English Only

Informal Consultative Meeting 15 June 2006

REVIEW OF CHANGES IN UNHCR'S FINANCIAL RULES IN RELATION TO BIENNIALIZATION OF THE PROGRAMME BUDGET

1. This document provides an overview of changes made necessary by the move towards the biennial programme and budgeting cycle, as well as implications of the implementation of International Public Accounting Standards (IPSAS) that would require changes in the UNHCR Financial Rules.

I. BIENNIAL BUDGETING

2. Following the anticipated move to biennial programme and budgets, some provisions of the Financial Rules for Voluntary Funds Administered by the High Commissioner for Refugees (A/AC.96/503/Rev.7, dated 7 October 1999) will need changes. They are:

- Article 1.1.6 (g) – "Supplementary Programmes"
- Article 2.2.1 – Financial Year
- Article 6.6.6, 6.6.8 – Funds and Operational Reserve
- Others as may be identified in the review process.

3. It is not foreseen that the move to biennial programming and budgeting will necessitate major changes in the UNHCR Financial Rules. The major changes envisaged would be in the internal procedures and processes, and mainly in Chapter 4 of the UNHCR Manual which deals with programme management and preparation of UNHCR budgets.[1]

II. ADOPTION OF INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSAS)

Background

4. Organizations within the United Nations system have been preparing their Financial Statements in accordance with the United Nations System Accounting Standards (UNSAS) since 1993. Given rapid changes and development in best accounting practices, an in-depth review of UNSAS was conducted by the Chief Executives Board for Coordination (CEB) and the High Level Committee on Management (HLCM). On 28 November 2005, the Task Force on Accounting Standards provided a report to the HLCM, endorsed by the Finance and Budget Network, which recommended that the United Nations System adopt the International Public Sector Accounting Standards (IPSAS) [CEB/2005/HLCM/R.24]. On 30 November 2005, the HLCM adopted the Task Force's recommendation that the United Nations System adopt IPSAS [CEB/2005/HLCM/R.25].

5. At its spring session for 2006, the CEB endorsed the United Nations systems-wide adoption of IPSAS by 2010. IPSAS will replace the UN System Accounting Standards as of the biennium starting in 2010 and all organizations in the United Nations systems have to be in compliance by 1 January 2010. In his Report to the General Assembly A/60/846/Add.3 dated 12 May 2006, the Secretary-General sought the adoption of IPSAS by the United Nations General Assembly.

[1] See document EC/55/SC/CRP.20

6. IPSAS represent international best practices for public sector and not-for-profit organizations' accounting already adopted by more than 30 Governments and a number of international organizations (OECD, EC, and NATO) and supported by the Board of Auditors. Among the benefits of adoption are: (1) improved internal control and transparency with respect to the utilization of assets and management of liabilities – in particular more accurate and complete recording of non-expendable equipment costs; (2) the alignment of United Nations accounting with the best public sector accounting practices; (3) better cost information and analyses that will support results-based management; and (4) consistency and comparability of financial statements within the UN system.

7. As for the system support, the move from legacy financial systems to MSRP is a step towards compliance with some aspects of IPSAS. UNHCR intends to fully comply with IPSAS by 1 January 2010. UNHCR will conduct a detailed system fit-gap analysis starting in the 3rd quarter of 2006, and will present the results to the March 2007 Standing Committee.

Changes to accounting policies

8. The most important feature of the adoption of IPSAS is that it will require changes in the basis of expenditure recognition from the current modified accrual basis of accounting to a full accrual basis (upon receipt of goods and services or of invoices rather than upon the issuance of a purchase order). In addition, non-expendable property, (property, plant and equipment) and inventory will have to be recorded as assets on the organization's financial statements, based on a systematic and rational valuation method for recording and depreciating assets and for determining the cost basis for inventory items.

9. More importantly, all end-of-service liabilities (accrued leave, termination indemnities and other benefits, repatriation grant, and after-service medical insurance liabilities) will have to be recognized on the Statement of Financial Position and be funded. At the end of 2004, all end-of-service liabilities amounted to US$ 335.5 million (2005 amount under revision, in the range of $400 million). As the organization currently operates on a pay-as-you-go basis for these liabilities, this amount is not reported as liabilities but only disclosed in the Notes to the Financial Statements (Note 16 refers). With the adoption of IPSAS, UNHCR will recognize this amount on the Statement of Financial Position starting in the Financial Statement covering the financial period 2010-2011. The liabilities will have to be funded over a reasonable period of time.

Presentation of Financial Statements

10. According to IPSAS, a complete set of financial statements is comprised of: a Statement of Financial Position, Statement of Financial Performance, Statement of changes in net assets/equity, Cash Flow statement and Accounting policies and Notes to the financial statements. The standards also recommend the inclusion of a comparison between budget amounts and actual amounts where the financial statements and the budget are on the same basis of accounting.

11. This implies major changes in the presentation of the organization's financial statements, ranging from the changes in the titles of the statements (e.g. from "Statement of Assets, Liabilities and Fund Balances" to "Statement of Financial Position" or "Balance Sheet"); to complete changes in the presentation of its financial statements, a review of the classification of revenue and expenses (nature vs. function), carrying non-expendable property and inventory costs in the balance sheet; to the inclusion of budget figures in financial statements.

Budget preparation and presentation

12. The adoption of IPSAS will require recording accounting transactions on an accrual basis. This creates a new challenge – reconciling the "gaps" between the budgets that are constructed on a "cash basis" and the financial statements which are based on "full accrual basis". As the budgets and financial

reporting are prepared on different basis, this requires complex reconciliation process. Harmonization between budget preparation, presentation and reporting vis-à-vis financial reporting in Financial Statements will one of the most difficult tasks before the implementation of the IPSAS.

System Configuration Changes

13. All of the changes described so far will entail system configuration changes. The Asset and Inventory configuration will need to be changed in order to account for acquisition of non-expendable property and inventory stocks on the Statement of Financial Position. Depreciation and Goods issued from Inventory will be accounted for as expenditure in the Income Statement. Accruals will be made when goods and services and invoice are received, and not at the Purchase Order stage. The links between Expenditure and Results in Results-Based Management have to be considered. A thorough and in-depth analysis of the current system (especially customizations made) will be required.

Cost Implications

14. The costs related to the implementation of IPSAS will be largely driven by the extent of system changes required. Training (and change management) costs will also be substantial. The cost of three staff members working full time on the implementation (US$ 442,000) have been budgeted for 2007. The systems gap-analysis referred to in paragraph 4 above will allow the organization to give more comprehensive cost estimates for implementation of IPSAS within UNHCR, and include these costs in the 2008 budget submission.

Conclusion

15. The compliance with IPSAS by 1 January 2010 will have significant implications in terms of budgetary and financial management for the Office. It should be noted that all end-of-service liabilities will have to be recognized and eventually funded over a reasonable period of time. In addition, UNHCR will have to update its Financial Rules, budgetary practices, financial accounting policies as well as administrative procedures.

Office of the Controller
9 June 2006