



**Executive Board of the  
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Programme, the United Nations  
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**UNFPA – Financial, budgetary and administrative matters**

**UNITED NATIONS POPULATION FUND**

**REVISION OF UNFPA FINANCIAL REGULATIONS AND RULES**

Report of the Advisory Committee on Administrative and Budgetary Questions

**I. Introduction**

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the Executive Director of UNFPA on the proposed revisions to the UNFPA financial regulations and rules (DP/FPA/2014/9). During its consideration of the report, the Advisory Committee met with the Executive Director who provided additional information and clarifications, concluding with written responses received on 29 May 2014.
2. In his report, the Executive Director indicates that the present revision, which represents version 10 of the UNFPA financial regulations and rules, will be presented to the Executive Board at its annual session 2014 for approval and will subsequently take effect on 1 July 2014. He also indicates that the prior revision of the rules, which took effect on 1 January 2012, was undertaken to reflect UNFPA adoption of the International Public Sector Accounting Standards. According to the Executive Director, the current revision, which takes into account the outcome of the joint UNFPA, UNDP and United Nations Children's Fund (UNICEF) working group on financial regulations and rules, is the culmination of a robust process undertaken by an internal working group.

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3. The Executive Director indicates that the revisions were formulated in consultation with the UNFPA Audit Advisory Committee, the United Nations Office of Legal Affairs and the United Nations Board of Auditors. **The Advisory Committee commends UNFPA for pursuing wide consultations with the relevant entities throughout this process.**

4. Upon enquiry, the Advisory Committee was informed that the revisions had taken into account the comments of the Office of Legal Affairs, as well as comments of the Board of Auditors, with the exception of the recommendation to bring forward the date of submission of the annual financial statements to the Board of Auditors from 30 April, as indicated in regulation 16.4, to 31 March. The Committee was further informed that, while UNFPA would endeavour to expedite the submission of its annual financial statements to the Executive Board, it was currently not able to commit to the 30 March submission date because of the time required for its global auditor to implement national execution audits, which pertain to the financial statements of hundreds of its geographically disparate implementing partners, prior to the consolidation of its financial statements.

5. The proposed revisions to the financial regulations and rules are laid out in table format in the report of the Executive Director, with the new text underlined and the deleted text marked by a strikethrough line. The table also provides a separate column for the justifications for the revisions. According to the Executive Director, the report contains 107 revisions, comprising: 13 revisions reflecting changes in accounting practice; 15 revisions due to changes in business practice; 24 revisions due to Executive Board decisions; and 55 revisions due to terminology updates. The comments and recommendations of the Advisory Committee on specific changes are contained in the following paragraphs.

## **II. Changes to the financial regulations and rules**

### *Regulation 2.1(c)*

6. The Advisory Committee notes that the definition of UNOPS contained in regulation 2.1(c) contains a bracketed reference to a document A/INF/48/8/Add.5, which is not a General Assembly resolution, but rather a record of various General Assembly decisions. During the discussion of the report of the Executive Director, the Committee suggested that the reference should be deleted and replaced by a reference to the pertinent General Assembly decision. The Advisory Committee was subsequently informed that the definition would be revised to retain only the reference to General Assembly decision 48/501 by which UNOPS was established.

### *Regulation 2.1(j)*

7. In regulation 2.1(j), the Advisory Committee notes that the definition of ‘Government’ has been revised in order to harmonize it with the definition used by UNDP in its financial regulations and rules. The Committee further notes that the terminology updates include a replacement of ‘State Member’ with ‘member state’. The Committee’s suggestion that the

term ‘Member State’ be capitalized was accepted by the representatives of the Executive Director.

8. The Advisory Committee was further informed that the term ‘territory’ had been added to the definition to include locations where UNFPA maintained an office during the period of time between a country’s declaration of independence and its admission to membership of the United Nations. The Committee enquired about the apparent omission from the definition of the term ‘Government’ of the governments of non-Member States that participate in the General Assembly as observers. **The Committee believes that it is important to provide clarity on these matters and therefore recommends that the requested response be provided to the Executive Board at the time of its consideration of the report of the Executive Director.**

#### *Regulation 2.2 H(i)*

9. The Advisory Committee notes that the new regulation 2.2 H(i) defines ‘handling fee’ as the separately identified amount to defray UNFPA costs associated with conducting procurement. Upon enquiry, the Committee was informed that the fee had been established through Executive Board decision 2005/12 and was currently set at 5 per cent of the total cost of commodities, which includes costs of freight and insurance.

#### *Rule 111.4*

10. As for the changes to rule 111.4, the Advisory Committee notes that the changes to this rule would, inter alia, delete ‘cost’ from the phrase ‘cost factors’. According to the Executive Director, the purpose of the change would be to enable the organization to encompass any other factors, in addition to cost factors, that may have led to the revision of the budget appropriation. Upon enquiry, the Committee was informed that with the adoption of the longer four-year budget cycle, UNFPA anticipated an increase in the range of factors that could determine possible revisions to the budget appropriation. **The Advisory Committee is of the view that this rule change could have a significant impact on the UNFPA budgeting process and recommends that it be kept under review.**

#### *Regulation 13.5*

11. In his revision to regulation 13.5, the Executive Director proposes, under exceptional circumstances, to place moneys, not required immediately, in investment instruments other than short-term instruments, as required by current regulations. He indicates that current regulations limit the UNFPA investment strategy to short-term instruments, which could constitute a limitation if the organization shifts from short-term instruments to other instruments, which may be the case when it hires an external investment company.

12. Upon enquiry, the Advisory Committee was informed that the phrase ‘exceptional circumstances’ had been used in relation to the investment of after-service health insurance

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funds. The Committee was further informed that the amendment to this regulation was meant to harmonize it with UNDP and UNICEF, whereby the three organizations had jointly agreed to hire investment management companies to invest their after-service health insurance funds. The Committee was also informed that, in order to ensure the best possible return on the investment of its after-service health insurance funds, UNFPA had decided to expand its investment horizons beyond liquid short-term investments, hence the proposed revision.

**13. While the Advisory Committee does not object to the amendment, which is meant to grant authority to the Executive Director to invest after-service health insurance funds in other instruments beyond liquid short-term instruments, the Committee is of the view that its wording, particularly the phrase ‘exceptional circumstances’, is vague and should be reformulated more precisely so as to accurately convey its intended purpose.**

*Rule 114.7(c)*

14. The Advisory Committee notes that the change to rule 114.7(c) seeks to eliminate the need to submit monthly petty cash accounts with respect to petty cash advances. Upon enquiry, the Advisory Committee was informed that there was a requirement at all times for the UNFPA office to be able to account for cash and that the specific reporting requirements and frequency were embedded in the petty cash management policy. Furthermore, the Committee was informed that the reporting requirements for this purpose belonged to the policy area and were reflected in the revised petty cash management policy.

15. Upon request, the Advisory Committee was provided with a copy of the UNFPA petty cash management policy document, according to which, reconciliation reports are required to accompany petty cash replenishment requests, although no periodicity is prescribed for these reports. It also indicates that petty cash counts are required not less than twice a year. The Committee further notes the requirement to reconcile petty cash on hand with the UNDP Atlas general ledger no less than four times a year, according to the petty cash management policy document.

**16. While taking note of the above control mechanisms, the Advisory Committee remains of the view that the elimination of the requirement for monthly petty cash reporting equates to a less rigorous control framework. However, the Committee believes that this matter should be addressed at the policy level and not necessarily through the financial regulations and rules.**

*Regulation 15.2(a)*

17. In regulation 15.2(a), the Advisory Committee notes that the term ‘environmental sustainability’ has been inserted as an example of factors to be considered under the best-value-for-money principle in procurement. Upon enquiry, the Committee was informed that, according to the UNFPA secretariat, the addition of the term ‘environmental sustainability’

was consistent with the United Nations system approach to procurement driven by the Procurement Network and the High-level Committee on Management. In the view of the Executive Director, it was also consistent with the priorities of the United Nations Secretary-General with regard to environment issues and best value for money. On the other hand, the committee was informed, upon enquiry, that the financial regulations and rules of UNDP and UNICEF did not contain a similar clause.

18. The Advisory Committee notes that best value for money is generally accepted throughout the United Nations system as a core principle underpinning good procurement practice. The Committee further notes that existing United Nations procurement guidelines list a broad range of cost and non-cost factors which need to be taken into consideration in order to determine best value for money. **Therefore, the Committee is of the view that, while the United Nations attaches importance to environmental sustainability in the general conduct of its activities, it is only one of several factors that should be considered when determining best value for money. As expressed in its report on United Nations procurement activities (A/67/801, paragraph 26), the Advisory Committee believes that additional elaboration and clarity are required in the application of the principle. In that regard, the Committee recalls that, after considering various reports on procurement activities, including the concept of sustainable procurement, the General Assembly, in its resolution 68/263, requested the Secretary-General to submit a report on these activities for its further consideration. It is therefore the Committee's view that citing environmental sustainability among the several factors to be considered in regulatory documents, such as financial regulations and rules, should be done on the basis of an outcome arising from discussion at the intergovernmental level. Therefore, the Advisory Committee is not in a position to recommend the insertion of 'environmental sustainability' in regulation 15.2(a) at this time.**

### III. Conclusion

19. Subject to its comments and recommendations set out in the preceding paragraphs, the Advisory Committee recommends that the Executive Board approve the proposed revisions to the UNFPA financial regulations and take note of the changes to the rules contained therein, both to take effect on 1 July 2014.

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