EXECUTIVE BOARD
120th Session
Provisional agenda item 6.3

EB120/21
14 December 2006

Amendments to the Financial Regulations and Financial Rules

Report by the Director-General

INTRODUCTION

1. The Secretariat has embarked on a far-reaching endeavour to modernize essential operational and administrative systems to support the results-based management framework to which the Organization is committed. A significant investment is being made in order to upgrade the systems used for budget and finance, planning and monitoring, payroll, procurement and human resources. In parallel with the system upgrades, WHO is participating in a United Nations system-wide review of financial policies and procedures to ensure that the best practices in the financial management of international public sector organizations are employed throughout the system.

2. That review has resulted in a decision, subject to approval by the respective governing bodies, to replace the United Nations System Accounting Standards (UNSAS) by the International Public Sector Accounting Standards (IPSAS) across the United Nations system by January 2010.

3. WHO plans to join the other United Nations system organizations in introducing IPSAS once it has the approval of its governing bodies. Certain financial regulations and rules will need to be amended to effect this decision. These amendments will be presented to future meetings of the governing bodies as the detailed requirements of IPSAS are further developed. For the time being, the United Nations System Accounting Standards have been amended[1] to permit the gradual introduction of individual standards until IPSAS is fully implemented in 2010.

4. The introduction of IPSAS will bring WHO into line with recognized best practices in public sector financial accounting and reporting. Furthermore, the move to modern and widely accepted accounting standards will reinforce the results-based management framework by providing more complete and transparent information about the financial situation of the Organization.

[1] See Annex I.

5. In addition to seeking the governing bodies' approval for introduction of IPSAS it is proposed to:

- revise Financial Regulation 4.4 in order to reflect more accurately the operation of the exchange rate facility;
- amend Financial Regulation 4.5 in order to ensure that funding remains available for a period into the next biennium to pay for goods and services for which legal commitments were made before the end of the biennium, but which were not delivered;
- abolish Financial Regulations 6.5 and 8.2, and Financial Rule 104.2 in order to discontinue the financial incentive scheme for Member States' assessments, which has not proved to be effective in encouraging prompt payment.

6. In its resolution 60/283, the United Nations General Assembly approved the adoption of IPSAS, together with the requisite resources. The report to the General Assembly on international public-sector accounting standards, including information on its Board, is set out in Annex II.

MAJOR EFFECTS AND BENEFITS OF USING THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

7. Introduction of IPSAS would entail a move to full accrual accounting from a mix of cash-based and modified accrual-based accounting. The present system treats obligations as expenditures at the time of commitment. For example, a contract that crosses bienniums can be fully accounted for (i.e. expended) in one financial period, even though work will continue into the next period. Accrual accounting records financial transactions in the period to which they relate. In the above example, the portion of the contract that has been fulfilled in each period will be accounted as expenditure to that period. This has the effect of recording expenditure at the time of delivery, rather than at the time of commitment. As a result, reporting on implementation and expenditure will be better aligned. Similarly, income will be recorded when it is earned – for example, at the time a legally binding donor agreement is signed – rather than when cash is received. This will permit earlier programme implementation.

8. Under IPSAS the financial statements will show fixed assets in much greater detail than at present. This will allow Member States to see the current values of their longer-term investments, for example in WHO buildings and vehicles. Currently, all capital items are recorded at the original purchase price and consolidated under a single line for Capital Assets in the financial statements.

9. The Organization's long-term liabilities, such as the cost of the commitment to provide employees with after-service health insurance, or the loan from the Swiss Government for a new building at headquarters, will also be clearly visible in the financial statements.

10. The use of internationally accepted accounting standards will improve the consistency and comparability of financial results across the United Nations system, and allow comparisons to be made with other public-sector and, to a degree, private-sector, organizations and entities.

11. The Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency supports the move to IPSAS because they are developed through a rigorous independent process.

12. A project has been established, under the guidance of the Comptroller, to analyse the key differences between the United Nations accounting standards and IPSAS and propose the necessary amendments to the Financial Regulations and Financial Rules to facilitate compliance with IPSAS. The project will also ensure that the necessary systems and training materials are in place before IPSAS is implemented.

AMENDMENTS TO FINANCIAL REGULATIONS RELATED TO THE EXCHANGE RATE FACILITY, REGULAR BUDGET CARRY FORWARD, AND THE FINANCIAL INCENTIVE SCHEME FOR MEMBER STATES' ASSESSMENTS

13. The proposed minor changes to Financial Regulation 4.4, set out in Annex III more accurately reflect the operation of the exchange rate facility, which is intended to "protect against" rather than "cover" foreign exchange losses. This is done through hedging operations, for which an appropriation is provided in the regular budget. The changes also clarify that any unused amount of that appropriation will be credited to Miscellaneous Income.

14. With expenditure being shown on the basis of delivery rather than legal commitment, regular budget appropriations not fully expended by the end of the biennium will revert to Miscellaneous Income, even when the funds have been legally committed. In order not to disrupt or cancel work in progress integral to the achievement of the biennium's expected results, adequate regular budget funds must be carried forward from one biennium to the next for activities that are started, but not completed before the end of the biennium for normal, operational reasons. For example, an order of essential drugs may arrive late owing to unpredictable manufacturing or shipping problems. A limited carry-forward provision is therefore necessary so that payments for which legal commitments exist at the end of a biennium can be made to suppliers. Such a provision has always existed in the past: it is only because of the new accounting definition of expenditure that a change in the wording of Financial Regulation 4.5 is now proposed.

15. To enhance transparency, the amount of funding carried over from one biennium to the next for such commitments will be shown separately in WHO's financial statements, and expenditure will not be reported until goods or services are delivered. The benefits are two-fold: implementation will be more closely aligned with expenditure, and WHO will be able to comply with the expenditure reporting requirements of IPSAS ahead of the 2010 deadline. It is expected, as a result, that the amount of funds carried over from one biennium to another will reduce, and the use of the carry over will be more clearly presented. The increased transparency will also permit corrective action to be taken in instances where the programme implementation rate is low, on account of late delivery.

16. It is proposed that the financial incentive scheme for Member States' assessments, should be terminated for reasons of administrative simplicity and efficiency, and its failure to improve the timeliness of payments by Member States. The scheme currently provides a credit to Member States which pay their assessed contributions before April of the year in which they are due. The scheme has not had any noticeable effect on payment patterns, and its termination will result in savings of between US$ 1 million to US$ 2 million per annum, which will revert to Miscellaneous Income. In order to end the scheme, it is proposed that Financial Regulations 6.5 and 8.2 and Financial Rule 104.2 should be abolished, as shown in Annex III.

ACTION BY THE EXECUTIVE BOARD

17. The Executive Board is invited to consider the following draft resolution:

The Executive Board,

Having examined the report of the Director-General on the proposed amendments to the Financial Regulations and Financial Rules, and the proposed introduction of the International Public Sector Accounting Standards,[1]

RECOMMENDS to the Sixtieth World Health Assembly the adoption of the following resolution:

The Sixtieth World Health Assembly,

Having considered the report on the introduction of the International Public Sector Accounting Standards (IPSAS) and associated amendments to the Financial Regulations proposed by the Director-General and endorsed by the Executive Board at its 120th session;

1. ENDORSES the introduction of IPSAS;

2. NOTES the change to the United Nations System Accounting Standards (UNSAS) that will permit WHO to introduce IPSAS progressively;

3. Further NOTES that the Director-General shall submit to the governing bodies for consideration at future sessions, proposals to amend the Financial Regulations and Financial Rules resulting from the adoption of IPSAS;

4. ADOPTS amendments to Financial Regulation 4.4 to clarify operation of the exchange rate facility, to be effective as from 1 January 2008, and to Financial Regulation 4.5 to permit Regular Budget resources to be carried forward to pay for commitments made before the end of a financial period and undertaken by the end of the first year of the next financial period;

5. DELETES Financial Regulations 6.5 and 8.2 in order to terminate the financial incentive scheme that has failed to encourage prompt payments of Member States' assessments, to be effective as from 1 January 2008;

6. CONFIRMS, in accordance with Financial Regulation 16.3, the deletion of Financial Rule 104.2 relating to the financial incentive scheme, to be effective as from the date on which the Health Assembly deletes Financial Regulations 6.5 and 8.2.

[1] Document EB120/21.

ANNEX I

AMENDMENT TO PARAGRAPH 3 OF THE UNITED NATIONS SYSTEM ACCOUNTING STANDARDS (UNSAS)

unanimously approved by the High Level Committee on Management at its twelfth session, Rome 30 September to 1 October 2006

Where individual organizations find it necessary to depart from the practice set out in the standards they should disclose the reasons for doing so in the statement of significant accounting policies included in their financial statements.

ANNEX II

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

(Annex I to the report to the General Assembly[1])

1. When United Nations system accounting standards were first developed, international accounting standards for not-for-profit organizations did not exist. Because of this gap, the Panel of External Auditors recommended that the United Nations system develop its own accounting standards. Since then, the International Public Sector Accounting Standards (IPSAS) have been developed for not-for-profit public sector organizations. IPSAS are a set of high-quality, independently developed accounting standards that require accounting on a "full accruals" basis, which is considered the best accounting practice by international organizations for the public as well as the private sector. IPSAS include detailed requirements and guidance that provide considerable support for financial statement consistency and comparability. They are the only international accounting standards applicable to public sector and other not-for-profit organizations.

2. The IPSAS standards are produced by the International Public Sector Accounting Standards Board, which is part of the International Federation of Accountants (IFAC), an international organization that represents 163 professional accounting institutions from 120 different countries. The development of new accounting standards requires a significant investment in people and time. The IPSAS Board is a dedicated independent international standard-setting body that uses strong due process, including public consultation and public meetings. It acts for the public interest rather than the interest of organizations preparing financial statements and provides benefits to public sector financial management and good governance, which depend on the existence of high-quality international public sector accounting standards.

3. The IPSAS Board currently includes representatives of Argentina, Australia, Canada, France, India, Israel, Japan, Malaysia, Mexico, the Netherlands, New Zealand, Norway, South Africa, the United Kingdom of Great Britain and Northern Ireland and the United States of America. It considers United Nations system issues when developing accounting standards. The United Nations system secretariats hold two observer places (United Nations and United Nations Development Programme) on the Board. Board observers participate fully in discussions and receive all meeting papers at the same time as other Board members. They have "full rights of the floor".

4. The IPSAS Board applies a policy that IPSAS standards will be the same as the International Financial Reporting Standards (the former International Accounting Standards) (IAS/IFRS) unless there are demonstrable reasons for public sector/not-for-profit differences. This policy is consistent with the principle of accounting standards convergence. The effect of this policy, combined with the generally accepted practice of applying IAS/IFRS where no equivalent IPSAS exists, is that approximately two thirds of the accounting standards under IPSAS adoption are the same as those that would apply under IAS/IFRS adoption. Although the not-for-profit differences in the other third of the applicable standards are important, the majority of the requirements in these standards remain the same as those in the equivalent IAS/IFRS standards. This means that the guidance and software developed for IAS/IFRS accounting is applicable to IPSAS accounting with no or little amendment. It

[1] Document A/60/846/Add.3.

also means that the financial information produced and standards applied are understandable and largely comparable between public and private sector organizations. This facilitates movement of accounting expertise between the two sectors.

5. More than 30 countries have either already adopted or are in process of adopting IPSAS for financial reporting by all or part of their public sectors. In addition, OECD, EC and NATO organizations have adopted IPSAS for their financial reporting. Where a public sector organization operates as a financial institution, IPSAS requires that the organization apply IAS/IFRS. Consistent with that requirement, development banks, such as the World Bank, the Asian Development Bank and the International Fund for Agricultural Development, apply IAS/IFRS.

ANNEX III

FINANCIAL REGULATIONS

EXISTING TEXT	**PROPOSED REVISED TEXT**
4.4 At the same time as budget proposals are approved an exchange rate facility shall be established by the Health Assembly, which shall set the maximum level that may be available to cover losses on foreign exchange. The purpose of the facility shall be to make it possible to maintain the level of the budget so that the activities that are represented by the budget approved by the Health Assembly may be carried out irrespective of the effect of any fluctuation of currencies against the United States dollar at the official United Nations exchange rate. Any net gains or losses arising during the biennium shall be credited or debited to Miscellaneous Income.	4.4 At the same time as budget proposals are approved an exchange rate facility shall be established by the Health Assembly, which shall set the maximum level that may be available to **protect against** ~~cover~~ losses on foreign exchange. The purpose of the facility shall be to make it possible to maintain the level of the budget so that the activities that are represented by the budget approved by the Health Assembly may be carried out irrespective of the effect of any fluctuation of currencies against the United States dollar at the official United Nations exchange rate. Any **amount unused** ~~net gains or losses arising~~ during the biennium shall be credited ~~or debited~~ to Miscellaneous Income.
4.5 Appropriations in respect of the regular budget for the current financial period may remain available for the following financial period to make it possible to carry forward an accrual for accounts payable in order to pay for all goods and services contractually due to be delivered before the end of the financial period.	4.5 Appropriations in respect of the regular budget for the current financial period may remain available for the following financial period ~~to make it possible to carry forward an accrual for accounts payable in order~~ to pay for all goods and services **resulting from legal commitments that were made before the end of the financial period, for completion the following year.** ~~contractually due to be delivered before the end of the financial period.~~
6.5 There shall be a financial incentive scheme which shall reward Member States that pay in full within the grace period set out in the Financial Rules. This financial incentive shall be calculated as a discount equivalent to interest calculated at the London Inter-bank Bid Rate for the period from the date of payment to the end of the grace period.	~~6.5 There shall be a financial incentive scheme which shall reward Member States that pay in full within the grace period set out in the Financial Rules. This financial incentive shall be calculated as a discount equivalent to interest calculated at the London Inter-bank Bid Rate for the period from the date of payment to the end of the grace period.~~
8.2 Any credits due to Members in accordance with regulation 6.5 shall be applied to offset Members' assessed contributions and shall be funded from Miscellaneous Income.	~~8.2 Any credits due to Members in accordance with regulation 6.5 shall be applied to offset Members' assessed contributions and shall be funded from Miscellaneous Income.~~

FINANCIAL RULES

EXISTING TEXT	**PROPOSED REVISED TEXT**
Rule IV – Provision of Funds	*Rule IV – Provision of Funds*
104.2 The grace period applicable under Financial Regulation 6.5 shall be 30 April.	~~104.2 The grace period applicable under Financial Regulation 6.5 shall be 30 April.~~

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