CONCLUSIONS OF THE 19TH MEETING
OF THE FINANCE AND BUDGET NETWORK
(UN Headquarters, 12-13 September 2012)

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INTRODUCTION

1. The Finance and Budget Network held its second session of 2012 on 12-13 September 2012 at UN Headquarters in New York. The meeting was hosted by UNDP and co-chaired by the Network’s spokespersons, Mr. Nick Jeffreys, Comptroller, WHO, and Mr. Darshak Shah, Deputy Assistant Administrator, Deputy Director and Chief Finance Officer, UNDP. The agenda as adopted is provided in Annex I. The list of participants is in Annex II.

2. All documents related to the session are available on the FB Network website at: http://www.unsceb.org/ceb/mtg/fb/september-2012

I. Welcoming remarks

3. The FB Network welcomed Jens Wandel, Director of Bureau of Management, Assistant Secretary General. Mr. Wandel highlighted the importance of the FB Network as a forum for discussion on financial matters affecting the entire UN System and for implementation of harmonized practices that can add value to the single agencies and the system as a whole. Mr Wandel also underlined the importance of continuing strong communication and collaboration between the FB Network and the HR Network for several crosscutting projects.

II. Presentation by Chair of the Task Force on Accounting Standards to the Finance and Budget Network: Task Force meeting activities and outcomes

[Mr. Chandramouli Ramanathan, Chairman of the Task Force on Accounting Standards]

Documentation:
- CEB/2012/HLCM/FB/13 - Status Report on the activities of the Task Force for HLCM
- Power-point Presentation on the outcome of the Task Force meeting

Background

4. The system-wide implementation of International Public Sector Accounting Standards (IPSAS) continues and the FB Network is regularly updated about the activities of the IPSAS Task Force.

5. The draft Status Report from the Task Force to HLCM was shared in advance for comments to both the FB Network and the Task Force. One item was pending in the HLCM report relating to the “Final results of the internal review of the system-wide project for continuation beyond 2013”. The FB Network was called to endorse the text to be reflected in the final HLCM report about the way forward of the project. In addition, the FB Network was called to approve the project’s budgetary and funding requirements for 2014-2015 and consider the issue of institutionalization beyond 2015.

Summary of discussions and current status

6. The latest Task Force meeting took place from 10 to 12 September 2012 in NY, before the FB Network meeting. Following are the main highlights of the Task Force meeting:

   a) The implementation of IPSAS among agencies continues according to plan. Eleven agencies have successfully implemented IPSAS and ten agencies are in the process of implementation to be completed by 2012. Three agencies are foreseen to implement IPSAS by 2014.

   b) During the Task Force meeting, the sharing of experience among agencies evidenced continuing challenges especially in the following areas: property management;
collecting information from country and field offices; a change of personnel in the audit team resulting in additional efforts of organizations; the changes required in the agencies’ IT system; and the gap between the financial surplus and the budgetary deficit that arises from the IPSAS accounting treatment of liabilities.

c) The comparison of financial statements across organizations which have implemented IPSAS is at its third phase - the focus of the third phase was twofold: (i) the comparative analysis of liabilities, and (ii) the review of the information that accompanies Financial Statements, based on the IPSAS Board’s Exposure Draft on Financial Statement Discussion and Analysis. The fourth phase will continue after organizations implementing in 2012 have finished their implementation - to include a broader set of organizations in the comparison and have more meaningful results. In the meantime, the Task Force would focus on a deeper analysis of a few areas of major interest.

d) A model note on the UNJSPF accounting treatment and disclosure was presented, reflecting the latest 2011 actuarial valuation results of the Fund and for inclusion in the financial statements of UN system organizations. The note will be subsequently presented to the Technical Group of the Panel of External Auditors (Technical Group) for endorsement.

e) The Task Force closely follows the IPSAS Board activities and its meetings. Four submissions were already made to the Board by the Task Force and two more are expected to follow.

f) The Technical Group made a presentation, noting their shared objective with the Task Force of high quality IPSAS-compliant financial statements with an unqualified opinion. In addition, the Technical Group commented that their IPSAS related discussions at the Technical Group meetings in recent years have mirrored Task Force discussions. The auditors were not currently aware of any open issues or items recommended by the Technical Group, and both the Task Force Chair and the Technical Group Chair agreed that there had been a smooth transition in leadership of the Technical Group and acknowledged the importance of the sustained partnership. A Task Force delegation will attend the Technical Group meeting in December 2012.

g) The four Task Force Working Focus Groups (WFG) presented their discussions and results to the Task Force:

i. WFG on IPSAS dividends (costs): the WFG worked towards a framework to classify the IPSAS benefits into three main areas: (i) benefits to operations; (ii) benefits to financial management; and (iii) benefits to other areas such as governance and staffing capacity. As requested by the HLCM, the costs related to IPSAS were also analyzed.

ii. WFG on Donor Reporting: Due to policy differences amongst organizations, meaningful comparability remains challenging. It is not currently feasible to create a best practice format as organizations tailor the reports to the needs of donors. The main purpose of the WFG remains knowledge sharing.

iii. WFG on Statement on Internal Control (SIC): The production of the SIC is not prescribed by IPSAS but the added value is more and more recognized by external auditors and by the Task Force. Due to the different maturity levels of organizations, a common standard template on SIC for all organizations is not currently a feasible approach. As such, the WFG will aim to devise 2-3 standard templates taking into account the different maturities.

iv. WFG on Accounting Treatment of Common Premises: The WFG noted that the determination of control should be on a case by case basis.

7. The results of the Internal Review of the System-wide IPSAS project for continuation beyond 2013 highlighted the need for a centralised team structure composed of one P5 staff, one P4 staff and one GS staff, supplemented by the use of consultants. The forecasted 2014-2015 budget based on this reduced resource level and agreed by the Task Force was $1.562 million.
8. The Task Force Chair further clarified that although the resource requirements for the system-wide IPSAS project for 2014-2015 are $1.562 million, the requirements are expected to be partially funded from savings from prior years, reducing the expected billing to Task Force members to $862,000.

9. The Task Force also recommended that prior to the end of 2015, consideration be given to institutionalizing a reduced team under the CEB framework beyond 2015, for supporting the on-going IPSAS compliance, taking care to ensure that adequate technical expertise be retained at a senior level.

**Conclusions and Action Points**

10. The Network endorsed the continuation of the system-wide IPSAS project until the end of 2015 at a reduced resource level of $1.562 million, consisting of one P-5, one P-4 and one GS staff, supplemented by the use of consultants and recommended this proposal to be included to the report to HLCM.

11. The Network agreed to apply the savings from prior years to the 2014-2015 biennium leaving the 2012-2013 budget unchanged, as most organizations have already concluded the 2012-2013 budget exercise. This will result in the funding requirements for 2014-2015, expected to be billed to Task Force members, to be $862,000.

12. The Network agreed to recommend to the HLCM to request another review of the system-wide IPSAS related activities before the end of 2015 for institutionalizing the support for continued IPSAS-compliance beyond 2015, through a further reduced team under the CEB framework.

**III. Cost-sharing arrangements of the UN Security Management System (special session)**

a) Briefing by the Working Group on Safety and Security Costs

[Sean O’Brian, Chair of the Working Group]

*Documentation: CEB/2012/HLCM/FB/12 - Briefing note - Working Group on Safety and Security Costs*

**Background**

13. The Working Group (WG) on Safety and Security Costs, led by WFP, worked to develop an approach that guarantees a transparent, consistent, predictable and equitable method for the allocation of the jointly financed part of the UN Department of Safety and Security (UNDSS) costs amongst participating agencies.

14. In March 2012, the WG finalized Discussion Paper 3 following two comment periods and discussions in the IASMN Steering Group, the full IASMN and the FB Network. That paper provided a comprehensive review of all identified cost-sharing options and created a framework for evaluating each option against the principles and objectives established by the WG.

15. The FB Network was presented with the document *CEB/2012/HLCM/FB/12 - Briefing note - Working Group on Safety and Security Costs* which identified a sub-set of three cost-share approaches, still to be discussed with the WG, and was called to provide feedback on the options in order to assess the appetite for change from the current methodology and to identify the most viable one. The identified options would be included in Discussion Paper 4 highlighting pros and
cons, and would be presented to the WG. Outcomes of the WG discussions and recommendations would be presented to the FB Network.

Summary of discussions and current status

16. The FB Network was informed that during consultations, the IASMN reaffirmed the current methodology as the best one and specifically discouraged any cost sharing option that utilized TRIP or the Security Level System as factors in determining cost apportionment. Eliminating the above mentioned approaches narrowed the options significantly and reintroduced the headcount method as the only viable one.

17. It was highlighted that the cost sharing methodology is by its nature a zero sum game and that by changing the methodology, inevitably some organizations would benefit from lower shares while other organizations would carry a greater financial burden.

18. The FB Network stressed again the need for more clarity about the services provided by UNDSS and many agencies were in favour of a clear separation of services and costs between central and local activities, in line with options B and C presented in document CEB/2012/HLCM/FB/12.

19. The appropriateness of the vacancy rate selected when preparing the UNDSS proposed programme budget as well as the fairness of the current minimum threshold amount for agencies that do not have field offices were questioned by a number of agencies.

Conclusions and Action Points

20. The FB Network complimented WFP for the thorough and comprehensive study which was achieved with full and fruitful collaboration with UNDSS.

21. The FB Network confirmed the appetite for changing the current cost sharing formula in line with the presented criteria, fully aware that some agencies will be impacted negatively by the change.

22. In line with the feedback received, the focus of the WB will be on identifying two/three workable options to be further explored. Depending on the magnitude of the change, especially for agencies that would face a higher share of costs as a result of the new formula, a phased implementation might be considered.

23. Discussion Paper 4, to be issued within four weeks of the FB Network meeting, will include more in-depth information about the methodology of compiling the costs and about the different nature of the services provided by UNDSS covered by the jointly financed costs. As one of the overarching principles of the UNDSS costs is that there should be no program without security, these specifications will help clarifying how security related costs can be factored into the programs. The starting time of applicability of the new methodology will depend on the magnitude of the derived change.

24. The WG will organize a video conference before the end of the year to update the FB Network on the progress made and the points raised by the Network members.
b) UNSMS 2010-2011 and 2012-2013 cost-shared budgets
[Darshak Shah, FBN Co-Chair, UNDP]

Documentation:
- CEB/2012/HLCM/FB/11 - Note on Budgetary and billing procedures for UNSMS jointly financed activities, 2010-2011;
- CEB/2012/HLCM/FB/7- UNSMS 2012-2013 indicative apportionment

Background

25. With regard to the UNSMS 2010-2011 expenditures, the FB Network was called to consider for settlement the pending amount of USD 6.4 million for the biennium 2010-2011. The amount derived from the difference between the revised appropriation of $197.8 million and the final adjusted expenditure of $204.2 million as indicated in Annex I of document CEB/2012/HLCM/FB/11.

26. Furthermore, the FB Network was called to consider for approval the total 2012-2013 Programme Budget of the UNSMS (also in connection with the corresponding initial appropriations) in the amount of $218.6 million as presented in the document CEB/2012/HLCM/FB/7 and any related procedural issues regarding its billing arrangements.

Summary of discussions

27. The FB Network was preliminary informed that only eight agencies had not yet paid their share of the $6.4 million, and the outstanding amount was $1.5 million.

28. Members of the FB Network reiterated the point, highlighted in previous discussions, that there is a structural difference in the budget process of the UN Secretariat, where the budget approved by the General Assembly (initial appropriation) is then revised twice, automatically (revised and final appropriations) during the biennium, and the agencies which are forced to manage their funds within the initially approved budget for every biennium. This makes it impossible for agencies to accommodate increased costs that arise during the biennium, should the actual UNSMS related expenditures be higher than the initial appropriation.

29. Furthermore, the agencies highlighted that the vacancy rate used by the UN Secretariat for the UNDSS budget is not realistic and is likely to continue leading actual final expenditures being higher than the initial appropriation. Therefore, if the current process stays unchanged, the issue of underfunding is likely to repeat itself in future biennia. This is confirmed by the 2012–2013 proposed UNSMS budget of $218.6 million, higher than the initial appropriation of $205.2 due to the adjustment to actual encumbrancy rates. Especially in current challenging financial conditions faced by a number of organizations it is therefore crucial to find a viable and permanent solution to the budget process.

30. With regard to the 2010-2011 final expenditure of $204.2 million, UNDSS highlighted that the likely occurrence of an upward revision was already brought to the attention of the FB Network in December 2010.

31. With regard to the 2012–2013 budget, UNDSS informed that the amount of USD 218.6 million was based on a zero real increase of workforce and on the largest possible reduction of non-staff costs, thereby making it challenging to further reduce it. Furthermore, it was clarified that the amount was derived from the best estimate of exchange rates and inflation rates.

32. As in the past there had been instances where the actual expenditures were lower than the budget, thereby leading to a return of funds to the agencies, a suggestion was made to separate the UNDSS related costs from the Jointly Financed Activities (JFAs) and create a segregated fund where the amount underspent in one biennium could potentially be used to cover for over-expenditures in the following biennium.
33. With regard to the actual apportionment of the expenditures based on headcounts, members of the FB Network expressed the need for a peer review among organizations to explain significant differences in headcounts between biennia.

34. There was consensus amongst the FB Network that the initial appropriation should be linked as much as possible to the best forecast of actual expenditures, with the understanding that variables like foreign exchange movements and inflation rates that impact the final actual expenditures will only be known after the agencies approved their respective budgets. Preferably, a maximum ceiling amount should be agreed upon, with a limited percentage of leeway that should be communicated to the agencies’ governing bodies upfront.

35. The FB Network unanimously raised the need for close communication and continuous updates from the UNDSS about any revision to the 2012-2013 $218.6 estimated amount and future biennia so as to ensure that agencies can implement necessary budgetary measures.

Conclusions and Action Points

36. The Organizations exceptionally and without setting a precedent for the future agreed to fully pay the respective shares of the 2010-2011 UNSMS cost shared budget in the amount of $204.2 million representing the final actual adjusted expenditure (c.f. $197.9 million of initial appropriations), in adherence to the fact that the services were provided by the UNDSS. It was noted that out of the unfunded amount of $6.3 million, $1.55 million remains to be paid and will be paid.

37. Organizations agreed to pay the individual shares of an estimated total cost for UNSMS for the biennium 2012-2013 up to a maximum ceiling of $218.6 million, as estimated by UNDSS on the basis of the best expectation of vacancy and realistic inflation rates for the biennium. This is subject to the need to improve the governance process and explanations for the way in which these figures are arrived at and billed to the agencies.

38. The Network agreed to use the CEB Headcount as of 31 December 2010 for the apportionment of the 2012-2013 UNSMS budget as published in CEB/2012/HLCM/FB/7 plus a correction in the UNFPA headcount figure.

39. The Network further agreed to use a new CEB Headcount as of 31 December 2011 for the apportionment of the 2014-2015 UNSMS budget, to be finalized in late fall 2012. The headcount figures as finalized by the CEB Secretariat and published will be considered as final and not subject to any further revisions.

40. In any new headcount exercise, explanations from organizations that have significant changes in the headcount from the previous period would be sought.

41. UNDSS committed to:
   - provide Organizations with an accurate and transparent explanation of the criteria for the agreed estimated total costs, particularly with respect to the use of an accurate and realistic vacancy rate estimate
   - with the respect to the approved ceiling of $218.6 million for the biennium 2012-2013, inform and seek approval from organizations in a timely manner over the biennium (i.e. every six months or more frequently, as necessary) of any actual and/or foreseen changes in the estimated costs and of reasons underlying such changes

42. Looking forward to the absolute need to address the structural issues currently preventing a viable a sound process for the budgeting of jointly financed costs by UNSMS member
organizations, the UN Secretariat agreed to develop and present the 2014-2015 UNSMS cost shared budget with a detailed explanation of the system-wide context and governance of the jointly financed Security Management System, providing the strong underlying rationale for realistic estimates of vacancy rates and other cost components, leading to accurate, transparent and highly reliable proposed programme budgets, for timely substantive review by the IASMN and financial assessment and approval by the FB Network.

43. The General Assembly document should state that not using realistic vacancy rates would have an impact on other UNSMS member organizations.

44. The Network agreed to establish a working group – to review the governance and process related to the development and approval of JFA budgets and specifically, the jointly-financed UNSMS, including with respect to “definitions” and drawing on some of the principles as specified in the above points.

IV. Status and Action of the FB Network Initiatives from the HLCM Plan on Harmonization of Business Practices (HBP) in the UN System

a) Common Treasury Services
   [Nick Jeffreys, FBN Co-Chair, WHO]
   Documentation: Presentation on the “Banking Services across the UN System” Project and other Common Treasury Services initiatives

   Background

45. In 2009 the FB Network established the Working Group on Common Treasury Services (WG) tasked with setting up a web-based knowledge sharing tool and conducting a feasibility study for a harmonized approach to treasury services within the UN system. The knowledge sharing tool – the Treasury Community of Practice (TCOP) website was fully launched and functional by January 2010.

46. A feasibility study of the Common Treasury Services was conducted by KPMG from November 2010 and the final report was issued in July 2011. The study analysed and addressed with its recommendations four distinctive areas of common treasury services: banking services, foreign currency management, payments and investments. A Project Implementation Team (PIT) for each of the four areas was set up.

   Summary of discussions and current status

47. Banking: PIT is led by UNHQ. The HLCM approved funding of $1.1 million for this project, with the goal of adopting a coordinated approach to both procurement and administration of banking services. This includes standardized legal agreements with key regional banks to serve all UN agencies on the field. The expected fee reduction across the entire UN system is estimated to $1.2-$3.3 million annually which is going to largely benefit agencies with extended field presence.

48. Foreign currency management: PIT is led by UNHCR and WFP. The goal is to enable access for agencies to electronic trading platforms (360T, FxAll, Bloomberg) so at to obtain multiple quotes from major banking counterparties and ensure best execution at more competitive prices with tighter bid – offer spreads by using collective banking providers. This is particularly effective for exotic currencies which do not have very liquid markets. The savings for agencies result from the difference between the obtained quotes and the official UN exchange rates quoted on UNORE,
used for accounting purposes. Based on historical trading volumes, counterparties and spreads (the baseline), the KPMG study had indicated potential gains for agencies in the range of $4 million on conversion flows of $4 billion, equal to 0.1%, or $10-$20 million on the higher end, equal to 0.25%-0.5%. This amount was confirmed by an analysis performed on 2011 actual data by the PIT, which also indicated that the highest dollar value and percentage saving was obtained in the trading of Pakistan Rupees.

49. Investments: PIT is led by UNHQ. The goal is to share information about safe investments, both in terms of banking counterparties and governments, and risk management practices. This has largely been achieved through the Treasury Common Operating Platform (TCOP) and the first Investment Forum held on 19th June where 19 agencies participated. Furthermore, the possibility of larger investment pooling though the management by UNDP and UNHQ is being investigated, and an Investment Framework document with proposed guidelines and common principles is currently being drafted by UNHQ and UNDP.

50. Payments: PIT is led by UNDP. The goal was to increase efficiency of travel payments and low-value purchases for agencies, under an umbrella agreement for payment cards which was negotiated with Citi Bank by UNHQ.

➤ Conclusions and Action Points

The FB Network:

51. Expressed broad appreciation for this project in terms of information and knowledge sharing in the area of treasury services and highlighted the added value both on a collective level and for individual agencies.

52. Emphasized the need for continuous work on harmonization and efficiencies, particularly on the banking services, not only at HQ but also at country level to streamline the number of banking counterparties used and to lever on volume to achieve cost reductions.

53. Requested continuous updates on this project including on common RFPs at HQ and at country level drawing on the lessons learned from the banking RFPs in Afghanistan and Uganda.

b) System-wide Financial Statistics Database

[Richard Barr, CEB Secretariat]

Documentation: Presentation on Financial Statistics database Project and Report of the SG on the Budgetary and Financial Situation of the Organizations of the UN System

Background:

54. The goals of this project, launched in March 2011, were to improve the consistency of data collection from agencies, provide timely consolidated financial data, analysis and reports for the various stakeholders, integrate existing databases, eliminate data collection overlaps and reduce workload for agencies.

55. The data collected and used is public, from the agencies’ financial statements and is not adjusted for the purpose of this exercise.

Summary of discussions and current status

56. The Project Manager indicated how the above mentioned goals were largely achieved. The terminology for the financial items, especially revenue and expenses, was aligned to IPSAS and consistency amongst the agencies was reached through a common set of classifications.
33 agencies submitted data by the end of June 2012, which allowed for the CEB to produce the GA A/67/215 report Budgetary and financial situation of the organizations of the United Nations system on time by the end of July, and for the data to be sent to DESA by the end of August. Furthermore, the data collection allowed for the DESA questionnaire on the Operational Activities for Development to be eliminated as it was possible to use the same data feed. The data will be published on the new CEB web site which is currently in a test environment and will be launched in fall 2012.

Special appreciation was expressed to UNWTO, as the first agency to submit correct data, and WIPO whose data was used as an example for the format of the data submission. Another example of streamlining was UNOPS, who submitted the required correct data within six weeks.

The FB Network was informed that the current data is not ready to be used for Segment Reporting under IPSAS as there is currently not a single set of segments across agencies but several, e.g. by funding type, thematic, by geographical sector. A further challenge is the absence of a single country code or location in chart of accounts. However, the CEB will map these so that agencies will not need to change their Charts of Account.

The FB Network was also informed that discussions were undertaken with OECD in order to explore possibilities to build on the work done for their reporting, but challenges may arise as the data needed by OECD is of broader spectrum than the one currently collected for the database. However, some synergies are possible with the International Aid Transparency Initiative (IATI).

Conclusions and Action Points

A number of lessons learned emerged from the first round of data collection, including that requests for data to agencies should be not be sent out too early and should be made as user friendly as possible. Additionally, in order to simplify the agencies’ input submission, a set of prior years’ tables will be sent so as to ensure consistency across years.

Each agency should indicate a focal point for the data collection and data validation so as to facilitate the dialogue with the CEB focal point and with potential queries by other agencies.

It is highly recommended that the agencies set up the queries for data collection in advance, as these will remain unchanged from year to year and will greatly reduce the agencies’ workload when it comes to the collection of data for the following year.

Data collection for 2012 will start in early spring 2013 after the closing of the agencies’ Financial Statements.

The FB Network will be briefed about the costs incurred for the project implementation and on the value of the return of the investment once the project is complete.

V. Statement on Internal Control in Financial Reports – Risk Management and Accountability Framework

[Nick Jeffreys, FBN Co-Chair, WHO]

Background

One of the four Focus Groups of the IPSAS Task Force discussed the issue of the Statement on Internal Control (SIC) – please refer to Agenda Item III -. The SIC is not a requirement of IPSAS but six Organizations are introducing it to their financial reports as part of overall improvements in the quality and transparency of financial information submitted to their Member States and as recommended by their external auditors in line with best practice.
Summary of discussions and current status

67. The FB Network was briefed about the findings and discussions of the IPSAS Task Force. Among agencies that implemented the SIC, there are similarities especially in the structure and sections of the template for the attestation. However, differences arise in definition and interpretation of risks and risk management, as well as in the actual levels of maturity of controls and risk management practices within the agencies.

68. FB Network unanimously highlighted that the issue of internal controls goes far beyond financial management, as risk management covers all operational areas, including but not limited to HR, procurement and IT. Implementing agencies reported that having the support of the organizations’ Senior Management was a key driver for the successful implementation of the SIC.

69. Lessons learned from agencies who have implemented the SIC show that, while the finance departments played a role as focal points in collecting the information and producing the final document, obtaining attestation of implemented controls from individual divisions and departments was crucial. This exercise has proven to be useful to clearly define responsibilities and accountabilities, as well as to identify new areas of risk within organizations.

70. The importance of a clear articulation of internal controls within the organizations, as well as the awareness of the implications of the certification itself for Management and for agencies as a whole should be raised in-house, before aiming for a common template for the SIC.

Conclusions and Action Points

71. There was agreement within the FB Network that, due to the different stages of maturity, as well as different business models especially among decentralized versus centralized agencies, proposing a standard template for the production of a SIC is premature at this stage. However, considering the appetite and positive response emerged from the discussion in the IPSAS Focus Group, that evidenced more synergies than differences in current approaches, as well as the trend shown in requests from external auditors, there was consensus on the value added of a common approach to risk management practices and, as a starting point, sharing of best practices, lessons learned and a common voluntary framework should be pursued.

72. The FB Network agreed that discussion should continue and be escalated to HLCM to give the matter the broader perspective required by its nature, so as to seek consensus on a common voluntary framework.

VI. Accrual budgeting

[UNDP]

Documentation: CEB/2012/HLCM/FB/14 - UNDP Note on Accrual Budgeting in the UN System

Background

73. At its meeting in February 2012, the FB Network considered a high-level note from UNDP presenting results on their research on accrual budgeting. The Network noted that the concept of accrual budgeting is not necessarily well defined in the context of the Public Sector, and that the business case for accrual budgeting in the UN system can be perceived as premature and needs to be carefully considered, especially as this could distract organizations from the implementation of IPSAS.
Summary of discussions and current status

74. Further analysis was undertaken by UNDP and is reflected in CEB/2012/HLCM/FB/14. The note covers what accrual budgeting stands for, experiences from different entities in particular Governments and Private Sector firms, as there is currently no UN entity that implemented accrual budgeting and the advantages and disadvantages of adoption, and the impact on the UN.

75. The research highlighted that the implementation of accrual budgeting in the UN context would be a significant change in the current Budget and Appropriation Framework. It would require system change and training, and would impact donors and reporting. Therefore, a detailed cost benefit analysis should be sought to understand whether there will be value added and benefit to the UN System.

76. The FB Network noted that most Member States’ budgets are cash based, and this could pose an additional challenge in the level of understanding of accrual based budgeting. Furthermore, the link with Results Based Budgeting could pose challenges in the implementation area.

77. Accrual Budgeting requires strong and continuous communication with Member States, and detailed explanation of variances between reporting periods, in light of the fact that it includes some elements of qualitative judgement and estimates, e.g. on the useful life or depreciation of assets. Capital budget and long term liabilities are primary items that would be impacted by accrual based budgeting and are currently closely monitored by Agencies and Member States.

➤ Conclusions and Action Points

78. The FB Network noted that the matter of accrual budgeting within the UN System is still in an early stage and is not mandatory under IPSAS.

79. The FB Network highlighted the political implications and sensitivity of the budget and its nature of a programmatic tool within the organizations. In this light, concrete proposals for accrual based budgeting should be treated with caution and implications on e.g. funding requirements by Member States should be carefully assessed in advance.

80. However, in light of the growing number of agencies implementing IPSAS and the likelihood of requests by external auditors, agencies agreed that the matter should be further analysed with the initial goal of sharing knowledge and best practices.

81. The FB network agreed to set up a Working Group led by UNDP with the aim of starting the process of analysing the impact of accrual based budgeting while prioritizing more relevant items like capital budget and ASHI liabilities. The Working Group should include representatives from both assessed and voluntary agencies and ideally involve staff from programmatic areas of organizations, in order to ensure the right link with strategic planning and Result Based Budgeting.

82. While the item is not of prime urgency, a progress report will be presented to the forthcoming FB Network meetings and the CEB Secretariat will be kept informed about the activity of the Working Group.
VII. System-wide Anti-Money Laundering Policy

[UNHCR]

Documentation: CEB/2012/HLCM/FB/10 – Note by UNHCR on Anti-Money Laundering

Background

83. In its report on the accounts ending 31 December 2011, the United Nations Board of Auditors (BoA) recommended that UNHCR develop comprehensive guidelines on Anti-Money laundering.

84. UNHCR therefore produced a concept paper and guidance on anti-money laundering laying out the key requirements for identifying main issues in Anti-Money Laundering and shared it with the FB Network, which was called to consider the matter with a view to building a Working Group co-chaired by UNHCR and joined by interested organizations to assess the risks and formulate a general system-wide policy on anti-money laundering.

Summary of discussions and current status

85. The FB Network noted that the issue of Anti-money laundering can be linked to the broader concept of Enterprise Risk Management (ERM) which encompasses a broad spectrum of departments across the organizations, including but not limited to finance, procurement, and ethics offices. Some agencies already have or are in the process of revising their ERM Framework.

Conclusions and Action Points

86. While recognizing the importance of the matter for the UN System, the FB Network felt that the development of a joint policy on Anti-Money Laundering is not to be considered a priority for the time being, also in light of the number of more pressing issues and changes to be implemented within the organizations.

87. As UNHCR will need to address the recommendation by their BoA, it will work with UNODC to develop the policy and inform the FB Network on key developments in due course.

VIII. After Service Health Insurance (ASHI) - Harmonization of practices and pooling & investment of ASHI funds

[Nick Jeffreys and Darshak Shah - FBN Co-Chairs]

Documentation: CEB/2012/HLCM/FB/15 - Results of the August 2012 survey

Background

88. At its February 2012 video-conference the FB Network requested the CEB Secretariat to issue a new version of the ASHI survey, capturing ASHI liabilities but also including new sections on funding plans, assessed voluntary/earmarked funds, and best practices by other organizations. The FB Network was presented with the results of the new survey.

89. The Network was also requested to discuss the status of proposal made to the UN Joint Staff Pension Fund for pooling and investment of ASHI funds of the participating UN organizations.

Summary of discussions and current status
90. Following were the main results from the new survey and points raised by FB Network:

a) Funding of the liability

The survey evidenced several differences across agencies. The level of funding of the ASHI related liabilities varies significantly and discussion about the optimal funding level and mechanism are on-going among organizations. This is particularly relevant bearing in mind the impact of growing level of liabilities and their recognitions, as required by IPSAS. It is considered unlikely that auditors will require mandatory full funding of the liability, but agencies will be required to present at least a partial funding plan.

Funding plans will have to be presented to Member States with compelling arguments, including the risks of future inability to fund the liability, should not enough funds be set aside. This is especially relevant for voluntary agencies.

The discussion evidenced that funding sources differ significantly among agencies. For example, some agencies introduced funding sources through staff payroll reductions.

b) Management of the funds

The issue about separate or co-mingled management of the funds was discussed. Some agencies are currently undertaking a joint RFP for the external management of the ASHI funds, after discussion with UNJSPF stagnated.

Optimal management of the ASHI related funds is crucial in current low interest rate environment to narrow the gap between the return on the investments and the yield used in the actuarial studies underlying the valuation of the liabilities. This rate is currently around 4% and therefore impossible to obtain if investing in a single asset class mandate or only in fixed-income.

c) Entitlements and costs of the funding

The new survey evidenced other significant differences in the entitlements and in the split in the funding cost between staff and organizations.

d) Assumptions underlying the study

Agencies highlighted the importance of the understanding and validation of the assumptions underlying the actuarial studies, which are estimates, but ultimately drive the amount of the liability.

91. The FB Network expressed appreciation for the additional information included in the new survey and requested the CEB to repeat the exercise annually, including more granular information for areas like funding sources. The CEB will seek input from all agencies so as to include, in the next survey, all the elements deemed important of the agencies.

➤ Conclusions and Action Points

92. In consideration of the relevance of this topic for all agencies, and the large space for knowledge sharing and synergies in funding approaches and investment opportunities, The FB Network agreed to set up a Working Group lead by the UN Secretariat to analyse the agencies’ current funding options and to propose joint principles for funding schemes. The result of the study will be presented to the FB Network in a years’ time.
IX. Any Other Business

a) Next FB Network face-to-face meeting

Date

93. Proposal was made to schedule the next Face-to-Face FB Network for the last week of June 2013 in order to ensure better attendance and a longer time-frame between the FB Network meeting and the HLCM which takes place in September. This would allow for better preparation for the issues resulting from the FB Network meeting to be escalated to the HLCM. The proposed date will try to accommodate the Agencies’ needs and take into consideration the Agencies’ Governing Bodies meeting dates so as to minimize conflicting dates. The proposed date will be communicated in due course.

Location

94. Proposals were made by WHO in Geneva and FAO in Rome. The final venue will be communicated in due course.

b) Proposal by UNFPA to start a joint work by the FB and HR Networks on: “System-wide approach to deal with accounting for the financial liabilities on the transfer of staff with the UN system”

[UNFPA]

Documentation: CEB/2011/HLCM/FB/16 – Issues paper by UNFPA for preliminary consideration by the FB Network

Background

95. Upon transition to IPSAS, UN System organizations recognize all employee benefit liabilities based on the full accrual basis of accounting. Employee benefit liabilities include the monetary value of the annual leave liability, home leave liability, repatriation grant and any other employment related liabilities that accrue to staff members as a result of their employment within the organization.

96. In case of a transfer of staff or secondment arrangement, current practice is that the “transferring” organization enjoys the benefit of eliminating the accrued liability relating to the transferred staff, whilst the “receiving” organization bears the burden of creating an accrual in respect of the monetary value of the benefits accrued to the staff member at the date of the transfer while no actual transfers of funds occurs. The current Inter – Agency Agreement on secondments, transfers and loans does not address the issue of the transfer of the liabilities and the current practice might discourage staff mobility amongst organizations.

97. The FB Network was called to share views on this matter with the aim of potentially proposing a formalization of the accounting and funding treatment for these liabilities on the transfer of staff.

98. The FB Network was also called to assess whether the matter should be brought to the attention of the HLCM.

Summary of discussions and current status

99. It was highlighted that the matter is cross cutting between the FB Network and the HR Network. The HR Network currently has a Working Group tasked with analysing issues that can be an obstacle to staff mobility across the UN.
100. Before raising the issue with HLCM, members of the Network suggested to assess the magnitude of the issue and to gather statistics on trends between net receivers and/or net receiving agencies.

101. The discussion also highlighted the different nature of liabilities linked to the staff transfer, whereby some are of a shorter nature and some, like the ASHI have longer maturities.

➤ **Conclusions and Action Points**

102. The FB Network agreed to include specific questions related to the matter into the revised ASHI survey to be issued next year, in order to assess the magnitude and trend of the phenomenon amongst the UN System.

103. The results of the survey will be provided to the Working Group of the HR Network for inclusion in their analysis. Proposal to hold a joint FB Network and HR Network meeting on cross cutting issues will be explored in due course.

**X. Role of the FB Network in the next stages of Delivering as One – QCPR negotiations – Coordination with UNDG**

[Remo Lalli, CEB Secretariat]

Documents: excerpts from:
- Report on the 2012 Independent Evaluation of the Lessons Learned from DaO
- Outcome document: Tirana High Level Inter-governmental Conference on DaO
- SG’s report on the Quadrennial comprehensive policy review of operational activities for development of the United Nations system (QCPR)
- CEB/2012/HLCM/FB/18 – Status of discussion related to the Simplification & Harmonization of Business

**Background**

104. The Tirana Outcome Document called on the Secretary-General to mandate the UNDG Chair to initiate a process leading to the establishment of a framework at the HQ level and the formulation of Standard Operational Procedures (SOPs) for UNCTs that voluntarily adopt DaO. The development of the SOPs would therefore be undertaken by the relevant UNDG Working Mechanisms in full collaboration with HLCM Networks. The final document is expected to be finalized by the end of 2012. HLCM and its Networks are called to provide concrete input, relevant to their operational responsibilities, to the UNDG High Level Group that is leading this process.

105. The topic is of particular relevance also in light of the negotiations of the Quadrennial Comprehensive Policy Review (QCPR) of operational activities for development which will identify the role of HLCM in the process of Simplification and Harmonization of Business Practices, and in light of the fact that a relevant number of countries is expected to join the DaO initiative.

106. Over the past months, there has been intense activity from the HLCM, HLCP and UNDG in connection with the DaO and in support of development operations at the field level. A number of studies on strength and weaknesses of the process were conducted by DESA. The Independent Evaluation of DaO also highlighted success areas and bottlenecks of the process.

**Summary of discussions and current status**

107. The FB network was informed about the need to raise awareness of the financial community on the relevance of their contributions to the process of the developments of the SOPs. Timely and proactive input is crucial in the development phase of the SOPs in order to improve consistency
between the financial practices at HQ and field level and to ensure, as much as possible, a unified and consistent approach to management, procurement and HR practices.

108. Key areas of interest which will require input from the HLCM networks were identified to be vertical versus horizontal accountability and delegation of authority of financial resources in the UNCTs vis a vis their role in the individual organization; procurement practices (including but not limited to amount ceilings for services); financial and budgetary practices at field level, as well as HR matters which are the scope of the HR network.

➤ Conclusions and Action Points

109. The Agencies will be briefed in more detail when the SOPs will be finalized. In the meantime, the Agencies will provide the CEB Secretariat with focal points to address specific questions to actively engage in the discussions and provide timely inputs into the process.
Annex 1 – Agenda

1) Opening of the meeting

2) Presentation by Chair of the Task Force on Accounting Standards to the Finance and Budget Network: Task Force meeting activities and outcomes

   - **Documentation:**
     - CEB/2012/HLCM/FB/13 – Status Report on the activities of the Task Force for HLCM
     - Power-point Presentation on the outcome of the Task Force meeting

3) Cost-sharing arrangements of the UN Security Management System (special session)

   - **Documentation:**
     - CEB/2012/HLCM/FB/12 - Briefing note - Working Group on Safety and Security Costs
     - CEB/2012/HLCM/FB/11 - Note on Budgetary and billing procedures for UNSMS jointly-financed activities, 2010-2011
     - CEB/2012/HLCM/FB/7- UNSMS 2012-2013 indicative apportionment
       - a. Briefing by the Working Group on Safety and Security Costs
       - b. UNSMS 2010-2011 and 2012-2013 cost-shared budgets
       - c. UNSMS 2010-2011 and 2012-2013 cost-shared budgets

4) Status and Action of the FB Network Initiatives from the HLCM Plan on Harmonization of Business Practices (HBP) in the UN System

   - **Documentation:**
     - Presentation on the “Banking Services across the UN System” Project and other Common Treasury Services initiatives
     - Presentation on Financial Statistics database Project and Report of the SG on the Budgetary and Financial Situation of the Organizations of the UN System
       - a. Common Treasury Services
       - b. System-wide Financial Statistics database

5) Statement on Internal Control in Financial Reports – Risk Management and Accountability frameworks

   - **Documentation:**
     - Presentation by WHO

6) Accrual budgeting

   - **Documentation:**
     - CEB/2012/HLCM/FB/14 - UNDP Note on Accrual Budgeting in the UN System

7) System-wide Anti-Money Laundering Policy

   - **Documentation:**
     - CEB/2012/HLCM/FB/10 – Note by UNHCR on Anti-Money Laundering
8) After Service Health Insurance (ASHI) - Harmonization of practices and pooling & investment of ASHI funds

- **Documentation:**
  - CEB/2012/HLCM/FB/15 - Results of the August 2012 survey

9) Role of the FB Network in the next stages of Delivering as One – QCPR negotiations – Coordination with UNDG

- **Documentation (excerpts from):**
  - Report on the 2012 Independent Evaluation of the Lessons Learned from DaO
  - Outcome document: Tirana High Level Inter-governmental Conference on DaO
  - SG’s report on the Quadrennial comprehensive policy review of operational activities for development of the United Nations system (QCPR)
  - CEB/2012/HLCM/FB/18 – Status of discussion related to the Simplification & Harmonization of Business

10) Any other business
   a. Proposal by UNFPA to start a joint work by the FB and HR Networks on: “System-wide approach to deal with accounting for the financial liabilities on the transfer of staff with the UN system”

- **Documentation:**
  - CEB/2011/HLCM/FB/16 – Issues paper by UNFPA for preliminary consideration by the FB Network

11) Conclusions
### Annex 2 – List of Participants

**Co Chairs:**
- Nicholas R. Jeffreys (WHO)
- Darshak Shah (UNDP)

<table>
<thead>
<tr>
<th>Organization</th>
<th>Name and Title</th>
<th>Email address</th>
</tr>
</thead>
</table>
| **UN**       | Mr. Chandramouli Ramanathan  
Deputy Controller, Department of Management & Chair-Task Force on Accounting Standards | ramanathanc@un.org                   |
|              | Mr. Carlos Perrone  
Treasurer                                                                 | perronec@un.org                      |
|              | Mr. Richard Tyner  
Chief, Global Banking Operations                                                | tyner@un.org                         |
|              | Ms. Anne Marie Pinou  
Special Assistant to the USG for Safety and Security and Secretary of the IASMN | pinou@un.org                         |
| **ILO**      | Mr. Greg Johnson  
Treasurer and Financial Comptroller                                             | johnson@ilo.org                      |
| **FAO**      | Mr. Aiman Hija  
Director and Treasurer, Finance Division                                          | Aiman.hija@fao.org                   |
| **UNESCO**   | Ms. Nutan Wozencroft  
Chief Financial Officer, Bureau of Financial Management                            | n.wozencroft@unesco.org              |
| **IAEA**     | Ms. Rula Abboud  
Section Head, Finance and Accounting Section                                        | R.Abboud@iaea.org                    |
| **ICAO**     | Mr. André Parson’s  
Financial Controls and Standards Adviser                                               | aparsons@icao.int                    |
| **WHO**      | Mr. Nick Jeffreys  
Comptroller                                                                 | jeffreysn@who.int                    |
| **ITU**      | Mr. Alassane Ba  
Chief Financial Resources Management Department                                         | alassane.ba@itu.int                  |
| **IMO**      | Ms. Patricia Richards  
Deputy Director/Head, Financial Services                                                   | prichard@imo.org                     |
| **WIPO**     | Mr. Steven Shepherd  
Financial Accountant (IPSAS Specialist)                                               | steven.shepherd@wipo.int             |
| **IFAD**     | Mr. Iain Kellet  
Chief Financial Officer and Head, Financial Services Division, Financial Operations Department | i.kellet@ifad.org                    |
|              | Ms. Natalia Toschi  
Asset Liability Management Officer, Financial Planning and Risk Analysis Unit          | n.toschi@ifad.org                    |
| **UNWTO**    | Ms. Mónica Gonzalez  
Project Coordinator/Budget and Finance Programme                                        | mgonzalez@unwto.org                  |
| **UNIDO**    | Mr. George B. Assaf  
Director and Representative of UNIDO to the UN                                               | assaf @un.org                        |
|              | Mr. Ralf Bredel  
Liaison Officer, UNIDO New York Office                                                 | bredel@un.org                        |
| **UNDP**     | Mr. Darshak Shah  
Deputy Assistant Administrator, Deputy Director and Chief Finance Officer               | darshak.shah@undp.org                |
|              | Ms. Odette Anthoo  
Manager, Financial Policies and Procedures                                                | odette.anthoo@undp.org               |
| **PAHO**     | Mr. Michael Lowen  
Manager, Financial Resources Management                                                  | lowenm@paho.org                      |
|              | Mr. Esteban Alzamora  
Manager, Chief Accountant                                                               | alzamore@paho.org                    |
| **UNAIDS**   | Mr. Joel Rehnstrom  
Director, Financial Management and Accountability                                          | rehnstromj@unaids.org                |
<table>
<thead>
<tr>
<th>Organization</th>
<th>Name and Title</th>
<th>Email address</th>
</tr>
</thead>
</table>
| **UNFPA**    | Mr. Subhash K. Gupta  
Director, Division for Management Services | skgupta@unfpa.org |
|              | Mr. Andrew Saberton  
Chief, Finance Branch, | saberton@unfpa.org |
|              | Ms. Iva Goricnik  
Chief, Budget Section | goricnik@unfpa.org |
|              | Mr. Gela Abesadze  
Chief Accounts Section | abesadze@unfpa.org |
| **UNHCR**    | Ms. Kumiko Matsuura-Mueller  
Controller and Director, Division of Financial and Administrative Management (DFAM) | matsuura@unhcr.org |
|              | Mr. Brendan Daly  
Special Advisor | daly@unhcr.org |
|              | Mr. Omar Abdi  
Comptroller | oaabdi@unicef.org |
|              | Ms. Clair Jones  
Deputy Director, Division of Financial and Administrative Management, Budget | cjones@unicef.org |
|              | Mr. Barry Wentworth  
Deputy Director, Division of Financial and Administrative Management, Finance | bwentworth@unicef.org |
|              | Ms. Diane Kepler  
Deputy Director, Division of Financial and Administrative Management, Accounts | dkepler@unicef.org |
|              | Mr. Michael Nolan  
Deputy Director, Division of Financial and Administrative Management, Administrative Management Services | mnolan@unicef.org |
|              | Ms. Mirella Folkson  
Senior Advisor, Finance | mfolkson@unicef.org |
| **UNICEF**   | Mr. Omar Abdi  
Comptroller | oaabdi@unicef.org |
|              | Ms. Clair Jones  
Deputy Director, Division of Financial and Administrative Management, Budget | cjones@unicef.org |
|              | Mr. Barry Wentworth  
Deputy Director, Division of Financial and Administrative Management, Finance | bwentworth@unicef.org |
|              | Ms. Diane Kepler  
Deputy Director, Division of Financial and Administrative Management, Accounts | dkepler@unicef.org |
|              | Mr. Michael Nolan  
Deputy Director, Division of Financial and Administrative Management, Administrative Management Services | mnolan@unicef.org |
|              | Ms. Mirella Folkson  
Senior Advisor, Finance | mfolkson@unicef.org |
| **WFP**      | Mr. Robert Opp  
Director, Business Innovation and Support Office (RMI) | robert.opp@wfp.org |
| **ITC**      | Mr. KC Tan  
Chief Financial Management | tan@intracen.org |
| **UN Women** | Ms. Giovanie Biha  
Director, Management and Administration | giovanie.biha@unwomen.org |
|              | Ms. Donna Grimwade  
Chief of Finance | donna.grimwade@unwomen.org |
|              | Mr. Richard Shillito  
Chief of Budget | richard.shillito@unwomen.org |
| **CEB IPSAS Project** | Ms. Dinara Alieva  
Financial Analyst, System-wide IPSAS Implementation Project Team | alievad@un.org |
|              | Ms. Neeta Hatley  
Financial Analyst, System-wide IPSAS Implementation Project Team | hatley@un.org |
| **CEB Secretariat** | Mr. Remo Lalli  
Secretary, HLCM | rllali@unog.ch |
|              | Mr. Richard Barr  
Senior Finance Project Manager | rbarr@unog.ch |

**Other Representatives:**

<table>
<thead>
<tr>
<th>Organization</th>
<th>Name and Title</th>
<th>Email address</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>IOM</strong></td>
<td>Mr. Willem von Bratt</td>
<td><a href="mailto:wvonbratt@iom.int">wvonbratt@iom.int</a></td>
</tr>
</tbody>
</table>
| **OSCE**     | Mr. Dennis Schneider  
Head, Financial Accounting and Treasury Services | dennis.schneider@osce.org |
|              | Ms. Melissa Buerbaumer  
Chief of Accounts | Melissa.buerbaumer@osce.org |
| **WTO**      | Ms. Céline Thomasse-Noel  
Financial Specialist | Celine.thomassenoel@wto.org |