respectively, to granting authority to the High Commissioner to borrow and to pay grants (art. 4.6, 6.5 (b) and 6.7). With respect to the proposed authority to borrow, the Committee emphasizes these are inconsistent with the Financial Regulations and Rules of the United Nations, which do not provide for the capacity for the executive head to borrow. On the question of paying grants, the Committee expects that UNHCR will present policy guidelines with respect to limits and circumstances under which paying grants would be allowed before consideration is given to the revision.

V. RECOMMENDATIONS OF THE BOARD OF AUDITORS

35. The Board has issued a qualified opinion on UNHCR's financial statements for the year ended 31 December 2008 (A/64/5/Add.5). The qualification relates to the expenditure incurred by UNHCR on projects executed through implementing partners, which was subject to independent audits by third-party auditors. As at 29 June 2009, of the total amount of \$498.6 million for 2008 that required audit certification, certificates covering \$252 million, or 50.5 per cent, had not been received by UNHCR, although the audit reports were generally due by 30 April 2009. In addition, concerning prior years, approximately 10 per cent of expenditure for 2005, 14 per cent for 2006 and 17 per cent for 2007 had not yet been substantiated by audit certificates as at June 2009. Further, 12 per cent of the value of the audit certificates received by UNHCR for 2008 reflected qualified audit opinions. In the circumstances, the Board has been unable to obtain adequate assurance as to the validity of a significant portion of expenditure incurred through implementing partners. This matter has been emphasized by the Board in previous reports.

36. The Board has also emphasized in its opinion the following three matters: (a) the concern of the Board about the accuracy of the value of non-expendable property disclosed; (b) non-disclosure of the value of expendable property inventories either on the face of the financial statements or in the notes, as required by the United Nations system accounting standards; and (c) the negative balance of the reserves and funds for end-of-service and post-retirement liabilities. The main recommendations of the Board are highlighted in paragraph 9 of its report.

37. With respect to the Board's recommendation that UNHCR set up specific funding for accrued end-of-service and post-retirement liabilities (A/64/5/Add.5, para. 61), the Committee notes that UNHCR presented some possible funding approaches to the Standing Committee in June 2009 and is seeking feedback from Member States through bilateral discussions (EC/60/SC/CRP.20, paras. 28 and 29). The Committee notes further that UNHCR expects that it will be informed of the strategy to be adopted by the United Nations within the next few months and that it will then be in a position to submit a funding proposal to the Standing Committee in June 2010. The Board also noted insufficient cooperation between the Office of the Inspector General of UNHCR and OIOS and recommended that UNHCR enhance its cooperation with OIOS (A/64/5/Add.5, paras. 165 (c) and 166 (b)).

38. Measures taken or proposed by UNHCR in response to the recommendations in the report of the Board are reflected in documents A/AC.96/1067/Add.1 and EC/60/SC/CRP.20. The Advisory Committee notes that many of the matters raised by the Board are of a persistent nature and references were made to these matters in previous reports of the Committee (see A/AC.96/1040/Add. 1 and A/AC.96/1055/Add.1). The Committee reiterates the importance of expeditious implementation of the recommendations of the Board.

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