



**Executive Board of the
United Nations Development
Programme, the United Nations
Population Fund and the United
Nations Office for Project Services**

Distr.: General
9 December 2011

Original: English

First annual session 2012

1 to 3 February 2012, New York

Item 8 of the provisional agenda

United Nations Office for Project Services

Revision of UNOPS financial regulations and rules

**Report of the Advisory Committee on Administrative and
Budgetary Questions**

Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered the draft report of the Executive Director on the proposed revisions to the UNOPS financial regulations and rules (FRR). During its consideration of these proposals, the Advisory Committee met with representatives of the Executive Director who provided additional information and clarification.

Background

2. The Advisory Committee notes that UNOPS would be presenting the proposed revised financial regulations to its Executive Board for approval, in accordance with financial regulation 2.02, and the financial rules for information in accordance with financial regulation 3.02. The proposed revisions are summarized in annex 2 to the report of the Executive Director. The annex presents in a tabular format the original financial regulations and rules, and the proposed financial regulations and rules with insertions underlined and formatted and deletions struck through, as well as the reasons for the proposed changes.

3. The Advisory Committee recalls that the General Assembly, through its resolution 60/283 of July 2006, approved the adoption by the United Nations of the International Public Sector Accounting Standards (IPSAS) to replace the United Nations System Accounting Standards (UNSAS). Subsequent to adoption of the Assembly resolution and of decision 2009/4 of the Executive Board, the Executive Director proposed changes to align UNOPS financial regulations and rules with IPSAS. Having considered the proposal of the Executive Director and the related report of the Advisory Committee (A/C 1673), the Board approved the proposed changes which took effect on 1 February 2009.



4. The Committee notes that in its decision 2010/7 the Executive Board agreed to suspend until 31 December 2011 financial rules 109.01, 109.02, 109.03, 109.05, 121.01 (c), 121.01 (d) and 121.01 (f), as well as financial regulations 21.01, 21.06 and 21.07. The Board also agreed to automatically reinstate the above-mentioned financial regulations and rules on 1 January 2012.

5. As indicated in paragraph 6 of the report of the Executive Director, additional changes to the financial regulations and rules have become necessary in order to accommodate the evolving business requirements of UNOPS. The changes will reflect the Executive Board decisions, updated regulations and rules on internal audit, current organizational structures and current business practices of UNOPS.

6. It is further explained in paragraph 7 of the report that several changes are being proposed by UNOPS to enable it to achieve greater harmonization with the other United Nations funds and programmes. In this regard, the Advisory Committee notes the adoption of common text on internal audit and investigations in regulations 6.01, 6.02 and 6.03, as well as rules 106.01, 106.02 and 106.03. The Committee also notes that the “biennial administrative budget” would be renamed the “management budget”. The Advisory Committee was also informed that prior to presentation of the proposals to the Committee, UNOPS had held consultations with the UN Board of Auditors, the UNOPS Strategy and Audit Advisory Committee, the UNOPS legal counsel and the UNOPS Internal Audit and Investigations Group. **The Advisory Committee commends UNOPS for pursuing wide consultations with the relevant entities throughout this process. The Committee, however, is of the view that seeking the opinion of the United Nations Office of Legal Affairs, as was done by UNDP and UNICEF, is vital in ensuring that there are no potential legal implications that could arise from the wording of the proposed revisions. Such an approach would also have contributed to ensuring overall consistency in the interpretation of terms and definitions included in the revisions in areas where similar terminologies are applied by other entities (see also paragraph 14 below). The Committee points out that there is still time to consult the United Nations Office of Legal Affairs before the Executive Board considers the proposals of the Executive Secretary.**

Changes related to IPSAS

7. Under IPSAS, UNOPS will change from a modified accrual method of accounting to a full accrual method of accounting, effective 1 January 2012. In paragraph 8 of his report, the Executive Director indicates that IPSAS are full accrual based accounting standards which measure the financial performance and position of an entity by recognizing transactions when they occur, regardless of cash transfers. It is also indicated in the report that the expected benefit of this method of accounting is improved transparency and accountability.

8. The Advisory Committee notes that the revised regulation 23.01 would require that all financial reporting be guided by IPSAS, hence the replacement of all UNSAS terms and references in the financial regulations and rules with IPSAS compliant terms. In that regard, the concept of “period” has been modified, and all uses of the word have been reviewed and replaced with “budget period” or “financial period” or “programme period”. The words “biennial” and “biennium” have been deleted; and, in accordance with regulation 23.08, the term “financial

period” shall always consist of a single calendar year. The term “income”, which, under UNSAS, represented cash received on a cash basis or contributions accrued, has been replaced with the IPSAS term “revenue” which represents an enforceable right to receive an asset. The UNSAS concept of “expenditure”, which represents the sum of disbursements and unliquidated obligations, has also been replaced with the IPSAS term “expense”, which represents disbursements, accruals for goods and services received, or the use or impairment of assets. The concept of “obligations” used under UNSAS is now included in the IPSAS term, “commitments”.

9. In addition, the Advisory Committee notes that under UNSAS, non-expendable equipment refers to physical assets which are expensed at the time of acquisition. It is indicated that, under IPSAS, physical assets, referred to as property, plant and equipment (PPE), inventories and intangible assets will be capitalized and expensed over the period of their useful life. The appropriate definitions have been added to the financial regulations and rules and article 21, which relates to inventories, property, plant and equipment (PPE) and intangible assets.

10. The Advisory Committee notes that the IPSAS Board will continue to revise the existing standards and to issue new standards to meet emerging needs. It can therefore be expected that compliance with IPSAS will entail periodic additions and amendments to the financial regulations and rules. **The Advisory Committee trusts that UNOPS will establish the necessary mechanisms to ensure that its financial regulations and rules remain in compliance with IPSAS, and remain harmonized with those of other United Nations funds and programmes and, subsequently, the United Nations Secretariat.**

Other proposed changes

11. Several other non-IPSAS related changes are identified in the Executive Director’s report. With regard to ex-gratia payments, the Advisory Committee notes that the proposed revision to regulation 20.01 (a) omits the reference to the General Assembly. During the discussions with the Committee, the representatives of the Executive Director acknowledged that the proposed elimination of reference to the General Assembly was not appropriate. **The Advisory Committee is of the view that, given that the General Assembly remains the main parent body that created UNOPS, information on the ex-gratia payments still needs to be provided to the Assembly even though the reporting line between the Executive Director and the General Assembly may not be direct. The Advisory Committee therefore reiterates the view it expressed during the discussions for the reinstatement of the reference to the General Assembly in financial regulation 20.01 (a).**

12. The Committee further notes that regulation 20.01 (b) has been added to give discretion to the Executive Director, in case of an emergency such as a natural disaster or act of terrorism, to make immediate ex-gratia payments as he/she deems necessary. The Committee notes that the payments shall not be subject to the monetary threshold of one per cent of the approved management budget. **The Advisory Committee welcomes this revision as a means to enhance the disaster response preparedness of UNOPS. The Committee, however, stresses the importance of maintaining adequate control and accountability mechanisms at**

the operational level in order to ensure the efficient utilization of financial resources.

13. In addition to providing for the establishment of an operational reserve, it is indicated that regulation 22.02 has been amended to allow the Executive Director to establish a growth and operational reserve to invest in the future revenue generating ability of UNOPS. The Advisory Committee notes that transfers to this reserve will be limited to fifty per cent of the excess operational reserves over and above the level set by the Executive Board.

14. The Advisory Committee notes that in, regulation 1.02, the definition of “personnel” is proposed to be changed to refer to “all UNOPS employees and other individual contractors engaged by UNOPS under specific contractual arrangements to perform services for UNOPS project activities or administrative support” with the term “employee” replacing the pre-existing term “staff member” in the definition. It is further noted that, in the same regulation, the term “employee” is defined as “member of personnel employed under the Staff regulations and rules of the United Nations”. Consequently, the Committee also notes the proposed change of the related term “staffing table” to “employee table”. Upon enquiry the Advisory Committee was informed that the primary purpose for the replacement of the term “staff member” with “employee” was to make the definition IPSAS compliant. The Advisory Committee was also informed that the changes applied only to the financial regulations and rules and would have no effect on the term as it applies to the Staff regulations and rules of the United Nations. The Committee notes, however, that other United Nations funds and programmes that made similar revisions to their financial regulations and rules did not propose such a change. **The Advisory Committee recalls its earlier expressed opinion that, subject to the specificities of some aspects of the UNOPS business model, a standard nomenclature of budgetary and financial terms should be followed throughout the United Nations System (A/C 1673, paragraph 15). In that regard, while it understands that the proposed changes are IPSAS-driven, the Committee questions whether sufficient consideration has been given to the potential legal and other implications of this change in definition.**

Conclusion and recommendation

15. **The Advisory Committee recommends the Executive Board’s approval of the proposed revisions of the UNOPS financial regulations and rules, subject to its comments and recommendations set out in the paragraphs above. In addition, the Advisory Committee reiterates that the comments, views and recommendations contained in its earlier report (A/C 1673) remain relevant and should be taken into account by the Board.**