Chief Executives Board for Coordination

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CONCLUSIONS OF THE MEETING OF THE FINANCE AND BUDGET NETWORK

(UNICEF House, New York, 2-3 July 2008)

TABLE OF CONTENTS

Page

INTRODUCTION 2
I. GUIDANCE ON CONSOLIDATION 2
II. IPSAS AND BUDGET IMPLICATIONS: NEXT STEPS 4
III. BRIEFING ON THE DISCUSSION AND OUTCOME OF THE TASK FORCE MEETING 6
IV. OFF SHORING OF ADMINISTRATIVE FUNCTIONS 7
V. COST RECOVERY POLICIES 9
VI. UNDG/FB NETWORK COORDINATION 11
VII. PROGRESS OF WORK ON HARMONIZATION OF FINANCIAL REGULATIONS AND RULES 13
VIII. FEASIBILITY STUDY FOR PUTTING IN PLACE "COMMON TREASURY SERVICES 14
IX. FOREIGN EXCHANGE RATE PROVISIONS FOR EC FUNDED PROJECTS 15
X. HARMONIZATION OF DONOR REPORTING 17
XI. EXCHANGE OF INFORMATION ON CURRENT INVESTIGATION ON CASES OF FRAUD AND CORRUPTION 19
XII. TAX REIMBURSEMENT FOR US STAFF MEMBERS 19
XIII. ACTION TO ADDRESS THE EFFECT OF DOLLAR WEAKNESS ON UN PENSIONS 20
XIV. NOMINATION OF FB NETWORK REPRESENTATIVES IN HLCM AND JOINT HR/FB WORKING GROUPS 21
(i) LONG TERM CARE 21
(ii) REVIEW OF CURRENT MECHANISM AND FUNCTIONING OF APPENDIX D 22
(iii) STANDARDS OF ACCOMMODATION FOR AIR TRAVEL IN THE UN SYSTEM 23

ANNEX I - AGENDA OF THE MEETING 24
ANNEX II - LIST OF PARTICIPANTS 26

Introduction

1. The Finance and Budget Network held its face-to-face 2008 session in New York, at the UNICEF House, on 2 and 3 July 2008. The first half day (morning, 2 July) was dedicated to the joint session with the Task Force.

2. All session documents are available for registered users on the FB Network website at: https://fb.unsystemceb.org/documents/2-3July08/

3. The meeting was co-chaired by the Network's Co-Chairs, Mr. Gary Eidet, Director, Division of Budget and Finance, IAEA, and Mr. Jay Karia, Director, Accounts Division, United Nations. The agenda as adopted is provided in Annex I. The complete list of participating organizations and their representatives is provided in Annex II.

4. Welcoming FB Network and Task Force members, as well as participants from observing organizations and guest speakers, Mr. Eidet thanked UNICEF for the kind hospitality and introduced the joint session acknowledging the centrality of the work done by the Task Force and the recognition that such work was unanimously obtaining in all contexts where system-wide coordination issues were discussed. He also encouraged FB Network members to continue to commit their active engagement and participation in discussions on financial management issues of system-wide nature, volunteering to provide leadership and dedicate resources to push forward such issues in the context of the FB Network.

I. Guidance on Consolidation

[Prof. Frans van Schaik, Deloitte]

(Power Point Presentation)

5. Deloitte presented the guidance paper commissioned by the Task Force on IPSAS requirements with respect to consolidation, associates and joint ventures. On two key areas of concern for member organizations, i.e. technical cooperation funds and entity definition, it was highlighted that:

    a. In relation to whether or not governing bodies should be captured within the definition of a reporting entity, Deloitte presented ICAO as an example and identified three potential models within the United Nations system comprising some or all of the following bodies: the Secretariat and the Secretary General, the Council, and the Assembly. The conclusion on which model to use may differ depending on individual organizations' circumstances.

    b. In relation to technical cooperation funds, many of these may not constitute entities per se, because these are already part of the reporting entity and therefore would not fall within the scope of IPSAS 6, 7, 8. Nevertheless, the related flows, assets and liabilities may still be captured by other applicable accounting standards such as IPSAS 23 and IPSAS 11.

6. In the ensuing discussion, Deloitte noted that, in relation to the extent that consolidated entities require consistent accounting policies, the answer should be guided by the requirements of the individual standard. For example, if the standard allows materiality considerations, then this can be taken into consideration, although materiality considerations may not be applicable in making judgments around whether to consolidate an entity or not.

7. IMO indicated that, using the questionnaire and guidance provided, they had concluded that two entities seen as independent from a management point of view and previously not consolidated were in fact controlled. The Deloitte presentation clarified that donor funds are simply appropriations to account for activities separately and not entities themselves.

8. There was a debate as to the reporting entity boundaries of ICAO. The extent to which costs of the executive or governing body should be included in the financial statements was discussed.

9. The inclusion of governing bodies in the entity was questioned in view of private sector practice where management prepares financial statements which are presented to the board (governing body equivalent). It was argued that boards/governing bodies are stakeholders that provide independent oversight and should not be consolidated.

10. Concerns were expressed around the picture that a consolidated set of results would provide where a large proportion of the resources may be restricted in some form, or comprise sets of funds or entities where a greater level of individual detail is required. Deloitte noted that governments overcame this issue by providing both whole of government accounts, and individual financial statements for aspects of the consolidated accounts (for example, departments) where there was a user need, thus enabling users to choose the set of statements that gives them the information they need. Moreover, IPSAS deals with issues such as restrictions by way of disclosures to ensure transparency, where disclosures are a substantial and important part of the financial statements.

11. It was observed that a question remained around accounting for entities participated by a number of organizations, where the guidance paper suggests recording a part share.

- **Conclusions and Action Points**

12. **The Task Force took note of the presentation and the report delivered by the Deloitte.**

13. **The Task Force will discuss the main contents of the last draft report delivered by Deloitte and will come back with observations and further elements to adopt the paper as official guidance.**

II. IPSAS and Budget implications: Next steps

[Gary Eidet and Mija Jeon, IAEA]

(CEB/2008/HLCM/FB/6 and PowerPoint Presentation)

14. The FB Network Co-Chair, Mr. Gary Eidet, summarized the history and objectives of the project "Implication of IPSAS on UN System Budgeting Practices", which had been developed under the leadership of IAEA and approved by HLCM within the framework of the HLCM Plan of Action for the Harmonization of Business Practices.

15. The Co-Chair recalled that the objective was to carry out a study on how the adoption of IPSAS would impact on budgeting practices in the United Nations system and, specifically, on what the implications of adopting accrual-based budgeting would be. The study also aimed at developing accrual budgeting models for the UN system. The expected output of the project was a report containing the analysis of and recommendations on the budget basis and comprehensive working models of accrual budgeting, upon which UN system organizations would be able to decide their specific course of action on the issue of budgeting practices.

16. IAEA presented their initial views on to what extent accrual budgeting would be considered in the near future, their plan to introduce capital budgeting from the 2010-2011 budget cycle and its implications on the budgetary and funding policies defined in their financial regulations. The presentation highlighted that the complete balance sheet information available under IPSAS would present opportunities for an organization to address long term investment and funding needs such as presenting capital budgeting and building up reserves for ASHI liabilities.

17. Many organizations indicated that the scope of the project included in the HLCM Plan of Action should be neutral in terms of identifying scenarios regarding the budgeting practices for UN system organizations as a result of IPSAS adoption, and should focus on providing a sound basis for a proper consideration of the different solutions available, their advantages and disadvantages, also in view of other relevant experiences. It was also noted by a number of organizations that the scope as presented was somewhat ambitious and should be narrowed down to the most immediate and common requirements of all organizations, as reflected in the course of the discussions, focusing primarily on capital budgeting.

18. It was noted that OECD has successfully implemented full accrual financial reporting without changing to an accrual basis of budgeting, and that the recent discussions in the OECD Accruals Symposium indicated that the feasibility and value of accrual budgeting was still being evaluated.

19. It was also noted that best practice suggests that accounting change should be progressive and financial reporting changes and budgetary changes could follow different trajectories. In this sense, many organizations felt that it was critical to first master the new accrual accounting and financial reporting practices before considering a move towards accrual budgeting. Participants also noted that any change to budgeting practices of a UN organization would require careful evaluation by respective governing bodies, which are normally lengthy processes, taking one or two budget cycles to complete.

20. There was general consensus on the need to design project terms of reference and corresponding timelines in a way that was compatible with the current efforts by organizations to successfully complete the adoption and implementation of IPSAS, and to avoid "project fatigue".

21. A number of organizations expressed their interest in the prospects of incorporating and implementing capital budgeting during the 2010-2011 biennium. This would imply a need to start working on this matter immediately, in order to negotiate with governing bodies in anticipation of the 2010-2011 budgets' formal approval.

22. The Network considered the introduction of some form of capital budgeting as a specific priority undertaking during a preparatory phase of the project included in the HLCM Plan of Action. Specific issues to be studied would be the possible capitalization of leases, leasehold improvements and major ICT outlays.

23. In the view of IAEA, some form of capital budgeting could be put in place that would allow annual "provisions" against appropriations and a corresponding capital reserve fund. The main idea would be to try and "smooth" out the cash implications as much as possible, yet provide for balance sheet items. This would include, of course, liabilities as well, e.g. ASHI. It would probably be necessary to amend financial regulations to allow for such provisions.

24. PAHO shared its experience with capital budgeting, highlighting two main issues: continued funding after initial cash infusion and budgeting for depreciation and other provisions.

➢ Conclusions and Action Points

25. **A working group would be established within the FB Network with the objective of developing Terms of Reference for the analysis and proposal of options for capital budgeting solutions for UN system organizations, as a specific priority undertaking during a preparatory phase of the "budgeting practices" project included in the HLCM Plan of Action for the Harmonization of Business Practices. The ToR would also cover common principles for the homogenization of budgeting practices, such as carry forwards, surpluses, required changes to Financial Regulations and Rules, etc.**

26. **The following organizations agreed to be part of the working group: IAEA, UNDP, UNFPA, UNICEF, FAO, IFAD, UNIDO, UNESCO (Bureau of the Budget), UNHCR, UN Secretariat (PPBD).**

III. Briefing on the discussion and outcome of the Task Force meeting

[Jay Karia, UN, and Gwenda Jensen, IPSAS Team]

(CEB/2008/HLCM/FB/7)

27. The Chair of the Task Force presented document CEB/2008/HLCM/FB/7, summarizing the conclusions reached on each of the papers presented in the Task Force meeting of June 30 and July 1.

28. Two policies were presented to the Task Force, concerning the discount rate used to value employee benefit liabilities (IPSAS 25 – Employee Benefits) and the approach to be used for fund accounting – presentation on the face of the financial statements or in the notes - (IPSAS 1 – presentation of financial statements). Both policies were not approved by the Task Force and have been deferred for further revision and re-consideration of the nature of the documents (guidance note or recommended accounting practice rather than policy).

29. A series of papers presented to the Task Force were acknowledged as useful guidance – Guidance Note 2 UNJSPF Early adopters; Briefing Note UNJSPF for Other Organizations; Guidance Note 1 UN System segment examples; Guidance Note 1 Goods and Services In Kind. The other papers presented were to be amended – Provisions, Contingent Liabilities and Contingent Assets - or referred for further revision – Guidance Note Accounting for Library Collections; Guidance Note Publications; Guidance Note 3 Opening Balances and Fair Value Measurement of PPE for 1st time adopters of IPSAS; Guidance 4 –Valuation of Land and Buildings used through lease or Donated Right to Use Agreements; Guidance Note 4 – Further Guidance on Employee Benefits.

30. A small group of organizations had convened to propose changes to paragraphs 51 to 55 of the 'Control over Assets' paper. These changes would be shared electronically after the Task Force meeting with a view to reaching a conclusion in short.

31. The Chair highlighted the important issues discussed at the meeting including the future of the project and organizations' readiness for 2010. Options for the future direction of the system-wide project would be presented to the Steering Committee and shared with the Task Force in sufficient time to be provided to HLCM for their next meeting.

➢ **Conclusions and Action Points**

32. **There were no accounting policies that required the FB Network approval; the two accounting policies considered by the Task Force (reference to CEB/2008/HLCM/FB/7) were not approved.**

33. **The IPSAS Team and focus groups will further review the accounting policies related to IPSAS 25 – Employee Benefits and IPSAS 1 – Presentation of Financial Statements**

(approach to be adopted towards fund reporting) and present a new version of the related papers to the Task Force as noted in paragraph 28 above .

34. **Following discussions in the IPSAS Steering Committee, a proposal with options for the future direction of the system-wide project will be included in the progress report to the HLCM which will be circulated to the FB Network for review and comments during August.**

IV. Off shoring of administrative functions

[Karen Farkas, UNHCR, and Nick Jeffreys, WHO]

(PowerPoint presentations)

35. The Network received two presentations by UNHCR and WHO on their recent experiences with the out-posting of their organizations' administrative functions to, respectively, Budapest and Kuala Lumpur, with a particular focus on the Finance and Control functions.

36. UNHCR transferred to the new Budapest centre a number of functions related to human resources management (personnel administration, payroll, recruitment and postings), finance and administration (finance, accounting payable, income recording), supply management, logistics and procurement, IT support. The main reasons behind the decision to out-post such functions were the resulting, considerable cost savings and the opportunity to realign processes and resources to the newly implemented ERP system. Budapest was chosen among the other short-listed candidates (Bucharest, Chennai, Kuala Lumpur) as the best in terms of location and logistical accessibility, language skills, quality and cost of local labour, proximity to HQ and the field, political stability, connectivity and infrastructure costs. The new centre began its operations in the first quarter of 2008. A significant change management process was put in place to ensure the success of the initiative and to mitigate the impact on Geneva-based staff. Measures such as career counselling, voluntary separation packages, facilitated move of GS staff to professional posts, and priority consideration of internal candidates for vacant HQ posts were put in place to smoothen the transition. Significant cost savings are expected from the initiative – a cumulative USD 15.6 million in the first five years, followed by estimated annual savings of USD 9.6 million. So far, the out-posting exercise has been a successful operation; UNHCR set up a specific task force to mitigate and manage the possible risks at financial, operational and logistic level, and established a clear framework to maintain control over the reshaped financial and administrative functions.

37. WHO created a "Global Service Centre" in Kuala Lumpur, Malaysia which went live in June 2008. The change was motivated by the intention to capitalize on the opportunity provided by the introduction of a new (Oracle based) ERP system to standardise and centralise certain routine administrative processes, currently performed across 7 existing locations (WHO headquarters and regional offices).. The following services were off-shored: payroll, payments, travel claim checking, HR contract processing, purchase order processing, IT user support and help desk. Accounting services were intentionally not off-shored, because of the significant amount of change already undergoing in the area and the

need to keep proximity with budgeting, programming and political decision making. Efficiency, economies of scale, standardization of service delivery and procedures and staff costs are the main expected benefits. Kuala Lumpur was chosen among the other possible locations following similar criteria to those used by UNHCR: availability of skilled labour, cost of labour, and connectivity and infrastructure costs. In order to achieve the expected quality standards, service level agreements and tight shifts and time coverage standards were established. Even if it is too early to report the success of the initiative, the main key success factors could be identified as follows: extended internal communication; support from top management; comprehensive change management plans; availability of adequate conditions in terms of infrastructure, skills and training; a secured and funded budget; and an appropriate Host Agreement with the Government of Malaysia. The main challenges of the new setting are the time zone difference, the induction programmes of large numbers of local staff without UN experience, the management of expectations, and getting to grips with local bureaucracy and nuances in a short time period.

38. FB Network members were very interested in knowing the details of the experiences described by UNHCR and WHO, which were also complemented by some information provided by FAO on their similar out-posting initiative.

39. Many questions were addressed to speakers, especially on aspects related to the change management processes. Re-engineering of administrative processes, as well as rationalizations and efficiency gains in the support functions, were highlighted among the key opportunities that emerged from both experiences. There was also interest in the motivation that had led to the choice of the location for the off-shored administrative centres. Availability of infrastructures provided by the host governments and advantageous utility contracts were stressed as important criteria, along with the balance between cost and quality of local labour. Inflation of labour cost and durability of the efficiency gains were discussed, together with organizational issues, particularly regarding control and accountability frameworks between the new centres, the headquarters and the field offices.

40. It was noted that the creation of centralized service centres could be usefully analysed also at a broader, system-wide level, with the intent to achieve even larger economies of scale and avoid duplications or competition among organizations for local labour, while still in respect of organizations' autonomy.

➢ Conclusions and Action Points

41. **The FB Network took note of the successful experiences of UNHCR, WHO and FAO with out-posting of administrative functions and of the key success factors and challenges, as outlined by the presenters.**

42. **Recalling that HLCM has recently called for a specific attention by all member organizations to consider any off-shoring options in conjunction with the possibility of establishing "common services" solutions among UN system organizations, whatever the "functions" or "services" concerned are, the Network would explore avenues to leverage on these experiences and to scale-up the service centre solution at the system-wide level.**

V. Cost recovery policies

[Yolande Valle, UNESCO, and Ashok Nigam, UNDG/DOCO]

a) Report of the WG, CEB/2008/HLCM/FB/12

b) Proposed ToR of the WG, CEB/2008/HLCM/FB/13

c) Proposed ToR for HLCM Plan of Action, CEB/2008/HLCM/FB/10

43. The FB Network received a briefing by UNESCO and UNDG/DOCO on the conclusions of the 4 April 2008 meeting of the joint FBN/UNDG working group and subsequent MDTF Paris meeting.

44. The Chair of the working group recalled the recent history of the inter-agency work on harmonization of cost recovery policies, starting with the HLCM working group on “Support Costs for Extra-budgetary Activities” activated in October 2003, which concluded its work at the end of 2005. In June 2007, taking into account the development of "Delivering as One" pilots, the FB Network re-established a working group on Cost Recovery Policies, again chaired by UNESCO, to bring forward the modalities for further harmonization of cost recovery policies. In July 2007, the re-convened working group held its first meeting in Paris, where it agreed on its action plan and identified a restricted Task Force with the mandate to work on:

a. The harmonization of cost classification methods; and

b. The possible convergence of programme support costs (PSC) rates.

45. In November 2007 the Working Group discussed the findings of its Task Force and made its first set of observations and recommendations to HLCM (CEB/2008/HLCM/FB/12). During the meeting of the Working Group in November 2007, DOCO proposed to organize joint HLCM-UNDG consultations, which were carried out on April 4, 2008. The joint consultations concluded that (CEB/2008/HLCM/FB/13):

a. Ex-Com and Specialized Agencies would apply a 7% rate as a harmonized indirect PSC rate for MDTFs and multi-agency country level joint programmes and activities;

b. UN system organizations should achieve full cost recovery and, as a consequence, identify and recover more costs directly so that the core budget does not subsidize projects funded from non-core resources;

c. Specialized Agencies may continue to apply standard indirect PSC rates up to 13% for single agency initiatives that are designed and managed directly/bilaterally.

46. An action plan was approved by the joint working group on 4 April 2008 and specific Terms of Reference developed including the following main action points (CEB/2008/HLCM/FB/13):

    a. Develop common guidelines for the charging of direct costs at country level, which would include:

        - Common standards and criteria for direct costs, together with tools to help country staff to identify direct costs more easily, such as a list of generally-accepted direct costs among UN organizations;
        - Price lists per country for direct costs (with ranges if necessary);
        - Among the price lists: common standard staff rates for UN organizations (Ex-Com and Specialized Agencies), which may include a standard occupancy rate.

    b. Determine the threshold which would define a "small contribution" to be referred to in the Common Contribution Agreement for small contributions;

    c. Determine the level of the set-up fee to be applied to contributions in order to meet average establishment costs;

    d. Develop a common methodology for the calculation of fixed indirect costs since the way these costs are built has an impact on the levels of the other cost categories (indirect variable costs and direct costs);

    e. Assess the actual costs involved in the "pass-through" modality.

47. The joint working group was planning to hire a consultancy to independently carry out this study. DOCO, UNESCO, UNDP and FAO already offered to co-fund the costs.

48. The Terms of Reference of the “UN System Cost recovery Policy” included in the HLCM Plan of Action for the Harmonization of Business Practices (CEB/2008/HLCM/FB/10) would be complementary and consequential to the work agenda described above, mainly providing for documentation, consolidation, training and communication requirements originating from the completion of the consultancy.

49. In the ensuing discussion, many organizations noted that the 7% recovery rate was not sustainable and implied a subsidization of voluntarily funded projects by regular resources. Nevertheless, some acknowledged that that 7% had became a symbolic figure for donor countries and that their pressure for efficiency and cost reductions was now focused on the homogenization of cost recovery rates towards this level.

50. There was consensus on the need to advance knowledge and promote harmonization on all costs that could be classified as direct costs, and to establish a common price list for such items. This approach could represent an effective way to respond to political pressure to reduce cost recovery rates, while at the same time promoting a harmonization of methodologies and criteria to account for costs.

51. Some participants underlined that, apart from identifying direct cost components and corresponding standard prices, a considerable harmonization issue would be the differences among organizations' ERP and cost accounting systems in classifying and measuring direct and indirect costs, both at the field and at the HQ levels.

52. UNDG stressed that, while it had been agreed that all organizations participating in MDTF projects, joint programs and Delivering as One pilot projects would apply a 7% cost recovery rate, organizations would retain their autonomy to apply a cost recovery rate up to 13% in all other contexts.

➢ **Conclusions and Action Points**

53. **The FB Network supported the continuation of UNESCO in its leading role in the joint UNDG/ FB Network working group for the harmonization of UN system organizations' cost recovery policies.**

54. **The Network endorsed the conclusions of the joint UNDG/FB Network working group, including the use of 7% as a harmonized indirect PSC rate for MDTFs and multi-agency country level joint programmes and activities.**

55. **The Network endorsed the proposed Terms of Reference for the completion of the mandate of the joint UNDG/FB Network WG on cost recovery policies, with particular focus on the development of Common Guidelines for the charging of direct costs at country level, including price lists per country. The following organizations indicated their availability to contribute funding for a consultancy to carry out the work outlined in the ToR: DOCO, FAO, UNESCO, and UNDP. Other interested organizations were encouraged to explore the possibility to contribute.**

VI. UNDG/FB Network coordination

[Subhash Gupta, UNFPA]

(Excerpt from the UNDG 2008 Provisional Work Plan)

56. The Co-convener of the newly constituted UNDG Working Group on Joint Funding Finance and Audit Issues briefed the FB Network on the recent restructuring of the UNDG and the corresponding distribution of responsibilities. The former UNDGO had been renamed to Development Operations Coordination Office (DOCO). It now supports the activities of five working groups. The group on Joint Funding Finance and Audit Issues is led by two Co-conveners, Subhash Gupta of UNFPA and John Rehnstrom of UNAIDS, and brings under the responsibility of one entity a range of issues previously assigned to a number of different UNDG groups.

57. The prioritized programme of work of the Working Group and its Task Teams, as endorsed by UNDG at its meeting of 25 June 2008, includes three main areas of activities: a) joint funding mechanisms; b) finance issues and c) audit issues.

58. DOCO and the Network Co-Chairs reaffirmed the principle of collaboration and complementarity of roles between the UNDG Working Group on Joint Funding Finance and Audit Issues and the FB Network. The two bodies would seek close coordination to avoid duplication of activities, on the basis of the agreed criteria for distribution of responsibilities, i.e. that "*discussions leading to implications for the UN system would be coordinated through the FB Network for comprehensive consideration and buy-in, while UNDG would ensure guidance and support for the needs of the pilot projects and, more in general, for the requirements emerging from the country level*".

59. The UNDG meeting of 25 June 2008 had agreed that the Task Teams of the UNDG Working Groups would address the pilot country issues on a priority basis. The HLCM Chair and the HLCM networks would be kept informed of the work.

60. The pilot country issues would be taken up by the Task Teams under the Working Group on Country Office Business Operations and the Working Group on Joint Funding, Financial and Audit issues. The respective Chairs of these Task Teams and the DOCO focal persons are:

    - Finance – Subhash Gupta (UNFPA) (DOCO focal person: Liudmila Barcari)
    - Joint Funding – Joel Rehnstrom (UNAIDS) (DOCO focal person: Nane Avetisyan)

61. A number of financial issues were raised as critical during meetings with the Resident Coordinators of the pilot countries, such as: the obstacles and limitations to fund transfers between partner agencies; the differences in UN agencies' budget cycles, making joint budgeting difficult (this is also in reference to Government and UN Agencies Financial/Fiscal years); and others.

62. On all such matters, the UNDG would have a propulsive role, identifying potential solutions and referring them when necessary to the FB Network for consideration and approval at the system-wide level.

- **Conclusions and Action Points**

63. **The FB Network took note of the prioritized programme of work of the UNDG Working Group on Joint Funding, Finance, and Audit Issues and encouraged the leaders of the two bodies to continue to seek close collaboration and coordination.**

64. **The financial issues raised at the country level would be further discussed with the Delivering as One pilot countries to ascertain those that can already be dealt with under current policies and procedures and those that may require further engagement at HQs level.**

VII. Progress of work on Harmonization of Financial Regulations and Rules

[Subhash Gupta, UNFPA]

65. The Chair of the UN-UNFPA-UNICEF-UNDP-WFP Working Group for the Harmonization of Financial Regulations and Rules briefed the Network on the progress of this initiative.

66. The main aim of this harmonization initiative is to provide common, simpler and more flexible Rules and Regulations. This could be achieved, for example, by straightening their wording, redefining them consistently with business needs and reducing the number of Regulations in favour of broader Rules and, when possible, in favour of Policies and Procedures.

67. A set of harmonized Regulations formulated by focal point representatives from each of the five organizations were submitted to the UN Office for Legal Affairs (OLA) for review. OLA has completed its review of the Regulations and a review of OLA's comments was conducted at a focal points workshop in June.

68. A focal point workshop was conducted in April to formulate a set of harmonized Financial Rules. A second workshop was conducted in June to complete this exercise.

69. A set of harmonized Financial Rules from the April and June focal point workshops was submitted to OLA for review. OLA's comments on the harmonized Rules would be reviewed as part of a Comptrollers retreat planned for mid-July.

70. Pending the successful outcome of the Comptrollers retreat of mid-July 2008, the process of preparing documentation for presenting the set of harmonized Regulations and Rules to the organizations’ various advisory groups and governing bodies would begin in August 2008. Once draft Harmonized Financial Regulations and Rules are finalized – prospectively by the end of 2008 - they would be shared with both UNDG and HLCM/FB Network.

71. For the purpose of wider consideration and adoption of a common set of harmonized Financial Regulations and Rules by UN system organizations, a two-track approach was foreseen, taking into account the specificities in governance structures and the different programming and budgeting processes. One track would apply to those organizations that have a closer link to the UN General Assembly – UN Secretariat, Funds and Programmes; the second track would be for the remainder of the UN system organizations. The JIU has also supported this approach.

- **Conclusions and Action Points**

72. **The FB Network took note of the status report and of the foreseen timeframe for the disclosure of the initial outcomes of the Working Group’s activities with the full FB Network membership.**

VIII. Feasibility study for "Common Treasury Services"

[Nick Jeffreys, WHO, and Bambis Constantinidis, IFAD]

(CEB/2008/HLCM/FB/9)

73. WHO and IFAD presented the proposed Terms of Reference for a feasibility study regarding common treasury services, with a view to sounding the interest of the Network in this initiative, focusing its objectives and identifying organizations willing to participate in the study.

74. The main objectives of the study are to explore and determine the potential for efficiencies and economies of scale from the application of common treasury practices and services.

75. The study would include a comprehensive analysis of current treasury services and practices of the United Nations system organizations, and an assessment of the possibilities for:

   a. Pooling of cash flows and investments also with the intent to create a "UN netting system" for foreign exchange needs of different organizations;

   b. Negotiating common system conditions for pricing of banking services seeking significant reduction of the spread on foreign exchange transactions with bank as a result of increased volumes when operating/negotiating with them;

   c. Harmonization and standardization of contracts with investment managers and other external service providers.

76. The study would be structured in two phases:

   a. A "preparatory" phase that would include an initial identification and assessment of priority and potential areas and establish consensus on the areas to be addressed in the feasibility study - output of this phase would be a set of detailed terms of reference for the study, including assignment of tasks, responsibilities and resources;

   b. A feasibility study "execution" phase including the conduct of detailed studies as specified in the preparatory phase.

77. The "preparatory" phase was expected to be implemented largely with internal resources of members of the FB Network interested in participating in the project. The results of this preparatory phase, including the estimated cost and timeframe of the "execution" phase, would be framed as one of the initiatives of the HLCM Plan of Action for the Harmonization of Business Practices.

78. The proposal was very well received as a means to have a comprehensive inventory of treasury practices and obtained the endorsement of many organizations as an initiative with

great potential for efficiency gains and savings. It was stressed that deadlines for the completion of the preparatory phase would have to be determined in a realistic manner, so that the outcome would be comprehensive and shared by all participating organizations.

79. Sensitive issues to take into account in the preparatory phase would be the need to establish a fair and satisfactory architecture for common decision-making on investments. Organizations have different investments preferences and liquidity requirements, consistently with their financial flows and arrangements and with their core business and operations, and many investments are, to date, at very low or zero risk level. The establishment of a unified investment centre would require consensus on "risk appetite" and this is an element to be considered very carefully.

80. A similar feasibility study for a common treasury system conducted in the recent years by UN system organizations based in Vienna, had pointed to some challenges and key issues, as follows: a) organization of the common service – i.e. presence of a new physical centre or incorporation in pre-existing ones; b) mechanisms to participate in the common centre and to share its costs – i.e. service fees, ICC co-financing model, etc.; c) types of services to be unified; d) foreseeable impact on financial regulations and rules; e) identification of the legal boundaries and constraints, and f) tax implications in relation to the architecture and functioning of the centre.

81. Some participants underlined that common services in the area of Treasury would not have significant dependencies on the various information systems in use among UN organizations, and should be relatively compatible with different ERP systems.

➢ **Conclusions and Action Points**

82. **The FB Network endorsed the proposed Terms of Reference for a feasibility study regarding common treasury services, with timelines for the completion of the preparatory phase to be determined in a realistic manner by participating organizations, to ensure comprehensiveness and reliability of results.**

83. **The FB Network established a working group of interested organizations, under the guidance of IFAD and WHO, to pursue and complete the preliminary phase of the project. The group would include: FAO, IAEA, UN, UNDP, UNHCR and UNIDO.**

84. **The newly formed working group would come back to the FB Network at its next session with the first results of the preliminary phase of the project and with more detailed Terms of Reference for the full feasibility study.**

IX. Foreign exchange rate provisions for EC funded projects

[Nick Nelson, FAO]

(CEB/2008/HLCM/FB/8; CEB/2008//FB/VIII/INF.1)

85. FAO presented a proposal to address an important issue related to foreign exchange rate provisions for EC funded projects. In accordance with article 2.3 of the Financial and

Administrative Framework Agreement (FAFA) between the European Communities and the United Nations, financial reports on EC financed actions should read in Euro.

86. The FAFA and the Standard Contribution Agreement state that:

"*Where necessary, actual expenditure will be converted into Euro using the rate of exchange at which the Contracting Authority's contribution was recorded in the Organisation's accounts, unless otherwise specified in article 4(3) of the Special Conditions*"

87. While requiring additional efforts, often with manual input, in the financial reporting process, this rule does not give rise to significant problems in the case of full utilisation of funds received – contributions and expenditures incurred are translated at the same exchange rate.

88. This rule may instead give rise to significant problems when a project closes with an unspent balance, since with the standard FAFA provision on translation of expenditures, the unspent balance would have to be returned to the EC converted at the exchange rate of the date of receipt of contribution, which may be significantly different from the current market rate and onerous in case the organization has to buy Euros on the market to be returned to EC.

89. At the 5th Annual meeting of the EC-UN FAFA Working Group, the EC encouraged the UN to make a unified proposal on this issue, which could then be considered by the EC for ratification.

90. FAO, in consultation with other interested organizations, developed a proposed wording for paragraph 4.3 of the Special Conditions of the FAFA, to be used in agreements where the recipient organization prefers this to the standard provisions, and presented this proposal for discussion and approval by the FB Network before on-forwarding to the EC as a proposed alternative to the current standard provisions for currency conversion.

91. FAO underlined that the proposal did not constitute a change to the FAFA nor a change to the Special Conditions, but only a request for endorsement of the application of the flexibility already granted in the FAFA, i.e. of the use of the proposed alternative wording in the Special Conditions, when considered appropriate.

92. As noted in the ensuing discussion, the practice of some organizations is already consistent with the proposal. UNDP and UNHCR stressed the need to have a consistent rate for budgeting and for returning funds to the EC; they indicated that donors too are asking not to use different rates in budgeting and reporting for voluntarily funded projects.

93. In their preliminary comments on FAO's proposal, UNDP had recommended the use of UNORE at the transaction date for expenditures, which was the current policy for UNDP's accounting for transactions. Following clarification by FAO on the purpose and applicability of the proposed wording, UNDP agreed to support the proposal. WIPO raised concerns about the fact that the practice to record contributions at the rate of the

contribution date and to record expenditures and refunds at the rate of transaction date may be not compliant with IPSAS.

94. Following intense discussion, the Network agreed that the first sentence of the wording proposed by FAO was unnecessary and suggested to focus the attention on the second sentence only.

➢ **Conclusions and Action Points**

95. **The FB Network reviewed FAO's proposal and approved it for recommendation to the EC, with a slight change. The proposed wording of paragraph 4.3 of the Special Conditions, to be used in agreements where the recipient organisation prefers this to the standard provisions, is:**

> *"In the event of a final surplus balance (of total financing over expenditures), at the financial closure of the project the surplus balance in USD in the Organisation's accounts will be converted into Euro using the rate of exchange at the time when the refund is made and the resulting Euro equivalent will be refunded to the Contracting Authority"*

96. **The UN Comptroller would submit the proposed new version of paragraph 4.3 of the Special Conditions to the EC Representatives within the provided deadline of end of July.**

X. Harmonization of Donor Reporting

[Nick Jeffreys, WHO]

(UNDG Note of September 2006 on "Harmonized Financial Reporting to Donors in Joint Programming")

97. The issue of harmonized formats for financial reporting to donors in joint programmes was latest addressed in a UNDG Explanatory Note of 2006, complementing the sections on reporting in the UNDG Guidance Note on Joint Programming by:

- Providing harmonized formats for financial reporting to donors in joint programmes;
- Providing guidance on how and when the harmonized financial reporting formats should be used.

98. In order to review the overall performance and progress of a joint programme, e.g., at the sector level and/or overall programme levels, donors and participating UN system organizations require consolidated financial reports that encompass financial data from various agencies. The purpose of using harmonized formats is to facilitate the preparation of such consolidated financial reports by the Joint Programme Coordination Mechanism, the Managing Agent or the Administrative Agent.

99. The Network's discussion on this item aimed at reviewing the current and desirable reporting requirements across UN system organizations. This was especially important in the light of changed policies on income and expenditure recognition as a result of IPSAS adoption.

100. WHO briefly introduced the subject saying that donors are receiving financial reports from UN system organizations in a wide variety of formats, depending both on the organizations' practices and on the conditions set in and on nature of the agreements. For example, UN General Trust Funds (UNCERF, UNFIP), UNDP funds (UNDG Funds Iraq, UNDP General Project reporting), UNFPA-UNDCP-UNICEF funds, all had different formats.

101. Any approach to promote consistency in reporting formats should therefore take into consideration, among other things, the following:

a. Harmonization of support cost rates;

b. Compliance with the accounting changes required by IPSAS adoption - income and expenditure recognition, expenditure types and formats, approach to ULOs and disbursement reporting;

c. Standardization of frequency and timing of reports.

102. In the ensuing discussion, participants noted that the harmonization of financial reports follows and is linked to the harmonization of agreements with donors. Such harmonization is made more difficult by the specific requests and requirements of individual donors, which are co-responsible for the proliferation of reporting formats. The introduction and diffusion of Result Based Budgeting and Reporting for voluntarily funded projects should be taken into consideration as an important element of the harmonization process as well.

103. Some organizations underlined how the starting point of any effort towards standardization is the creation of a common dictionary and language to structure reporting.

104. An important point was made by several organizations on the need to differentiate between budgetary execution reports and IPSAS compliant reporting. The first category of reports is the basis of organizations' financial accountability towards the donors, and a means to ensure appropriate monitoring and control by the donors. These reports are, at the moment, cash-based and would remain so also under IPSAS. The production of IPSAS compliant financial reports to donors for extra-budgetary projects should be seen as a separate issue.

105. Noting that a critical element of any framework for the harmonization of donor reporting has to include harmonized cost recovery rates, UNESCO indicated that this was one deliverables provided for in the Terms of Reference for the completion of the mandate of the joint UNDG/FB Network Working group on Cost Recovery Policies, as already endorsed by the FB Network (agenda item V above).

106. Similarly, harmonization of reporting formats at the country level was already included in the work plan of the UNDG WG on Joint Funding, Finance and Audit issues, and coordination and synergies between the FB Network and the UNDG should be sought on this matter.

➢ **Conclusions and Action Points**

107. **The FB Network recommended that the issue of harmonization of financial reporting to donors be addressed as one of the key components of the programme of work of the joint UNDG/FB Network working group on cost recovery policies. Such task should be tackled in close coordination with the UNDG Working Group on Joint Funding Finance and Audit Issues and with the Task Force (which would focus on IPSAS implications in relation to donors' reporting).**

108. **The Network also asked to involve the Resource Mobilization group in this work, to ensure coordination and consistency with its activities regarding proposals and possible solutions to harmonize financial reporting to donors.**

XI. Informal exchange of information on current investigation on cases of fraud and corruption

109. As it has been normal practice in the past two years, FB Network members had an opportunity to share, confidentially and off-the-record, information on their organizations' recent cases of fraud and/or corruption.

110. The following recommendations/suggestions could be highlighted as a result of the discussion during this session: broadening of training programmes on Ethics; fostering a culture of transparency and fairness among procurement officers; inclusion of fraud prevention and mitigation within the overall corporate risk management strategies, with particular reference to the recognition of risks associated to decentralization of administrative responsibilities and delegation of power; strengthening of control and oversight tools in the payment tracking systems; and others.

XII. Tax reimbursement for US Staff Members

[Gary Eidet, IAEA]

(Latest correspondence with the US Mission)

111. The FB Network Co-Chair, Mr. Gary Eidet, updated Network members on the latest correspondence with the US Government on tax reimbursement for US staff members. The following facts were recently presented to the attention of the US Government:

a. As a result of International Labour Organization Administrative Tribunal (ILOAT) judgements, the IAEA and many other organizations have been for several years reimbursing US staff members for US taxes based on a "Last income" method. At the same time the "First income" basis has been used by

IAEA (as per Tax Reimbursement Agreement –TRA) and other organizations to invoice the United States;

b. A survey conducted by HLCM has shown that most organizations have switched or are planning to switch from the "First income" method of reimbursement to the "Last income" method, as a result of the ILOAT judgements.

112. Consequently, organizations using the "Last income" method to reimburse US staff members and being reimbursed by the United States on the "First income" basis, are financing part of the tax reimbursement. In effect, other Member States are paying a portion of US taxes on UN emoluments that are, in principle, "tax-free".

113. In a letter dated April 28, 2008, the US Mission in Vienna explained again their reasons and confirmed the firm intention to keep reimbursing organizations on a "First income" basis, and re-iterated their intention not to enter in negotiations to revise the current Tax Reimbursement policies or agreements with UN system organizations. The details of the arguments provided are better found in the relevant correspondence.

➢ **Conclusions and Action Points**

114. **The FB Network took note of the exchange of correspondence between IAEA and the US Mission in Vienna, and underlined the importance of a coordinated and coherent approach by UN system organizations to this important and onerous issue.**

115. **The Network agreed position already expressed by the UN system organizations in the presented correspondence will be re-iterated and formally presented once again to the US Administration via the HLCM Legal Network. In case of absence of concrete results, the issue will be presented to the HLCM for an even stronger action.**

XIII. Open discussion on proposed action to address the effect of dollar weakness on UN pensions

[Gary Eidet, IAEA]

(JSPB/55/R.39 and Addenda 1&2)

116. The Co-Chair of the FB Network, Mr. Gary Eidet, summarized the contents of the "Study on impact of currency fluctuation on UNJSPF pension benefits" (JSPB/55/R.39, Note by the Secretary, UNJSPB), as well as a Note by the Consulting Actuary (JSPB/55/R.39/Add.2).

117. The impact of currency fluctuations on UNJSPF pension benefits and the variations in amounts due as a result of different separation dates have been studied frequently throughout the history of the Fund's Pension Adjustment System and most recently in 2006. The impact of currency fluctuations on local currency track benefits is more evident during cycles when the US dollar loses significant value over a relatively short period of time. The new study was prepared on the basis of a note presented by the IAEA SPC.

118. The study examines the wide variations in local currency track benefits and thus in income replacement (I/R) ratios, which result from different applicable exchange rates between 2002 and 2005, and considers different possible measures to mitigate the effect of currency fluctuations.

119. The Network expressed appreciation for the quality and comprehensiveness of the analysis proposed in the study.

120. With respect to the possibility of using 120 month average exchange rates (instead of 36 month average rates) to determine the local currency track amounts for Professional staff, the Network was in general agreement with the fact that expanding the applicable range of exchange rates would represent an effective mitigation measure against the experienced variations in pension benefits. Such a measure would spread the currency risk, as well as the potential for gain, over a longer horizon thereby reducing the steep variations that have been experienced in the past as a result of different dates of separations.

121. Network members also noted that appropriate evaluations should be made regarding the costs for organizations of any such proposed measures with respect to the organizations' contribution to the UNJSPF and the overall cost of the two-track system.

122. Some organizations also underlined the fact that any analysis of the Fund's performance and of any corresponding surpluses should take into appropriate consideration the relative value of the underlying currencies. The possibility of providing for a minimum income replacement ratio (i.e. 60%) was also supported by some as a possible means to address the impact of currency fluctuations.

- **Conclusions and Action Points**

123. **Organizations would review in greater detail the analyses and recommendations presented in the UNJSPB documents, with a view to developing their position for a comprehensive discussion of the matter at the upcoming UNJSP Board meeting of 9-18 July.**

XIV. Nomination of FB Network representatives in HLCM and joint HR/FB working groups

124. The Network Co-Chair, Mr. Jay Karia, recalled that a number of joint HR Network/FB Network working groups had been recently established. The outcome of each working group was expected to have significant financial implications and therefore required direct involvement of FB professionals, as per mandate of HLCM. FB Network members were requested to communicate their interest and nominate candidates for such groups.

(i) Working Group on Long Term Care

(Provisional Terms of Reference: CEB/2008/HLCM/HR/14)

125. In response of the emergence of loss of autonomy as a distinct social "risk", a HR Network working group has been established to explore the opportunity of developing a common

system approach to providing Long Term Care insurance coverage as part of United Nations system organizations' overall social insurance arrangements. The organizations participating in the working group with HR professionals are: IAEA, ILO, FAO, UN, UNESCO, UNFPA, UNWTO, WHO.

126. It was considered critical that this joint working group, while exploring the opportunity of developing a common system approach to providing Long Term Care insurance coverage as part of United Nations system organizations' overall social insurance arrangements, carefully evaluates all the financial implications any such options would imply. Implications should be carefully evaluated particularly in connection with the IPSAS requirement to disclose the accrued liabilities on the face of the financial statements and with the opportunity and sustainability to fund these supplementary liabilities. The working group would consider a range of different scenarios to provide for long term insurance facilities, including the provision of voluntary schemes outside of but complementary to the UN-sponsored medical insurance schemes.

- **Conclusions and Action Points**

127. **The following organizations declared their interest in participating in the working group on Long Term Care, and would nominate representatives from their respective financial offices: UN (Vera Rajic and Patrick Goergen), ILO (Clifford Kunstler, current Chair of the WG, who combines both HR and FB profiles), UNWTO.**

128. **The HR Network would review and finalize the Terms of Reference for this Working Group.**

(ii) Review of current mechanism and functioning of Appendix D

(Terms of Reference to be developed)

129. The Appendix D to the UN Staff Rules covers staff members for compensation in the event of death, injury or illness attributable to the performance of official duties on behalf of the United Nations. Depending on the nature of the clinical elements and circumstances, staff members may be entitled to receive reimbursement of medical expenses. In cases where a loss of function or limb is involved, staff members may be entitled to compensation.

130. The accounting for Appendix D is currently on "pay as you go" basis, and no provisions are made to accrue for the costs of such programme under the regular budget of the United Nations. The entire mechanism would need to be revised, in particular with respect to its funding arrangements. The core of the issue is of an administrative/process nature, i.e. studying alternative means to compensate the staff "*in the event of death, injury or illness attributable to the performance of official duties on behalf of the United Nations*", discontinuing the maintenance-heavy payment of periodic (monthly) allowances and moving instead to some sort of "lump-sum" solution. It would be important for this WG to analyze Appendix-D-type entitlements with any additional/complementary/substitute entitlements linked to the regular medical insurance schemes, so that there is consistency

and clarity on eligibility, premium and total compensation (and consequent liabilities) in such events.

➢ **Conclusions and Action Points**

131. **The FB Network would take the lead in the review of current mechanism and functioning of Appendix D. The following organizations declared their interest in participating in this working group and would nominate candidates in representation of the FB Network: UN, FAO, and UNESCO (to be confirmed).**

132. **Ms. Vera Rajic, UN, would lead and coordinate the work of the group (supported by Tana Lambrakos and Jasminka Haznadar), including for the development of draft Terms of Reference.**

(iii) Standards of accommodation for air travel in the UN system

(Terms of Reference to be developed)

133. In response to a call by the UN General Assembly to the Secretary-General to initiate a review of the standards of travel with a view to adopting a common policy, HLCM decided to establish a joint HR/FB Network working group to conduct a system-wide discussion and develop a common recommendation on harmonized standards of air travel.

134. The working group would build on the recommendations and conclusions of ICSC, JIU and Medical Doctors, as well as on comparative analysis of standards applicable in Member States and in other international organizations. Resulting recommendations would have to cover all travel-related entitlements and would have to be supported by an analysis of the financial implications.

➢ **Conclusions and Action Points**

135. **The following organizations declared their interest in participating in this working group and would nominate candidates in representation of the FB Network: ILO, ITU, UN (Anton Bronner), UNDP, UNESCO (Bureau of the Budget), WHO (to be confirmed).**

136. **The CEB Secretariat would coordinate the organization of a first meeting of the group to launch its activities. The working group would prepare Terms of Reference and present them to the FB and HR Networks for review and endorsement.**

Annex I - Agenda

JOINT SESSION OF THE FINANCE AND BUDGET NETWORK & THE TASK FORCE ON ACCOUNTING STANDARDS

(Morning of Wednesday 2 July 2008)

Opening of the Joint Meeting
(Gary Eidet and Jay Karia, Co-Chairs of the FB Network)

1. **Guidance on Consolidation** (Prof. Frans van Schaik, Deloitte)
   - Draft paper of 31 May 2008

2. **IPSAS and Budget implications: Next steps** (Gary Eidet and Mija Jeon, IAEA)
   - CEB/2008/HLCM/FB/7

3. **Briefing on the discussion and outcome of the Task Force meeting**
   (Jay Karia and Gwenda Jensen, UN) - CEB/2008/HLCM/FB/6

MEETING OF THE FINANCE AND BUDGET NETWORK

(Afternoon of Wednesday 2 July 2008 to Thursday 3 July 2008)

4. **Off shoring of administrative functions**
   (Karen Farkas (UNHCR) and Nick Jeffreys (WHO))

5. **Cost recovery policies** (Yolande Valle, UNESCO and Ashok Nigam, UNDG)
   - (a) Report of the WG, CEB/2008/HLCM/FB/12;
   - (b) Proposed ToR of the WG, CEB/2008/HLCM/FB/13;
   - (c) Proposed ToR for Business Practices, CEB/2008/HLCM/FB/10

6. **UNDG/FB Network coordination**
   (Subhash Gupta, Working Group's Prioritized Work Plan 2008)
   - Excerpt from the Provisional UNDG 2008 Work Plan

7. **Progress of work on Harmonization of Financial Regulations and Rules**
   (Subhash Gupta, UNFPA)

8. **Feasibility study for putting in place "Common Treasury Services"**
   (Nick Jeffreys, WHO and Bambis Constantinidis, IFAD) - CEB/2008/HLCM/FB/9

9. **Foreign exchange rate provisions for EC funded projects** (Nick Nelson, FAO)
   - CEB/2008/HLCM/FB/8; CEB/2008//FB/VIII/INF.1

10. **Harmonization of Donor Reporting** (Nick Jeffreys, WHO)
    - WHO Powerpoint presentation and UNDG Note of Sept. 2006 on "Harmonized Financial Reporting to Donors in Joint Programming"

11. **Informal exchange of information on current investigation on cases of fraud and corruption**

12. **Tax reimbursement for US Staff Members** (Gary Eidet)
    - Latest correspondence with the US Mission

13. **Open discussion on proposed action to address the effect of dollar weakness on UN pensions**
    - Excerpt from HLCM's report of March 2008 and JSPB supporting documentation, JSPB/55/R.39 plus Addenda 1&2

14. **Nomination of FB Network representatives in HLCM and joint HR/FB working groups:**

    (i) Working Group on Long Term Care - Terms of Reference: CEB/2008/HLCM/HR/14
    (ii) Review of current mechanism and functioning of Appendix D - ToR to be developed
    (iii) Standards of accommodation for air travel in the UN system – detailed ToR to be developed

15. **Open discussion on any other business**

Annex II - List of Participants

Organization	Name & Title of Representatives	Email	Task Force Mtg	FB Network Mtg	Joint Session
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Organization	Name & Title of Representatives	Email	Task Force Mtg	FB Network Mtg	Joint Session
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