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United Nations Children's Fund
Amendments to UNICEF 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 of UNICEF on the proposed amendments to the UNICEF 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 was informed that UNICEF would be presenting amended Financial Regulations, for approval, and Financial Rules, for information, to its Executive Board at its 2011 second regular session. A comparison between the current UNICEF FRR and the proposed amendments is contained in annex I to the present report. The primary reasons for the proposed amendments are explained in the paragraphs below.

3. **International Public Sector Accounting Standards (IPSAS)**. The General Assembly, through its resolution 60/283 of 7 July 2006, decided to approve the adoption by the United Nations of the International Public Sector Accounting Standards to replace the United Nations System Accounting Standards (UNSAS). The existing UNICEF Financial Regulations and Rules, published as document E/ICEF/1988/AB/L.3 on 19 January, 1988, were based on UNSAS. The amendments are therefore proposed to align UNICEF Financial Regulations and Rules with IPSAS under which UNICEF will change from a modified accrual method of

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accounting to a full accrual method of accounting, with the expected benefit of improved transparency, accountability, and comparability.

4. **Cost classification and results-based budgeting**. The Executive Boards of UNICEF and of the United Nations Development Programme (UNDP) and of the United Nations Population Fund (UNFPA) in decisions 2009/20, 2009/22 and 2009/26, respectively, requested the three organizations to work together for greater harmonization and improvement in the presentation of the biennial support budget, 2012-2013, as well as work towards the presentation of a single, integrated budget for each organization beginning in 2014. The Advisory Committee notes that, in order to identify best practices, the three organizations undertook a review of existing cost definitions and classification of activities and associated costs; as well as results-based budgeting models and methodologies of selected United Nations organizations and bilateral donors. The exercise culminated in joint proposals that were presented to the Executive Boards in a report entitled, "Road map to an integrated budget: cost classification and results-based budgeting", which was approved by the Executive Boards of the respective organizations in decisions 2010/20 (UNICEF) and 2010/32 (UNDP and UNFPA). It is indicated that the resulting changes will therefore require an update of the terminology in the corresponding articles of the Financial Regulations and Rules.

5. **Integration of cards and gifts supplement**. UNICEF has a supplement to its Financial Regulations and Rules for its cards and products operations, formerly known as the Greeting Card Operations. The Financial Rules in the supplement have been updated to reflect current business practices in private fund raising and partnerships, and has been incorporated in the UNICEF Financial Regulations and Rules.

6. **Other changes**. The UNICEF Financial Regulations and Rules were written in 1988 and were last amended in 1999. They contain terminology that requires updating to reflect UNICEF Executive Board decisions and current business practices of the organization. In addition, editorial changes have been made, where necessary, for clarity and consistency.

7. The Advisory Committee was informed that, in the interest of achieving greater harmonization with the other United Nations funds and programmes, the amendments were discussed and the principles agreed to with the United Nations Secretariat, UNDP, and UNFPA. Consultations were also held with the United Nations Board of Auditors, the UNICEF Audit Advisory Committee, the United Nations Office of Legal Affairs (OLA), and the UNICEF Office of Internal Audit. The comments of OLA are discussed further in paragraphs 8 to 10 of the present report. **The Advisory Committee commends UNICEF for pursuing wide consultations with the relevant entities throughout this process.**

8. Upon enquiry, the Advisory Committee was provided with information showing both general and specific comments from OLA on the proposed amendments to UNICEF Financial Regulations and Rules. In its general comments, the OLA notes that the terms defined in Financial Rule 101.2 are also used in the Financial Regulations, and goes on to explain that since Financial Regulations are promulgated by the Executive Board, their position in the hierarchy of norms is higher than that of the Financial Rules which are promulgated by the Executive Director. The OLA therefore suggests that the terms defined in Financial Rule 101.2 be defined in a Financial Regulation instead.

9. According to the Executive Director, many of the comments provided by OLA are editorial in nature and the changes suggested do not alter the substantive meaning of the Financial Regulations and Rules. UNICEF, therefore, has no objection to making the changes. As further explained by the Executive Director, exception was made with regard to the suggestion of OLA to revert to using the word “donor” instead of “the party or parties requesting the establishment of such special account” as proposed by UNICEF in Financial Rules 105.1 and 105.9, which relate to special accounts. The Executive Director adds that special accounts are contractual arrangements whereby UNICEF provides a service to a contracting party, while the term “donor” implies an entity which provides funds to UNICEF for the implementation of programmes. Consequently, UNICEF does not concur with the suggestion. Furthermore, although OLA questions the appropriateness of having Financial Rules regarding the terms of employment of officials (Financial Rule 112.11 (a)) and engagement of consultants (Rule 112.11 (b)), as the requirement is already covered in the Staff Rules, the Executive Director remains of the opinion that there is a benefit in keeping the Rules.

10. **The Advisory Committee emphasizes the importance of consulting OLA to ensure an overall consistency in the interpretation of terms and definitions included in the amendments. The Committee trusts that the comments and suggestions of OLA are reflected in any proposed amendments.**

International Public Sector Accounting Standards

11. As explained in the report of the Executive Director, 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. Current UNICEF Financial Regulations and Rules are based on UNSAS, which is a modified accrual accounting method, with elements of both accrual and cash basis accounting. The Committee was provided with information showing the main categories, and reasons, for the proposed amendments. The amended Regulations 13.1 and 13.2 now require that all financial reporting be guided by IPSAS; hence the replacement of all UNSAS terms and references with IPSAS-compliant terms. In that regard, the term “funds” has been replaced with “financial resources” except when it refers to cash or its equivalent. 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 keeping with IPSAS, the term “financial period” in the Financial Regulations and Rules will always refer to a 12-month period. 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 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”.

12. The Executive Director further explains that under UNSAS, non-expendable equipment refers to physical assets, which are expensed at the time of acquisition. Under IPSAS, physical assets are referred to as property, plant and equipment

(PPE), and are capitalized and expensed over the period of their useful life using an appropriate depreciation method.

13. The Advisory Committee notes that the IPSAS Board continues to revise existing standards and to issue new standards to meet emerging needs. It can therefore be expected that additions and amendments will be a permanent feature of the IPSAS environment. **The Advisory Committee trusts that UNICEF 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. Considering that IPSAS are principle-based, and do not provide detailed guidelines for their interpretation and application, the Committee expects that the harmonization efforts will be extended to the formulation of detailed operating guidelines in areas such as depreciation methods and internal audit rules. The Committee further expects that the lessons learned by UNICEF will be documented and shared with other organizations.**

Cost classification categories and definitions

14. The Advisory Committee was provided with information showing the cost classification approved by the Executive Boards of UNICEF, UNDP and UNFPA. The categories are:

(a) Development Activities: costs associated with “programmes” and “development effectiveness” activities which contribute to the effective delivery of development results:

(i) Programmes: activities and associated costs traced to specific programme components or projects, which contribute to delivery of development results contained in country/regional/global programme documents or other programming arrangements;

(ii) Development Effectiveness: the costs of activities of a policy-advisory, technical and implementation nature that are needed for achievement of the objectives of programmes and projects in the focus areas of the organizations;

(b) United Nations Development Coordination: activities and associated costs supporting the coordination of development activities of the United Nations system;

(c) Management: activities and associated costs whose primary function is the promotion of the identity, direction and well-being of an organization. These include executive direction, representation, external relations and partnerships, corporate communications, legal, oversight, audit, corporate evaluation, information technology, finance, administration, security and human resources;

(d) Special purpose: activities and associated costs of a cross-cutting nature that are mandated by the General Assembly (i.e., not within the direct management control of the organizations); involve material capital investments; or do not represent a cost related to the management activities of the organization.

15. The Advisory Committee notes that while cost classification categorizations among the organizations have largely been harmonized, some differences remain, primarily due to the different business models and mandates of the organizations.

The Advisory Committee expects that further review and consultations will continue in this regard.

16. **Subject to its comments expressed in the preceding paragraphs, the Advisory Committee has no objection to approval by the Executive Board of the proposed amendments to the UNICEF Financial Regulations and Rules.**