

## PROPOSAL FOR A REVISION OF THE FINANCIAL RULES

### Addendum

#### Revision to UNHCR Financial Rules: Reasons for proposed changes

1. This addendum provides detailed commentary on the reasons for the proposed changes to the Financial Rules, which can be grouped under three categories:
  - a) Changes related to the introduction of the International Public Sector Accounting Standards (IPSAS);
  - b) Changes related to UNHCR's new budget structure; and
  - c) Changes made for other reasons.

#### A. IPSAS

2. UNHCR has chosen to implement IPSAS in a phased manner. Changes are therefore required in order to be able to comply with both the United Nations Accounting Standards (UNAS) and IPSAS during the transition period of 2010 and 2011.

#### B. New budget structure

3. With the introduction of UNHCR's new budget structure, changes are required in order to reflect the new funds and terminology.
4. Article 2 contains revisions that describe how the funds and reserves will be used under the new budget structure and can be summarized as follows:
  - a) The Biennial Budget is made up of two Annual Budgets. Each of the Annual Budgets includes the comprehensive needs under all four pillars, including the Reserves.
  - b) Activities under the Annual Programme Budget will be recorded in the Annual Programme Fund and the Regular Budget Fund.
  - c) The Annual Programme Fund will comprise the activities under Pillar 1 Global Refugee Programme (including Global Programmes, HQ costs, the Operational Reserve and the NAM Reserve) and Pillar 2 Global Stateless Programme.

- d) As in the past, the costs funded by contributions from the UN Regular Budget will be held in the Regular Budget Fund.
- e) Separate funds will contain the respective activities for each of Pillar 3 Global Reintegration Projects and Pillar 4 IDP Projects.

C. Other reasons

5. This category includes changes made for reasons other than the introduction of IPSAS or the new budget structure, including the following:

- a) To specify the High Commissioner's authority that is currently exercised but that was not previously explicitly mentioned in the Rules, to create new funds, special accounts and reserves, and to make transfers of surplus between funds, special accounts and reserves.
- b) To increase the authority of the High Commissioner to borrow when in the best interest of the organization.
- c) To remove the requirement that exceptions or amendments to the Rules be consistent with the UN Financial Regulations, as the UN Financial Regulations do not allow for borrowing and will not comply with IPSAS until 2014.
- d) To provide additional flexibility for programme implementation by specifying that the High Commissioner has the authority to pay cash grants, a subject on which the Rules were previously silent.
- e) To replace obsolete practices and terminology. For example, UNHCR has long managed its own investments, without consultation with the United Nations Secretary-General, and has set up an Investment Committee to provide oversight and the management of investments. Reporting to the Secretary-General has been done by including detailed information in the notes to the annual financial accounts. The Rules have been revised to better reflect the management and reporting practices actually in place.
- f) To remove specific reference to the Office of Internal Oversight Services (OIOS) as the internal auditor of UNHCR, in order to allow for the eventual possibility of creating an in-house internal audit function in the future, should the need arise. UN Resolution 48/218B indicates that the OIOS mandate covers only the United Nations Secretariat. It acknowledges that UN agencies under the category of Funds and Programmes, such as UNHCR, have their own internal oversight arrangements, and requires that the United Nations be informed of these arrangements. It also provides for the possibility that OIOS assist such Funds and Programmes in enhancing their internal oversight mechanisms.
- g) To remove specific reference to the Board of Auditors and replace it with a general reference to external auditors, as UNHCR currently engages other external auditors to verify the accounts of its implementing partners.

<b>Revised Article Number</b>	<b>Previous Article Number</b>	<b>Reason for Change</b>	<b>Comment</b>
1.1	13.1	Other	Renumbered to merge Articles 1 and 13.
1.2	13.2	Other	To reflect the current practice of delegating the powers of the High Commissioner to the Officer in Charge during the absence of the High Commissioner.
1.3	13.4	Other	Renumbering as a result of the merger of Articles 1 and 13.
1.4	1.1	Other	Renumbering as a result of the merger of Articles 1 and 13.
1.5	13.3	Other	Renumbering as a result of the merger of Articles 1 and 13.
1.6 (and 1.9)	1.2 (and 1.5)	IPSAS / Other	The requirement that exceptions or amendments to the Rules have to be consistent with the UN Financial Regulations has been removed. This change is necessary because the UN Financial Regulations do not comply with IPSAS and will not do so until 2014. The UN Financial Regulations also do not allow for borrowing.
1.7	1.3	IPSAS / Other	Added reference to property, plant and equipment (IPSAS terminology) which was previously considered part of 'supplies' under UNSAS. Other changes were made to simplify the wording of the Rule.
1.8	1.4	Other	Renumbering only.
1.9	1.5	IPSAS / Other	See comment under revised Article 1.6.
1.10 (f)	- NEW -	Other	Definition of 'Approving Officer' is added as the term was referred to in the Rules but not previously defined.
1.10 (g)	- NEW-	New Budget Structure	Defines the new budget structure with four pillars.
1.10 (h)	1.6 (f)	New Budget Structure	New definition for a comprehensive Biennial Budget that will comprise both programmes and projects.
1.10 (i)	- NEW-	New Budget Structure	Defines the meaning of 'Annual Budget' under the new comprehensive budget approach.
1.10 (j)	1.6 (g)	New Budget Structure	Redefines the meaning of 'Annual Programme Budget' under the new budget structure, as being Pillars 1 and 2 plus Reserves.

1.10 (k)	1.6 (h)	New Budget Structure	To reflect the concept and definition of what will constitute a supplementary budget under the comprehensive budget approach.
1.10 (l)	- NEW-	Other	Definition of 'Fund' added as it was previously referred to in the Rules but not defined.
1.10 (m)	1.6 (i)	New Budget Structure	Definition of 'pledge' amended to remove reference to programmes, as pledges also can be made towards projects.
1.10 (n)	- NEW-	Other	Definition of 'Restricted Contribution' added as it was previously referred to in the Rules but not defined.
1.10 (o)	- NEW -	IPSAS	'Obligation' and 'unliquidated obligation' are defined, which allows for their use in the context of either UNSAS or IPSAS. Note that an obligation is defined as a commitment and makes no reference to whether it is expenditure (under UNSAS) or simply a reservation of budget (under IPSAS).
2.1, 2.1.1	- NEW-	New Budget Structure	Introduces the concept of the structure of funds and explains that the Annual Budget comprises the Annual Programme Fund and the funds for Pillars 3 and 4.
2.1.2	- NEW-	Other	Specifies the current authority exercised by the High Commissioner to create funds, special accounts and reserves.
2.2	6.1	New Budget Structure	Redefines what constitutes the Annual Programme Fund under the new budget structure.
2.2.1	- NEW -	Other	Specifies the authority currently exercised by the High Commissioner to transfer surplus between funds, on which the Rules were previously silent.
2.2.2 2.2.3 - 2.2.4	6.5 6.6 6.7 6.8	New Budget Structure	Specifies how the Operational Reserve will be used in the context of the change in budget structure to pillars.
2.2.5	6.9	Other	Minor change – update of terminology only

2.2.6 2.2.7 2.2.8	6.12 6.13 - NEW -	New Budget Structure	Defines how the NAM will be used in the context of the new budget structure and 2.2.8 reflects the current practice of reporting to the Executive Committee.
2.3, 2.4, 2.5, 2.6	- NEW-	New Budget Structure	Creates the new funds for Pillar 3 and Pillar 4 activities and also specifies the authority currently exercised by the High Commissioner to transfer surplus between funds.
2.7 (a)	6.3 (a)	IPSAS	Correction of the existing rule, as the reference to the repayment of loans as income is neither compatible with IPSAS nor UNSAS.
2.7 (b)	6.3 (b)	New Budget Structure	Removes references to 'Supplementary Programme Funds' and 'trust funds' which are obsolete under the new budget structure.
2.7 (c)	6.3 (c)	Other	Minor change – adds that interest can also be earned from cash held in bank accounts.
2.7 (d)	6.3 (d)	Other	Minor change – clarifies that contributions to be credited to the fund will be those specifically designated by the donor as earmarked towards this fund.
2.7 (e) and new 2.8 (e)	6.3 (e)	IPSAS	Under IPSAS, unrealized exchange gains and losses need to be charged against surplus and not against income; therefore the reference to miscellaneous income was removed to allow for treatment under either IPSAS or UNSAS.  Reference to revenue producing activities under miscellaneous income is removed as the manner in which they should be disclosed under IPSAS has not yet been defined by UNHCR.

Deleted	6.4 (a)	Other	Deleted to reflect actual practice, as the Working Capital Fund (WCF) does not replenish the Operational Reserve since the reserve is not a separate fund but is budgetary space available for use within the Annual Programme Fund.
2.8 (a)	6.4 (b)	New Budget Structure	Replaces the word 'projects' with 'activities' to reflect the comprehensive budget approach that is not limited to 'projects'.
2.8 (b)	6.4 (c)	Other	Renumbering only
2.8 (c)	6.4 (d)	IPSAS	Refers to 'obligations' and 'expenditures' instead of 'commitments' to use terminology applicable to both UNSAS and IPSAS.
2.8 (d)	6.4 (e)	Other	Minor change – adds bank fees to reflect current practice.
Deleted	6.4 (f) and 6.4 (g)	New Budget Structure	Removes reference to old budget structure. Also removes the limitation of obligations that did not provide effective control at the current level of expenditures and to allow flexibility to use the WCF as required, to provide liquidity. The repayment requirements under former 6.4 (g) are considered unnecessary as revised Article 2.7 (a) ensures that advances made from the WCF to other funds under revised 2.8 (a) will be replenished from those funds.
2.8 (f)	6.4 (h)	Other	Renumbering only
2.9	6.4 (f) ii	Other	References an article that was renumbered
2.10	- NEW -	Other	Defines the 'Staff Benefits Fund' that was created in 2007 and was not reflected in the Rules.
2.11, 2.12	6.10, 6.11	New Budget Structure	Reflects the new budget structure by removing specific reference to 'trust funds', 'Annual Programme Budget' and 'Supplementary Programmes' and instead uses more inclusive language to refer to the High Commissioner's ability to create funds, reserves and special accounts. This reflects the current authority of High Commissioner and is a change in terminology only.

3.2	3.2	New Budget Structure / Other	Removes outdated terminology as a result of the new budget structure and explicitly mentions the authority currently exercised by the High Commissioner to apply unearmarked contributions to any budgeted activity – note that this is not an increase of authority.
3.3	3.3	IPSAS	A subtle change is made that allows UNHCR to decide, in accordance with the flexibility permitted by IPSAS, whether to recognize in-kind services in the accounts or not.
3.4	4.1	Other	Renumbering only as result of the merger of Articles 3 and 4
Deleted	4.2	IPSAS	Deleted because it allowed offsetting of income against expenditure, which is not allowed under IPSAS.
3.5	4.3	Other	The Rule was changed to reflect what is currently possible with respect to reporting of revenue producing activities, and to reflect the current practice of reporting to EXCOM through the annual financial statements.
Deleted	4.5	IPSAS	The adjustment of prior years' expenditure is treated differently under UNSAS and IPSAS and 'common' wording was not possible.
3.6	4.4	IPSAS / Other	<p>The definition of what constitutes miscellaneous income was changed to comply with IPSAS – note in particular the new wording that refers to 'transactions relating to the sale of property, plant and equipment' that will allow for either the net gain from sale under IPSAS, or the moneys received from sale under UNSAS, to be recorded as income.</p> <p>In addition, and not related to IPSAS, the reference to miscellaneous income being credited only to the Annual Programme Fund was removed to allow flexibility to record income in the fund that generated it.</p>

4.1 and 4.2	- NEW -	Other	Article 4 was renamed to refer to Cash Management. Article 4.1 describes what cash management entails and 4.2 describes the current authority exercised by the Controller with respect to Cash Management activities.
4.3 and 4.4	5.1 and 5.2	Other	Updated to reflect new terminology and actual practice.
4.5	9.1 and 9.2	Other	The change was made to reflect more accurately the existing practice with respect to the management of investments. UNHCR has long managed its own investments, without consultation with the Secretary-General, and set up an Investment Committee to provide oversight and management of investments. Investment policies, which are consistent with UN Regulations, were put in place in December 2001. The former article required the reporting of investments information to the Secretary-General once a year; this requirement was met by including detailed information in the notes to the annual financial statements, and this is explicitly stated in the revised Rules.
4.6	- NEW -	Other	Proposes to grant authority to the High Commissioner to borrow when in the best interest of UNHCR.
4.7	5.3	Other	Minor change – terminology only.
4.8	5.4	Other	Changed to be consistent with UN Regulations, which are deemed to be more practical and realistic.
4.9	5.5	Other	The additional text reflects the current authority exercised by the Controller to hedge foreign currency risks at HQ.
4.10	5.6	Other	Renumbering only
4.11	5.7	Other	Changes the wording to be in line with IPSAS. Deletes the reference to progress payments being subject to the Controller's discretion in order to reflect current practice - the authority to make progress payments has been delegated to approving officers.

4.12	5.8	Other	To reflect current terminology – ‘approving officer’ is the term used instead of ‘certifying officer’.
4.13	5.9	Other	Increases level of petty cash to an appropriate level commensurate with value of money.
4.14	5.10	Other	No substantive change – terminology only.
4.15	5.11	Other	Minor change to reflect current practice.
5.1, 5.2, 5.3, 5.4	7.1, 7.2, 7.3, 7.4	New Budget Structure	Reflects terminology of new budget structure.
5.5	- NEW -	New Budget Structure	New article specifies that funds for supplementary budgets will be obtained from appeals.
Deleted	6.2	New Budget Structure	Reference to Supplementary Programme Fund is removed since it is obsolete under the new budget structure.
Deleted	7.5	New Budget Structure	The Rule had to be revised as it does not conform to the concept of a comprehensive budget.
6.1	8.1	IPSAS / New Budget Structure	Revised for terminology under the new budget structure and also to be IPSAS / UNSAS neutral.
6.2 and 6.3	10.4 and 8.2	IPSAS / New Budget Structure/ Other	Article 8.2 contained terminology that did not conform with the new budget structure. In addition, the formula was complex and difficult to understand and apply. An easier formula that is UNSAS/IPSAS friendly and meets new budget structure is proposed.
6.4	8.3	New Budget Structure	Reference to projects was removed to allow for Implementing Partners to implement any activity (whether projects or programme) under the new budget structure.
6.5	8.4	New Budget Structure	The reference to projects was removed to allow for comprehensive application to programmes or projects.
6.5 (b)	- NEW-	Other	Proposes to allow the High Commissioner to pay grants (approval of the terms of the grant agreement is specified in new Article 6.7).

6.5 (c)	8.4 (b),	Other	Reference to the Letter of Instruction is removed as this document is no longer the mechanism used to delegate authority.
6.6	8.5	Other	Specific reference to 'audit certificate' removed and instead refers to Article 9 allowing for audit by internal or external auditors.
6.7	- NEW-	Other	Specifies that the terms of the agreement for a grant paid pursuant to Article 6.5 (b) requires approval of the High Commissioner.
6.8	8.6	Other	Correction of grammar – no substantive change.
Deleted	8.7 and 8.8	Other	Reference to the Letter of Instruction is removed as this document is no longer the mechanism used to delegate authority.
Deleted	9.3	Other	The requirement to charge investment income to the WCF is already covered in Article 2.7 (c), formerly 6.3 (c)
7.1	NEW	Other	Clarifies the internal control responsibilities of the High Commissioner.
7.2	10.1	Other	Very minor changes.
7.3 7.4	10.2 10.3	Other	Updated to use current terminology for approving and certifying and allows for the authority to be delegated.
Deleted	10.4	New Budget Structure	Deleted as the authority to commit funds is already defined in Article 7.2 and is not limited to the Annual Programme Fund.
7.5	-NEW -	Other	Added to reflect current practice for controlling cash.
7.6 7.7	10.5 10.6 (a)	Other	To remove specific reference to the Board of Auditors ( BOA) as external auditors, consistent with new Article 9.1. Article 10.6 (a) revised to reflect current practice with respect to the authority of the Controller to recover losses.
7.8	10.7	Other	Renumbering only

7.9 and 7.10	10.8 and 10.9	IPSAS	Very minor change to reflect IPSAS wording for property, plant and equipment and to improve clarity.
7.11	10.10	Other	Very minor grammatical changes.
8.1	2.1	Other	Renumbering as a result of the merger of previous Articles 2 and 11 within new Article 8.
8.2, 8.3, 8.4	11.1, 11.2, 11.3	IPSAS	Removes specific wording used in UNSAS and allows for the financial statements to be prepared in the format of either UNSAS or IPSAS.
8.5	11.4	Other	Reflects change to remove specific reference to BOA as external auditors, consistent with new Article 9.1
9.1	12.1	Other	<p>To remove specific reference to OIOS to allow for the possibility to create an internal audit function in the future, should it be in UNHCR's best interest</p> <p>Note: UN Resolution 48/218B indicates that the mandate of the OIOS covers only the United Nations Secretariat. It acknowledges that UN Funds and Programmes, such as UNHCR, have their own internal oversight arrangements, and requires that the UN be informed of these arrangements. It also provides for the possibility of OIOS assisting such Funds and Programmes to enhance their internal oversight mechanisms.</p> <p>The reference to the BOA as external auditors is removed to allow for the fact that other external auditors are currently engaged by UNHCR to verify the accounts of implementing partners.</p>