

**Administrative Committee
on Co-ordination**ACC/1996/15
12 September 1996**REPORT OF THE EIGHTY-FIFTH SESSION OF
THE CONSULTATIVE COMMITTEE ON ADMINISTRATIVE QUESTIONS
(FINANCIAL AND BUDGETARY QUESTIONS)
(New York, 26-30 August 1996)****CONTENTS**

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Introduction

1. The Consultative Committee on Administrative Questions held its eighty-fifth session on financial and budgetary questions from 26 to 30 August 1996 at United Nations Headquarters in New York. Mr. Daniel Daly (UNESCO) was Chairman and Mr. Olivier Tayar (WFP) was Vice-Chairman. The agenda adopted by the Committee, which also lists the documents submitted, may be found in annex I. A list of the participants appears in annex II.

PART I - Matters to be brought to the attention of the Administrative Committee on Coordination

Current Budgetary Pressures

2. The Committee had an extensive discussion of budgetary issues facing the organizations of the United Nations system. In doing so, the Committee focused on the situation of organizations with assessed budgets. All organizations were facing some degree of budgetary pressure, with budget restrictions compounded in most cases by cash problems stemming from the non-payment and/or delayed payment of assessed contributions. Pressure on assessed budgets was often accompanied by reductions in voluntary and overhead resources. Budget reductions in real terms had been experienced by a number of organizations.

3. Most Executive Heads had attempted to limit the impact of budgetary restrictions on mandated programmes by focusing reductions on administration and support services. Measures implemented in this context included efforts to improve efficiency and cost-effectiveness, but inevitably also included real reductions in services provided.

4. Inevitably, the scale of budgetary reductions experienced had required staff reductions in most organizations. Staff reductions had been achieved through attrition, with redeployment programmes to accommodate staff displaced, and, in some organizations, incentive measures to increase the overall level of staff reductions.

5. As budgetary and cash pressures persist and increase, the scope for accommodating real resource reductions without significant programme reductions is becoming more limited. The Committee noted that many efficiency gains have already been realized. A continuing climate of retrenchment and financial crisis can only have a negative impact on organizations' capacity to recruit and retain the high quality staff needed to deliver mandated programmes.

6. It was agreed that the Chairman would communicate in more detail the Committee's conclusions on this subject to the forthcoming meeting of CCAQ as a whole.

Programme and budget

CCAQ(FB) consideration of budgets of jointly-financed bodies and resource guidance levels for 1998-1999

7. As recommended to ACC in ACC/1995/20, paragraph 5(a), the Committee considered resource guidance levels for each of the jointly-financed bodies with respect to the programme budgets for the financial period 1998-1999. The Committee's recommendations are attached (Annex III). In making these recommendations the Committee took into account the extent to which these bodies had responded to the United Nations' request for reductions from the level of their initial approved budgets for the current biennium. It was noted that CCAQ and ISCC had been able to meet the reduction targets requested by the United Nations and that, while unable to meet the target reductions in full, the ICSC and CCPOQ had also proposed reductions in their budgets.

8. The Committee noted with regret that JIU had not been able to make reductions to its budget of similar proportions and that, taking into account the latest estimates of the likely post incumbency rate for the remainder of the biennium, the revised JIU budget for 1996-1997 showed an increase of over \$500,000 above the initially approved budget. The Committee concluded that in setting resource guidelines for the next biennium the dollar levels in the target budgets for 1996-1997 proposed by the United Nations should be used as a base. It was felt that there should be no nominal increase for such bodies beyond adjustment for currency fluctuations and statutory salary increases. In addition, the scope for economies should be pursued actively. In the case of the

secretariats of CCAQ, CCPOQ and ISCC, economies could be achieved through co-location and the consequent flexibility in sharing of staff and other resources.

Role of JIU

9. The Committee recalled that JIU had been the subject of extensive discussions at recent sessions, particularly with regard to the costs/benefits of its activities. Furthermore the Committee was concerned that in the past it had reviewed proposed JIU budgets and had recommended cost reductions but that they had not been implemented in the approved budgets of that body.

10. In response to the request of the Under-Secretary-General for Administration and Management of the United Nations, the Committee agreed that the Chairman would communicate to him its analysis of issues relating to the work of JIU that may be relevant to the assessment to be conducted by ACC thereon.

Organizational questions

Election of Chairman and Vice-Chairman

11. The Committee elected Mr. Abdelkhalek Tazi-Riffi (ITU) as its Chairman for a two-year term of office starting from its first regular session of 1997. It elected Mr. Abraham E. Espino (IAEA) as its Vice-Chairman for the same period.

Functioning of ACC and its subsidiary bodies

12. The Committee discussed the review currently under way of the functioning of the subsidiary machinery of the ACC. Participants recalled that there had been significant changes in the work of the Committee over recent years. Responding to the concerns of ACC, CCAQ(FB) had changed its work programme to concentrate on policy issues related to financial and budgetary management. Certain items are dealt with on an inter-sessional basis by correspondence and by the use of electronic communication methods.

13. The Committee has been very aware of resource constraints and has been careful to minimize the use of sub-committees or standing working groups. Ad hoc Working Parties, such as that on Accounting Standards, have proven cost effective. CCAQ(FB) has devoted more time to budgetary issues and focused on the exchange of useful information in order to identify potential system-wide productivity savings in the finance and administration areas.

14. The Committee believes that it has been responsive to ACC concerns and would welcome any proposals by ACC for items to be added to its work programme.

PART IIA - Action taken and decisions adopted by the Committee

General financial systems

Accountability

15. The Committee reviewed and approved on behalf of ACC the text of the ACC comments on the JIU Report (JIU/REP/95/2) on Accountability, Management Improvement and Oversight in the United Nations System. The Committee discussed recent developments. Organizations were requested to communicate to the secretariat by 4 September 1996 any significant developments particularly in the area of oversight and evaluation. The secretariat was requested to compile responses from organizations on such developments and to provide this as background information for the forthcoming meeting of the CCAQ as a whole, to be held in New York on 18 and 19 September 1996.

JIU report on travel in the United Nations

16. The Committee reviewed, and approved on behalf of ACC, comments on the JIU report on Travel in the United Nations: issues of efficiency and cost savings (JIU/REP/95/10).

Accounting and financial reporting

Accounting standards

17. The Committee reviewed, and approved on behalf of ACC, a report to the General Assembly covering the work undertaken on the standards since 1993, the date of the previous report (A/48/530). The report also covers organizations' experience in applying the revised standards to the latest financial statements, and plans for future development work, which will be undertaken by a CCAQ(FB) Working Party.

Audit opinions

18. The Committee reviewed a letter to the Secretary-General from the Chairman of the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency concerning a proposed new text for audit opinions. Most organizations indicated that the proposed text, with some minor modifications, was acceptable but cautioned that appropriate changes to their Regulations and/or Rules would be necessary before implementation. Four organizations indicated that in their opinion the proposed changes weaken the present text of the audit certificate defined in the additional terms of reference governing the external audit as stated in their Financial Regulations.

19. The Committee reviewed and approved on behalf of ACC the draft text of a letter from the United Nations Under-Secretary-General for Administration and Management to the Chairman of the Panel of External Auditors conveying this information.

Organizational questions

Time and place of the next session

20. The Committee recalled that its spring session was normally held in an European city and accepted the kind invitation of the IAEA and UNIDO to act as co-hosts in Vienna for the

forthcoming eighty-sixth session. The Committee agreed that the meeting would best be held in the week of 10-14 February 1997.

Work programme of the secretariat

21. The Committee agreed that the work programme of its secretariat up to the next session would need to include the following items:

- (a) Preparation of information for the meeting of CCAQ as a whole as follows:
 - (i) Compilation of responses by organizations on updates to the JIU report on accountability;
 - (ii) Preparation of background information on collection of contributions and on the budgetary situation of organizations,
- (b) Preparation of briefing notes on the proposed programme budgets for 1998-1999 for the jointly-financed bodies.
- (c) Completion of work on the ACC statistical report on the budgetary and financial situation of organizations of the United Nations system.
- (d) Finalization of the biennial report on Health Insurance.
- (e) Preparation of Terms of Reference for the proposed Working Party on Accounting Standards and compilation of responses from organizations on reactions by governing bodies to the financial statements for the financial period ending 31 December 1995.
- (f) Compilation of responses to a questionnaire on the treatment of support cost earnings and related expenditures in organizations' budgets.

- (g) Preparation of a background paper on jointly-financed bodies, giving cost-sharing allocations to participants based on budgets for 1996-97.
- (h) Preparation of revised information notes on Voting Rights and on Borrowing.
- (i) Preparation of the regular report on Collection of Contributions.
- (j) Updating of the CCAQ Handbook to cover 1996 sessions.
- (k) Continuing Liaison with CCPOQ on the proposals for changes to subsectors in the ACC classification system; continuing liaison with CCAQ(PER) on proposals for long-term health care insurance coverage.
- (l) Update the paper on Operational Rates of Exchange.

PART IIB - Other items discussed

Programme and budget

Budgeting methods

22. The Committee noted information provided on the progress made by UNICEF, UNFPA and UNDP in reviewing the differences in their budget formats and developing suggested possible harmonization. The Committee agreed to revert to this subject at its next session, when it would be informed about the outcome of consideration of this subject by the Executive Boards of these bodies.

Accounting and financial reporting

Accounting standards

23. The Committee discussed the experience of organizations in applying the revised United Nations accounting standards to the preparation of financial statements for the financial period ending 31 December 1995. It was agreed that there were a number of areas where further development work was needed on the standards and that accordingly a Working Party on Accounting Standards would be convened after governing bodies of organizations had reviewed the financial statements. The secretariat was requested to draw up draft Terms of Reference for the Working Party.

24. The Chairman of the Technical Group of the Panel of External Auditors informed the Committee of the outcome of the December 1995 meeting of the Technical Group. Issues discussed at that meeting included the provision for delays in receipt of contributions; disclosure of contingent liabilities in the event of any deficit/imbalance in pension funds; audit opinions; and audit access by donors. The Committee will be informed at its Spring session in 1997 of the views of the Panel of External Auditors on these issues, as discussed at the Panel's next meeting, which is scheduled for December 1996.

Agency financial and audit reporting to UNDP

25. At its last session the Committee welcomed an initiative by UNESCO for a proposed simplification of reporting processes, which had the potential for improving productivity system-wide. Since then other organizations have considered the matter and agreed that they too could adopt the proposed simplified processes. The new reporting processes would also apply to UNFPA. The Chairman will write to the Chairman of the Technical Group of the Panel of External Auditors on this subject.

Support Costs

26. Participants exchanged information on the levels of support costs currently charged for trust funds. It was confirmed that all organizations continue to charge 13 per cent support costs with the exception of certain types of activities. UNDP briefed the Committee on the decision of its Executive Board in May 1996 to move to a flat rate of 10 per cent with regard to reimbursement of the cost of administrative and support services to the five large agencies, effective 1 January 1997. The decision called for continuation of the existing cost measurement system as well as ex post facto reporting on actual versus reimbursed support costs. UNDP clarified that the current regime of support cost arrangements for the smaller agencies will continue to apply, i.e. a flat rate of 13 per cent of project implementation expenditure as well as flexibility provisions to compensate for diseconomies of scale arising from the relatively small volume of activities undertaken by the smaller agencies. Detailed plans for implementation were still in preparation and a working policy paper was to be discussed at an Inter-Agency Consultative Meeting (IACM) scheduled for 19 September 1996, to coincide with the forthcoming session of CCPOQ.

27. The Committee expressed concern that the members affected by the changes had not been included in the consultative process. This process should ensure coordination of the input of both programme and financial managers in affected organizations, so that each organization could provide a definite, comprehensive view of the proposals. Such changes have financial policy implications in addition to their impact on reporting and control systems. Early clarification was needed on the question of continued cost measurement surveys, their cost and who was expected to pay for them and the review of the levels of reimbursement for the new system support for policy and programme development (SPPD) and system support for technical services (STS). Doubts were expressed on the usefulness of ex post facto reporting in view of the fact that actual support costs were well in excess of the 10 per cent indicated reimbursement rate. Ex post facto reporting was in itself a costly and time-consuming exercise.

28. In the past such important matters had been reviewed in joint CCAQ(FB)/CCPOQ meetings and the IACM was not necessarily the appropriate forum. While UNDP had indicated that CCAQ(FB) representatives would be welcomed at the IACM, the Committee felt that there was insufficient notice of the meeting and it would be difficult to justify additional travel costs so soon

after attending the current session of the Committee. Accordingly, participants would have to fully brief their programme representatives attending the IACM on possible financial implications that should be taken into account.

ACC programme classification: Status of CCPOQ update

29. The Committee was informed of the status of the work by the CCPOQ Task Force which is undertaking a review of the ACC standard classification in the light of changing programmes and the requirements for follow-up and reporting on a number of recent and forthcoming global conferences. It was likely that some changes would be made to some subsectors but these were the subject of ongoing consultation and would only be applicable to reporting for the 1998-1999 biennium, not for the next report which would cover programme activities for 1996-1997. The Committee will revert to this subject after firm proposals for changes are available from CCPOQ.

Cash management

30. The Committee reviewed information on the use of internal and/or external borrowing to meet cash flow problems and the extent to which such borrowing was permitted by their governing bodies or by financial rules and procedures. It also reviewed information on arrangements for the use of payment schedules and how they were tied to preservation or reinstatement of voting rights in the rules or procedures of the organization. It was agreed that the secretariat would undertake further work on the information notes prepared for this session and that the Committee would revert to this subject at its next session.

Deposit and investment arrangements

31. As is the Committee's practice at each session, participants held a private exchange of information on matters of current interest in relation to the safety of organizations' cash assets.

General financial systems

Extrabudgetary activities financed by the Commission of the European Union and the World Bank

32. The Committee was informed that the agreement negotiated by the United Nations with the Commission of the European Union had been extended for a further year. The Committee was also briefed on the status of current negotiations with the World Bank on new standard pro forma agreements. An agreement had been finalized with regard to services provided on a sole source basis.

Internal controls

33. The Committee held a private discussion related to the detection and prevention of fraud, and to other internal control matters.

Productivity improvement: Computer and other electronic systems

34. In line with its practice at recent sessions, the Committee continued its regular discussions on this subject. The Chief of the United Nations Integrated Management Information System (IMIS) Project made a presentation on some of the key issues and challenges in successfully implementing IMIS, with special reference to Release 3. The ensuing discussion covered the extent of involvement of finance staff in the development of the project, substantial additional costs to be incurred well in advance of the benefits to be obtained from the project, and the major impact on work methods and staff patterns.

35. FAO briefed the Committee on the status of the information systems developments currently being undertaken.

36. WHO briefed the Committee on the outcome of an inter-organization meeting held in Geneva in July 1996 on the subject of Information System Support in the areas of finance and administration. Information was exchanged on existing information systems and major

developmental activities in the area of administration and finance, including client-server applications and downsizing of mainframe applications. A new Health Insurance Information System, a joint UNOG/ILO/ITU/WHO development project, is under user acceptance test and is an example of potential cost savings and productivity improvements that can arise from the sharing of applications by organizations.

37. The Committee reviewed the status of UNDP's project for the electronic transfer of Inter Office Vouchers, which offered the potential for considerable savings and was at present being tested in a limited number of organizations. It was agreed that the Committee would revert to this subject at its next session after interested organizations had consulted further internally and with UNDP on the software and other implications of such a move.

38. The Committee discussed the potential savings from publishing manuals and other reference material using optical disk technology or an INTRANET. It also reviewed productivity and other issues associated with investment in personal computers.

Other financial and budgetary questions

Operational Rates of Exchange

39. The Committee decided to defer to its next session the question of the procedures for establishing operational rates of exchange and the policy implications of any changes. The secretariat was requested to revise the information note on the existing practices, and to circularize organizations concerning the issues they wish to raise on this subject at the Committee's next session.

Health insurance

40. The Committee decided to defer this issue to its next session.

ANNEX I

Agenda adopted by the Committee on 26 August 1996

<u>Item</u>	<u>Document</u>
1. Adoption of the agenda	ACC/1996/FB/R.16/Rev.1
2. Programme and budget	
2.1 CCAQ(FB) consideration of budgets	ACC/1996/FB/R.21 ACC/1996/FB/85/CRP.8
2.2 Budgeting methods	ACC/1996/FB/R.26
3. Accounting and financial reporting	
3.1 Accounting standards	ACC/1996/FB/R.17 ACC/1996/FB/85/CRP.1
3.2 ACC programme classification: status of CCPOQ update	ACC/1996/FB/85/CRP.4
3.3 Agency financial reporting to UNDP	-
3.4 Audit opinions	ACC/1996/FB/R.18
4. Payment of salaries and allowances	-
5. Cash management	
5.1 Current financial situation of organizations of the system	-
5.2 Deposit and investment arrangements	-
5.3 Borrowing	ACC/1996/FB/R.22 ACC/1996/FB/85/CRP.5
5.4 Voting rights	ACC/1996/FB/R.23 ACC/1996/FB/85/CRP.3

<u>Item</u>	<u>Document</u>
6. General financial systems	
6.1 Extrabudgetary activities financed by the Commission of the European Union and the World Bank	-
6.2 Internal controls	-
6.3 Productivity improvement	-
6.4 Accountability - draft ACC statement	ACC/1996/FB/R.15
6.5 Computer systems	-
6.6 Travel in the United Nations - draft ACC statement	ACC/1996/FB/R.20 ACC/1996/FB/85/CRP.7
6.7 Support costs	-
7. Other financial and budgetary questions	
7.1 Health insurance	ACC/1996/FB/85/CRP.6
7.2 UN Operational Rates of Exchange	ACC/1996/FB/R.19
7.3 Other questions	-
8. Organizational questions	
8.1 Election of Chairman and Vice Chairman	
8.2 CCAQ affairs	ACC/1996/FB/R.24 ACC/1996/FB/85/CRP.2
8.3 Time and place of the next session	ACC/1996/FB/85/CRP.9
8.4 Work programme of the secretariat	ACC/1996/FB/85/CRP.9
9. Adoption of the report of the session	ACC/1996/FB/85/CRP.9

ANNEX II

List of participants

Chairman: Mr. Daniel Daly
Vice-Chairman: Mr. Olivier Tayar
Secretary: Mr. Peter Leslie

Representative of member organizations:

United Nations

Ms. Susan R. Mills
Director, Financial Management Office
Department of Administration and Management

Mr. David Wengert
Director, Accounts Division
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Mr. Mark E.M. Gilpin
Chief, Contributions Service
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Mr. Gian Piero Roz
Chief, Integrated Management Information System Project
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Ms. Suzanne Bishopric
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UNICEF

Ms. Judy McPherson
Deputy Director, Financial Services
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Ms. Evelyn Creencia
Chief, Financial Accounts
Division of Financial Management

UNDP	Ms. Veronique Lavorel Director, Division of Finance Bureau for Finance and Administration
	Mr. James Currie Director, Division for Audit and Management Review
	Mr. Frederick Gazzoli Chief, Internal Audit Section Division for Audit and Management Review
	Mr. Alan Potter Chief, Accounts, Division of Finance Bureau for Finance and Administration
	Mr. Ad de Raad Chief, Budget Bureau for Finance and Administration
	Mr. Walter Gore Treasurer Bureau for Finance and Administration
UNFPA	Ms. Imelda Henkin Director, Division for Finance, Personnel and Administration
WFP	Mr. Olivier Tayar Deputy Director Finance and Information Systems Division
UNHCR	Mr. Wolfgang Milzow Treasurer
ITC	Mr. Joseph Smadja Director, Division of Administration
ILO	Mr. Anees Ahmad Treasurer and Financial Comptroller Assistant Director-General
	Mr. D. Colin McLean Director, Financial Services Department
FAO	Mr. Elmer S. Owens Director, Finance Division
UNESCO	Mr. Daniel Daly Comptroller

ICAO	Mr. John Maguire Acting Chief, Finance Branch
WHO	Mr. Edward Uhde Comptroller and Director Division of Budget and Finance
	Mr. Chand Kaul Chief, Finance
ITU	Mr. Abdelkhalek Tazi-Riffi Chief, Finance Department
WMO	Mr. David L. Sutton Budget Officer, Finance and Budget Division
IMO	Mr. Dayasiri Muthumala Head, Finance and Budget Section
WIPO	Mr. Philippe Favatier Director, Finance Division
UNIDO	Mr. Andrew Ingram Director, Financial Services Division
IAEA	Mr. Abraham E. Espino Director, Division of Budget and Finance
WTO	Mr. Jacques E. Chabert Director, Finance and General Services Division

Other representatives:

Panel of External Auditors	Mr. David Woodward Chairman, Technical Group of the Panel of External Auditors
CCAQ	Peter Leslie Associate Secretary

ANNEX III

Resource guidance levels for 1998-1999 budgets for jointly-financed bodies

The Committee recommends that the target budgets for 1996-1997, as communicated in February 1996 by the United Nations Under-Secretary-General for Administration and Management, be used as the base for budgets for 1998-1999. In the table below, column A shows the initial budget resources for 1996-1997 before the target reduction, column B shows the target reduction as indicated by the United Nations, and column C the target budget for 1996-1997. These amounts in column C should be used as the base for planning 1998-1999 budgets.

	A	B	C
	INITIAL APPROVED BUDGET \$'000s	TARGET REDUCTION \$'000s	TARGET BUDGET \$'000s
JIU	9 491.8	540.2	8951.6
ICSC	10 922.0	543.0	10379.0
CCAQ	1 969.3	109.0	1860.3
ISCC	1 687.5	69.0	1618.5
CCPOQ	1 042.0	55.3	986.7
