United Nations System **7 September 2022**

CEB
Chief Executives Board for Coordination

High-Level Committee on Management (HLCM)
Finance and Budget Network

CONCLUSIONS OF THE 38th MEETING OF THE FINANCE AND BUDGET NETWORK

23-25 May 2022

WIPO, Geneva

Contents

I. Introduction

1. The Finance and Budget Network (FBN) held its 38th session from the 23rd to 25th May 2022 at the WIPO office in Geneva. The meeting was co-chaired by Mr. Chandramouli Ramanathan, Controller, UN Secretariat, and Ms. Chitra Narayanaswamy, Director, Department of Finance & Budget (Controller), WIPO.

2. The FBN Co-Chairs opened the meeting and welcomed participants. The agenda was endorsed.

3. The ADG Mr. Andrew Staines welcomed the participants to WIPO on behalf of the Director-General.

II. Risk Management – Cyber security and impact on CFOs

Presenter: Mr. Nicolas Tinguely, Director, Cyber Security Services, KPMG Switzerland / Mr. Dennis Francis Murathaty, Chief Security Officer, Director, Director - Security and Information Assurance Division, WIPO.

Background

4. In the context of a complex geopolitical context, at the April 2022 HLCM several agencies spoke about the increased cyber security risk. It has been said that hacking is an unwanted growth area that every organization needs to be on top of in terms of acknowledging the risk to data, reputation and money, and, critically in terms of the risk mitigation. Recent attacks are reported to have occurred, including in April 2021 credentials from the UN ERP solution being identified on the dark web[1], and in early 2022, ICRC determined that servers hosting personal data belonging to more than 515,000 people worldwide were hacked in a sophisticated cyber-attack[2].

Discussion

5. A mentimeter poll was run by Mr. Simon Bower (WIPO) to assess entities readiness and awareness of cyber-security in their respective organizations.

a. Question 1 – *How aware are you of your exposure to cyber risk?*
Approximately 49% responded that they were very aware of exposure to cyber risk, 42% responded they were somewhat aware and the remainder, 9%, were barely aware.

b. Question 2 – *Who is the main operational 'owner' of Financial Cyber Risk in your organization*?
41% responded the Chief Information Officer/Chief Technology Officer; 27% responded the Chief Information Security Officer/Security Head; 29% responded the Chief Financial Officer/Controller; 2% the Chief Risk Officer; and 2% other.

c. Question 3 – *To what extent are you investing in your organization's information security?*
No-one responded that they were investing too much, 35% responded that they were investing enough; 57% indicated that they were not investing enough; and 8% did not know whether the amount invested was sufficient.

d. Question 4 – *Has your organization suffered a significant attack in the past 5 years?*
The response was 63% - Yes; 27% - No; and 10% - Don't know

6. A video clip was shown which was a presentation that was made by Ms. Jaya Baloo, Chief Information Security Officer, Avast Software, at the HLCM Risk Management Forum. The video focused on the rising cost of cybercrime and that ransomware is becoming one of the most profitable areas in cybercrime. She noted that entities are not upgrading and updating enough, exposing themselves to these risks. She emphasized that entities need to prioritize areas before they become too urgent. Ms. Baloo summarized some simple steps that entities can take to demand security – a) update your systems; b) upgrade where possible; c) use passphrases with complexity; d) use two factor authentication; e) use Anti-Virus, backups on and offline; f) use a VPN; use (appropriate) encryption and secure apps; and e) know when not to click. Key conclusions were for entities to understand security awareness and know what is at risk, see those risks live in the organization and then take action.

[1] https://time.com/6096271/united-nations-hack/
[2] https://www.icrc.org/en/document/cyber-attack-icrc-what-we-know

7. FBN members indicated that they need to follow-up with IT management within their organizations on cyber risk. Entities noted that they were at various degrees of recognition and response when it comes to cyber security with most generally at an early stage in addressing this issue. Members questioned whether entities could come together to provide a joint common system to address these issues and become more cost efficient in the area of cyber security. The FBN members indicated that entities should share information on these cyber-attacks to ensure a common understanding of the risks are and what policies entities have in place to address these attacks. Risks around banking are high and members suggested that the FBN should be jointly looking at these risks and looking for opportunities in collaboration and sharing information on cyber-attacks in the area of banking. Members recommended creating a group that reviews cyber-attacks and fraud, and can start by creating a database and sharing policies and practices that are in place thereby establishing a common minimum position in the system.

8. Mr. Tinguely made a presentation where he shared examples of real cases of cyber incidents, discussed what cyber risks CFOs should be concerned about, and how entities can better anticipate and better prepare themselves against cyber risks. He concluded that a) entities should accept being a ‘target’; b) ensure ‘crown jewels’ are identified and protected; c) do ‘offline’ backups; d) ensure there is a means of detection; e) put in place Operational Business Continuity Plans; f) and have an internal and external crisis unit.

9. A further follow-up video by Ms. Baloo was presented focusing on investments in security. The concept of *PHOSI – The potential harm of security incidents*, was introduced. PHOSI helps entities to determine what the actual risk is at stake. The PHOSI is collected per incident and reported cumulatively per month and per quarter. ROSI is the *Return on Security Investment* – A performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments. An online calculator called the KPN CISO App is available where entities can input their own values and calculate PHOSI. Ms. Baloo indicated that by using the PHOSI calculator in all steps of the security cycle it is possible to have a quick insight in the security posture of the organization. She encouraged entities to invest in security which would benefit the bottom line in the long term.

10. Mr. Murathaty (WIPO) presented WIPO’s approach in developing a cyber security strategy. The focus was on where the business environment is and what is changing in the business. Economic uncertainty, the evolving new normal, entry into new stages of the innovation ecosystem, digital transformation, culture change and New Senior Leadership and strategy are areas that were reviewed which is impacting WIPO’s disruptive transformation. WIPO conducted a threat modeling exercise to understand who the threat actors are that could potentially be attacking WIPO. The risk from a cyber-attack was placed very high by WIPO Senior Management. WIPO implemented an Information Assurance Strategy – focusing on Resources, Security Architecture, Governance, Integrated Risk and Compliance, Policies and Standards, 24/7 Monitoring and Response, Awareness and Education and Security Technologies. WIPO identified various KPIs in cybersecurity to measure impact.

11. WIPO also used independent assurance from external parties to measure the effectiveness of the design of the security program. The Next Gen Cybersecurity Strategy was developed by engaging with the business to understand the risk challenges and opportunities that they faced and this was integrated into the medium-term strategic plan. WIPO is looking at developing and training security champions within the business sectors where they are delegated risk management decisions and where they can make security decisions at a certain level with the support of the security division. WIPO concluded that a) management recognition of cyber security risks is paramount; there should be commitment from implementation of a governance for oversight of cyber security and allocation of appropriate resources; b) Engage actively with the cyber security team to create a cyber security program as the business should be involved in the definition of the program so there is shared ownership; c) promote a culture of security to change behavior around cyber security; d) request that cyber security teams demonstrate value on cyber security investments to identify and report on key matrix indicators; e) obtain oversight assurance; and, f) test cyber security plans.

12. The FBN members expressed their appreciation for having this item on the agenda and to the presenters for their interesting presentations by creating awareness on the risks and dangers to the UN system on cyber security. Members acknowledged that CFOs need to establish their role in cyber security, including the need for CFOs to meet regularly with CISOs in organizations to understand these risks and understanding what are best practices that CFOs could follow in this area. FBN members raised concerns about the cost impacts of ransomware attacks on UN entities and how entities would be able to financially cover these costs. A need was raised for the sharing of information within the FBN on cyber security and institutionalizing how CFOs address these critical risks and the need for a communication strategy on how entities handle these attacks. It was noted that as a system there should also be an awareness of which

type of attacker would target their UN system. FBN members noted that there may be a need for a one-time investment and a recurrent investment in cyber security. Members were also interested in hearing about the costs and investments in cyber security across entities and whether the issues on cyber security are being addressed in other networks ensuring that the FBN objectives do not overlap with other networks who may be responsible for cyber security issues. CFOs were encouraged to be supportive of the need to facilitate the conversation with IT networks and also invest in this area. The FBN could engage with the Digital and Technology Network (DTN) which includes the heads of IT on the business need to create solutions in the area of cyber security.

13. Presenters responded that there is a need to invest in ERP systems and integrate security immediately when systems are being developed. Some more mature advanced private entities have formed Security Boards, that includes CISOs, CIOs, CTOs, CFOs and Risk Managers, that are meeting on a regular basis and managing the risks around cyber security. Communication internally and externally is imperative and entities are advised to create communication plans to manage media, employees and external stakeholders when these attacks arise. Information sharing is key and it was suggested that entities look at the model developed by Information Sharing and Analysis Centre (ISAC) for guidance if the FBN wanted to create something similar within the UN system.

14. On the sharing of information, WIPO indicated that a policy has been agreed by the DTN where information security attacks are shared across the UN system. A pilot project was done by the DNS where entities shared information but the decision made was that the onus is on each entity to share information on cyber security attacks. A recommendation was made by a recent JIU report where each executive was tasked with performing a self-assessment of the cyber security posture and were to report on this self-assessment to their respective governing bodies. It was recommended that FBN members follow-up with their CISOs on these recommendations. Another recommendation included a proposal to the Secretary-General to consider a convergence of physical security and cyber security. It was also noted that a checklist is imperative to address when attacks are made and the steps that need to be taken and important to test the validity of backups to address any risks of ransomware. Calculating the costs of investment in cyber security may require the use of estimates and CFOs should be clear on the assumptions made for any investments to be made. The CEB Secretariat suggested that this work could be a stream within the Risk Management Forum with joint participation of the FBN including the heads of IT security.

Conclusions

15. FBN agreed that financial cyber risk awareness and ownership would be strengthened to greater collaboration between CFOs and CISOs within agencies and across relevant networks.

16. The FBN recognizes the risks that UN entities face of cyber-attacks and the potential financial impact. As a first step, FBN would collaborate with the HLCM Risk Management Forum to consult with DTN / UNISSIG and Legal network towards establishing a cross functional working group and developing a common approach and position on ransomware response and potentially other cyber risk matters, in line with the HLCM expected outline to develop common guidelines and tools for cybersecurity.

17. The FBN would work to develop a deeper understanding of cyber exposure and would examine mitigation strategies including cyber insurance.

III. The FBN’s role in implementing the recommendations and proposals set out in the report of the Secretary-general on “our common agenda”

A. Our common agenda report

Presenter: Mr. Volker Turk

Documentation:
- *General Assembly resolutions on Our Common Agenda 75/1 and 76/6*
- *Report of the Secretary-General on Our Common Agenda*

- *Common Agenda: Key Proposals*
- https://www.youtube.com/watch?v=QKqoKVhJBKQ
- https://www.youtube.com/watch?v=vbbjeYbYj5k

Background:

18. On the Declaration on the commemoration of the 75th anniversary of the United Nations, as adopted by the General Assembly in its resolution 75/1, Member States made twelve commitments aimed at addressing current and future challenges: 1. *Leave no one behind*; 2. *Protect our planet*; 3. *Promote peace and prevent conflicts*; 4. *Abide by international law and ensure justice*; 5. *Place women and girls at the centre*; 6. *Build trust*; 7. *Improve digital cooperation*; 8. *Upgrade the United Nations*; 9. *Ensure sustainable financing*; 10. *Boost partnerships*; 11. *Listen to and work with youth*; and, 12. *Be prepared.*

19. By the same resolution, the General Assembly requested the Secretary-General to report back with recommendations to advance Our Common Agenda. The "Our Common Agenda[3]" report looks ahead to the next 25 years and represents the Secretary-General's vision on the future of global cooperation and reinvigorating inclusive, networked, and effective multilateralism. The Secretary-General presented his report to the General Assembly in September 2021. The recommendations contained in the report can be grouped into four broad areas, namely:

1. Renewed solidarity between peoples and future generations
2. A new social contract anchored in human rights
3. Better management of critical issues of global concern like peace, the economy, health and our planet
4. A United Nations that is upgraded to meet the emerging challenges of the new era

20. The report includes various proposals, which build on existing treaties, the 2030 Agenda and the Paris agreement, and seeks to accelerate their implementation. Some of the proposals are addressed to the United Nations system, with a focus on innovation, digital transformation and strategic foresight. Strategic knowledge production is a key area of work driving the objectives for the UN system to make its knowledge, data and analyses available to the world. **The report highlights the importance of exploring ways to better harmonize budgeting and funding requests, ensuring that the different executive boards of agencies, funds and programmes work together and communicate, and always with a focus on programme delivery and results, rather than on financing**.

21. In its resolution 76/6 of 15 November 2021, the General Assembly *welcomed*, as a basis for further considerations by Member States, the report of the Secretary-General; **and r*equested* the Secretary-General** to inform Member States and **to engage in broad and inclusive consultations with** them, **all parts of the United Nations system**, and other relevant partners on his proposals, and to provide regular updates to Member States.

24. Role of FBN:
   a. What role can the FBN play to facilitate and support the delivery of the Common Agenda?
   b. How can we in a sustained manner support the role of the Secretary-General and the Chief Executives in its delivery? For example, can we increase coherence of interventions such as using the UN's joint programming approach?
   c. How can we synchronize our budgeting and funding requests (as stated in the Common Agenda) **mindful of the disparity in current policies and governance structures**?

22. Role of CFOs:
   a. How can the CFOs individually or in clusters contribute to the Common Agenda for their respective organizations?
   b. What role can the CFOs play to facilitate and support the delivery of the Common Agenda?

23. At its 36th Session, the FBN agreed to include in its agenda a risk management item on a regular basis as a good practice to embed and mainstream financial risk considerations in the network discussions.

[3] A/75/982

24. At its 42nd session in November 2021 the HLCM members considered the report by the Risk Management Forum – 'Analysis on emerging mid to long-term corporate risks from COVID-19' and discussed policy and operational issues that emerged from the organizations' response to the pandemic and that are bringing fundamental changes in the way the organizations work and deliver. The session also included a break-out group discussion which focused on Funding and Interaction with Member States (MS).

Discussion:

25. Mr. Ramanathan introduced the topic on the Common Agenda Report. The Common Agenda is the response to the 75th anniversary and is an assessment of where the UN is today, how the UN has evolved and where we are heading. The report focuses on repositioning the UN to deal with today's challenges while at the same time maintaining the UN Charter values. The report is a result of extensive consultation and represents the feedback from a variety of stakeholders defining an expectation of the role of the UN. It presents the UN system with two choices: 'breakthrough' or 'breakdown'. The report has four categories and the SG has spoken to 6 specific initiatives. The report focuses on solidarity and delivering together to deal with issues that we currently face as the UN. It addresses the underlying issues we face and tries to work with our current objectives, like the SDG's, but concentrates on the need for the UN to work together more coherently and efficiently.

26. It was stated that it is the responsibility of the CFO to understand the impact of the report as there are other divisions currently within entities who are engaging across the UN system to implement this report which may drive the priorities of an organization in a slightly different direction. The six items focused by the SG are as follows: a) Re-embrace global solidarity and working together; b) Renew the social contract between Governments and their people and within societies; c) End the term '*infodemic'* plaguing our world; d) Correct a glaring sport in how we measure economic prosperity and progress d) Think for the long term to deliver more for young people and succeeding generations; 5) A stronger more networked and inclusive multilateral system, anchored within the United Nations. The FBN needs to assess the role of the CFO individually and collectively in achieving these objectives.

27. Mr. Turk joined virtually from New York and discussed the topic on the Common Agenda. He stated that it is important to see how the work of the FBN can be linked to the objectives of the Common Agenda. In light of current and urgent developments, the Common Agenda report is the SGs intention to project the organization into the future. The issue of governance on global challenges is coming to the fore and putting the multi-lateral system to the test. How can we as a system strengthen the governance side to deal more effectively with global challenges. Overall member states have received the report in a very positive and constructive spirit. The Summit of the Future to be held next year is for the different parts of the effective parts of the governance multilateralism system to come together and see what type of effective multilateralism system we could have.

28. There is a strong position on the SGs vision of UN 2.0 and the quintet of change outlined in the Common Agenda Report which was outlined by Mr. Turk in the following areas focusing on its relevance to the FBN:

a) *Data* - the work on data is imperative in determining how we deal with the immense data sets we have as part of the UN system, like the information collected as part of the data cube. How do we analyze the data, how do we communicate this data and how does it influence policy position.
b) *Strategic Foresight* - by assessing what the future holds. We need to envision a scenario, and then determine if we envision a breakdown or a breakthrough scenario. In the case of a breakdown scenario, we need to assess our responsibility to prevent this breakdown.
c) *Behavioral Science* - how we can we influence behavior bearing in mind that people react differently to different situations.
d) *Performance Orientation* - the importance of results orientation in our work.
e) *Innovation* - not only digital innovation but determining how we can improve what we are doing today and becoming more effective.

29. The report of the SG also has specific sections in relation to the budget process which is more for the Secretariat than the agencies, fund and programmes but it builds on the budget reform.

30. Mr. Turk discussed further the role of the CFO in adopting the agenda. He mentioned that there is a need focus on lessons learned from the covid pandemic and how it influences the issues we face going forward. Entities need to ensure

that the management side of the entity and the programmatic side of the entity have a seamless connection. CFOs need to rely on this interlinking to work on the performance and results-based component from financing and budget.

31. FBN Members endorsed the fundamental need for an integrated approach between finance and programme. Concern was also expressed in how we are trying to solve political problems with technical solutions which may not work in certain cases. Discussions took place on how the UN has not taken steps to examine the constraints of voluntary funded organizations, especially in light of the significant reduction in core funding and how entities are becoming more of an earmarked organizations restricting entities in where funds can be used. It was expressed that Member States need to re-examine the sustainability of the entities that have been created and the risk that these entities may cease to exist in the future. It was further noted that Member States don't represent the same views in organizations within the UN system. Members observed that CFOs can however contribute to the change that is needed by ensuring reporting is transparent and clear; managing for sustainability; addressing long term funding needs regularly and consistently with Member States; and focusing on implementing risk-based controls. Members further emphasized the need for integration with the resource mobilization divisions along with the finance and programmatic side. The two dimensions to resource mobilization, one being the funding front (scale and amount) and the other the financing (nature and composition) are very relevant in facilitating and delivering the common agenda.

32. Mr. Turk responded that we need to look at the funding horizon to actually envisage the future, how we address it, what we can do to avoid this breakdown scenario and direct our entities toward results orientation. He stressed the importance of programme management, the financial and budget management, and resource mobilization coming together in a meaningful way. There needs to be an open and candid dialogue with donors around how we address the financing gaps that the system faces and using the Common Agenda as a tool to push for this. The Member states indicated that they could consider improvements to the budget process if management commits to the principles of effectiveness, delivery, efficient use of resources, and transparency and accountability. There were 5 thematic consultations with member states around the major themes of the report and feedback was received on the proposals. There was a commitment from both the UN and the Member States to work together to achieve the objectives of the Common Agenda Report.

B. A practical framework for financial management in the UN system

Presenter: Ms. Magdolna Bona (UNESCO)

Documentation:
CEB/2022/HLCM/FB/3 - Discussion note by UNESCO

Background
33. The HLCM, at its April 2022 session, held discussions to discuss future priority areas of work, based on input received from a survey and interviews conducted with HLCM members. "Funding and Financial Management" was selected as one of such priority areas, with discussions focused on common issues of financial management, shifting the risk culture from compliance to risk management, as well as mechanisms and approaches that could help organizations in their efforts to enhance these issues across the full planning cycle.

34. Notable challenges in the area of funding and financial management include significant cuts in donor funding, repurposing of funds from Official Development Assistance to emerging crises, and a massive decrease in core funding. A need was identified for a more coordinated and coherent positioning of the UN system with the donor community, as well as with the International Financial Institutions, to respond more effectively to increasing constraints and unpredictability of funds. Furthermore, the value of collectively engaging with oversight and audit bodies, in an effort to move from a culture of compliance towards a modern risk management approach to business, was stressed.

35. **Setting out a common framework of good practices, processes, and roles required for a longer-term view of financial management** would provide a useful benchmark and guide for organizations to follow, adapted to their respective needs and funding models. This overarching framework would address the full planning cycle from a financial management perspective, from fund raising, through long term financial planning and forecasting, more informative

and clear financial reporting, alongside a longer-term view of managing financial risks (threats as well as opportunities) and their mitigation (e.g. the high-level guidance on operating reserves), to clear and transparent management and financial reporting.

36. The framework would provide an indicative view of the role and critical elements of financial management needed for different funding models (assessed contribution only; assessed and voluntary contribution combination; pure voluntary contribution; and revenue generating models), indicating the core processes, tools, roles, and competencies needed in order to evolve to a coherent long-term financial planning and management model for an organization. This may be presented in the form of a maturity model, similar to what was developed for risk management. **The framework would therefore be non-prescriptive and non-binding in nature**.

37. **Risk management considerations**: Risk management is a core and critical part of financial management. The framework will incorporate risk management considerations, as well as establish the linkages with the Risk Management Forum's Reference Maturity Model for Risk Management, as well as the guidance on Operating Reserves by reference.

Discussion

38. Ms. Bona introduced the topic on financial management and indicated that the objective of the session was to determine a pragmatic approach of the CFOs and the FBN in creating a framework. She noted that the FBN and the role of CFOs have evolved from cash budgeting and pure liquidity management into better reporting, reviewing risk management, risk-based controls and risk-based decision making with an increased focus on sustainable financial management. The system has succeeded on many fronts in terms of joint initiatives like common banking arrangements, reporting standards, guidance on creating and managing reserves, cost classifications and the RC system. A number of different groups like the Treasury community of practice, task force on accounting standards, risk management forum have been good platforms for establishing out reach for the FBN.

39. It was highlighted that there are still challenges when working with other networks under the HLCM. There is room for improvement in certain areas with a view to becoming more effective. Emanating from the priorities that were discussed at the HLCM she stressed that there is a need for more coordinated approach around funding and financial management, how we communicate coherently with donors, reviewing financial and funding structures from a sustainable management perspective, the need for a more coordinated and coherent position with the donor community, a collective engagement with oversight bodies, and a continued move to modernize risk-based approaches to business. Risk based controls are critical to CFOs in taking decision on a timely basis and in support of the substantive work.

40. From the working group at the HLCM it was recommended that a common framework be developed for a longer term view for financial management, with a practical view on how we as a system can improve by looking at the role of the FBN and the CFO in bridging that gap between finance and resource mobilization, thereby facilitating the objectives of the common agenda and each entities respective mandates.

41. The items proposed for the terms of reference of a working group to establish this framework include:

a) Consistent approach on fund raising and reporting
b) Development of the basic knowledge products – trends and robust data analytics
c) Enhancing the structure funding dialogue – bringing together finance and budget, resource mobilization and programme colleagues
d) Collective engagement with oversight bodies with enhanced risk focus and efficiency gains
e) Better match for funding with needs, including and building on the work done on reserves
f) Establish a coordination mechanism between the UN system and the IFI's by identifying mechanisms which would facilitate better working arrangements with IFI's
g) Exploring the feasibility and possible approaches to better harmonized budgeting and funding requests.

42. The objective would be to set up a working group which would be cross functional in nature including representatives from Programme and Resource Mobilization. The participation would be voluntary and the recommendations from the group would be considered by the FBN but would be non-prescriptive and non-binding. The group should collect good practices and examples to share amongst the entities which could be adapted and adopted by entities. One of the first assignments of the working group would be to put together a proposal for a specific terms of reference for the group including deliverables and timelines for discussion and guidance by the FBN.

43. FBN members expressed support of this timely initiative and recommended that the working group identify if similar topics are being addressed by other groups within the HLCM as this may impact the scope of work identified. It was also suggested that the working group consider the composition and nature of funding e.g. the distribution between earmarked and non-earmarked funding. It was noted that the working group could also consider the impact of the challenges that entities are facing due to funding moving from the UN system to a more bilateral response to the Ukraine crisis. An analysis could also be performed of past experiences and lessons learned e.g. the significant contribution of donors to IFI's during the COVID pandemic compared to contributions to the UN system. It was further recommended that budget colleagues form part of the working group and the working group consider results-based donor reporting which is being driven by the Task Force on Accounting Standards.

44. FBN members noted that there is a need to frame the problem that is to be solved and focus on areas that can be addressed which should inform the TOR's and that the TORs should be defined for the working group.

Conclusion

45. A small group (UN Sec, UNHCR, UNESCO, UN Women, UNDP, UNICEF) led by Mr. Andrew Rizk from UNDP will *formulate* the TORs for a working group to focus on the following:

a) How to ensure the development of basic knowledge products e.g. review of trends in ODA based on publicly available information, and developing more robust data analytics;
b) Outline possible approaches to budgeting and funding requests (as laid out in the Common Agenda) across the UN system, with the view to strengthening linkages to results;
c) "Establishment of a coordination mechanism within the UN system for entities to work with IFI's, including by looking at the possibility of using existing mechanisms that the Group may deem suitable"[4].

46. The objective would be to review these as first priorities in meeting the objectives of the Common Agenda without limiting the possibility of additional later focus on other aspects especially those relating to matching funding with needs, including a look at risk-focused reserves.

47. The group will formulate timelines and define milestones with respective to the outlined objectives. The draft TOR will be shared for comments with the FBN plenary seeking nominations from entities to join the working group.

48. The group may, if practical or appropriate, also define deliverables and/or timelines, for the WG.

IV. Latest global crypto trends and their impact on the 'Future of Finance'

Presenter: Mr. Henri Arslanian – leading industry expert and thought leader who advises some of the leading organizations in the digital assets space globally.

Mr. Henri Arslanian is the former PwC Crypto Leader and Partner, the first Chairman of the FinTech Association of Hong Kong and an Adjunct Professor at the University of Hong Kong where he teaches the first FinTech university course globally. A lawyer and banker by background, he has advised many of the world's leading crypto platforms, investors, financial institutions and tech firms on their crypto initiatives as well numerous governments, regulators and central banks on crypto regulatory and policy matters. With over 500,000 LinkedIn followers, Henri is a TEDx and

[4] It is recalled that at the 30th session of the FBN in December 2017 the UN Controller proposed under the agenda item entitled the UN relations with the World Bank and other International Financing Institutions the establishment of a UN Group on the financial and administrative relations with International Financing Institutions, coordinated by the UN Controller. The FBN welcomed this course of action and the Group was established and met for a few times (see item iii of the Conclusions of the 30th meeting of the FBN dated 7 February 2018). The FBN may consider reviving the TORs of the existing FBN Group on the financial and administrative relations with International Financing Institutions to maintain the integrity of decisions of the FBN and avoid duplication of structures.

global keynote speaker, a best-selling and award-winning published author and is regularly featured in global media including Bloomberg, CNBC, CNN, BBC, The Wall Street Journal, The Economist and the Financial Times. He is also the host of the Crypto Capsules™ social media video series as well as The Future of Money podcast and newsletter.

Documentation:

- *JIU Report: Blockchain applications in the United Nations system: towards a state of readiness*
- *UN Innovation Network: A Practical Guide to Using Blockchain within the United Nations*

Background:

49. Technological advancements and innovations are bringing changes in the financial management profession and these changes demand the FBN members to evaluate the strategic value of their roles in their respective organizations. Ongoing collaboration on this topic continues to be important, as well as the possible creation of a dedicated space/structure for thematic discussions, including the strategic roles of the CFOs/Controllers of the future, innovative finance and pioneering partnerships, knowledge sharing, and the identification of collaborative inter-agency projects. The creation of a R&D group would further allow for knowledge sharing and for the identification of inter-agency collaboration projects. In-depth discussions and constructive analyses of the developments shaping the future of money and finance from Bitcoin and cryptocurrencies exchange ecosystems to CBDCs and DeFi.

Discussion:

50. Ms. Narayanaswamy introduced the topic on the Future of Finance and highlighted the importance of technological advancements and innovations in the financial management profession. CFOs/ Controllers would need to focus on emerging technologies and trends such as Block Chain and Digital Currency to ensure that can identify opportunities that add strategic value to our Organizations.

51. Mr. Hans Baritt shared some perspective from UNHCR noted that that there is incredible pressure internally to be more efficient. Finance and Treasury within UNHCR has an objective to work efficiently and ensure that as much funds as possible are directed to refugees. The Future of Finance events brought focus to the need for entities to be more innovative and move forward digitally. The Future of Money is a topic that is changing rapidly and there is a responsibility to understand the relevancy of this in the UN system. He shared UNHCR examples of using prepaid cards, tokenized solutions, stable coins and wallets that have been used for humanitarian assistance to refugees. Arising from these processes UNHCR had to consider the impact of regulations, jurisdictions, and data protection. Management has a responsibility to engage in this now, for preparedness in adoptions so that entities stay agile in responsiveness and relevance in the future. The system needs to work and share across platforms to benefit from these technological advancements and understand how to make this work in our current processes.

52. Mr. Arslanian started his presentation and stressed the importance of keeping ahead in this area as things are moving very quickly highlight the need for the UN system to be ready to embrace the changes that are happening. His presentation focused on six mega trends that are happening today. He touched briefly on the history of money and the different examples of the use of money in the past. The current period 2021-2022 is a historic moment in the history of finance and the history of money with an acceleration in the digital payments, crypto currency and digital assets. Global events have further triggered an increase in digital payments.

53. Bitcoin innovation allows value to be sent from one person to another without an intermediary and also eliminated the double spend problem. Some of the benefits of bitcoin include the public nature of transactions that are on chain publicly verifiable, transactions can be traced and with a clear monetary policy – 6.25 bitcoins created every 10 seconds. Crypto assets are becoming more mainstream including payments in bitcoins received for services delivered.

54. Some of the 6 global crypto trends include the following:

a) Entry of Institutional Players – regulated large financial institutions are entering the crypto current space
b) Rise of Stable coins – digital currency not backed by offer and demand like bitcoin but backed by fiat money.

Benefits are that it is pegged to fiat currencies, there are no cross-border fees, it is instantaneous and works 24/7.

c) Decentralized Finance – DeFi is the delivery of financial services without any centralized intermediaries by leveraging the features of blockchain technology. Allows people to conduct financial transactions using blockchain technology directly, without passing through intermediaries.
d) Non-fungible Tokens (NFTs) – NFTs are digital tokens that are blockchain native, unique and not fungible.
e) Central Bank Digital Currencies (CBDC) – A CBDC is a digital form of central bank money that is issued by the central bank and is part of the monetary base of that economy.
f) WEB 3.0 and the metaverse – The metaverse is a 3D immersive environment where users can then interact with others via their avatars, often in a decentralized and open ecosystem.

55. Mr. Arslanian recommended spending time for familiarization e.g. YouTube where free content is available and to access online courses to keep up to date on crypto trends. Ethereum is one of the biggest blockchain solutions and there are about two dozen layer one solutions which are quite interesting and depends on the use cases that could be considered by the UN.

56. Lightning Talks

a) UNICEF – Mr. Thomas Asare

UNICEF is using blockchains to support programme delivery, uses cryptocurrency and also has a venture fund that is used to promote the blockchain technology. UNICEF recently announced that 75% of the organizations that provide the technology agreed to be paid in crypto currency. The piloting of crypto currency was approved in 2019 in UNICEF. A study was commissioned on the financial reporting to obtain guidance on how to hold and report digital assets in the financial statements with the input of audit. With the private sector partnership fund raising, there is a chance that donor contributions will be made in digital currencies and there was a need to review the impact of this on UNICEF processes. In the current pilot processes, UNICEF are receiving crypto and paying in crypto currency but not holding it for long periods of time. The UNICEF National Committees are receiving digital currency, converting into fiat and then paying over to UNICEF. They have piloted two crypto currencies and it is being accounted for as inventory. UNICEF plans to move into stable coin and preparing a policy paper to support this. Digital currency is not held for speculation but primarily for the programmes. If volumes are high, it may be converted to fiat to prevent any exposure to volatility. Blockchain is used to support the programmes e.g. supply chain tracking and cross border payments which speeds programme delivery. A working group exists comprising of staff from finance, fund raising, programme and innovation office, has been set up to deal with digital currency and blockchain. UNICEF sees digital currency as the future of fund raising.

b) IFAD – Mr. Advit Nath

IFAD is using a project called Trace – blockchain by IFAD. It was conceived to learn opportunities from the robust technology that blockchain offers. The objective was to be able to trace funds from donor to farmer because current ERP systems do not have the full information on the entire end to end process. From a privacy perspective you can decide what goes ‘on-chain’ and what stays ‘off-chain’. The first objective of the project was to focus on traceability and transparency – when in a project you could see funds coming and where it ended up and you could also determine if there was any fraud along the chain and identify how this could be eliminated. The second objective was compliance – by discovering all the actors in the process, this information could be entered into the money laundering system thereby ensuring all entities involved in the process were legitimate. Smart contracts to speed up payments was identified as the third objective. The fourth area was digital assets and the use of stable coins by working on a platform with a major bank, where the bank will receive cash, create the stable coin and the stable coin can be used through the process. Dashboards have been built allowing each party in the process to have a view on their respective piece in the process. The vision is to have a fully public blockchain which will be fully decentralized and reduce overall costs. This could work for the UN system as a whole where donors would be able to trace their funds and this could trigger increased funding in future.

c) UNICC – Mr. Shashank Rai

UNICC has been involved in technology of blockchain and crypto for the last 5 years and focused on two areas.:

i. *Digital Hub of Treasury Solutions (DHoTS)* – working with UNHCR and UNDP, this is a Shared Service Model that has been set up by UNICC to support the agencies for implementation and maintenance which is already live and entails connecting with several banks (UNHCR/UNDP) with a view to expansion to connect all banks. UNICC is also working in tandem with their ERP replacement project and the Hub of Connectivity services will go live with the new ERP Cloud implementation. A Common Financial Services Provider (FSP) approach has been set-up to fully leverage connectivity for the two entities. Further opportunities of collaboration exist for other UN entities to join the project to benefit from these two entities and the set-up of support and maintenance.

ii. *UN digital ID* – UNICC is using the blockchain technology for digital IDs by building a platform which is interpretable between different agencies allowing identifies of workforce to be seamlessly moved across agencies. Similar to a digital wallet but instead of carrying 'cash' a staff member carries an ID card. An app has been created and has been piloted amongst a few entities which allows the app bearer to carry the identity issued to each of these entities. A blockchain was set up between the pilot UN agencies (UN Sec, WFP, UNHCR and UNICC) which allowed for employee data to be taken from one entities' ERP systems and used in another entities ERP system allowing for the secure transfer of employee data. A governance network has been set up under the HLCM with six participating agencies who are working towards some high level use cases that can benefit from this technology. In using the technology entities need to be cognizant of what gets written into these platforms and what are the rules of governance around them. The assurance around the blockchain network is dictated by the UN. It was also highlighted that the technology is not energy efficient.

d) FAO – Mr. Erik VanIngen (virtually)

When FAO started with blockchain they wanted to avoid the concept of garbage in and garbage out and worked on the data quality which goes into the blockchain. FAO has one pilot project currently using blockchain. It was explained that the use of blockchain in the value chain allows the entity to track and trace all steps in the process allowing for traceability and transparency of commodities. Consideration was also made of voluntary sustainable standards in the implementation. FAO is also considering taking the information into a hybrid system private/public view with the intention to the information becoming fully public at a later stage. FAO's mission is to investigate the value of blockchain for agri-food systems.

e) WFP – Mr. Pierre Guillaume WIELEZYNSKI (virtually)

WFP has been looking at blockchain for a few years and sees it as a transformative technology that will have an impact on how WFP works as an organization and how the UN can work together as an eco-system of agencies. WFP has developed a large network of digital advisors to help in this process, has worked with UNICC on the digital ID and has also started looking at crypto but still at an experimental stage. They have advanced in Building Blocks which is the largest blockchain implementation in the humanitarian sector and is operational in two countries where WFP serves one million refugees and provided $325 million of assistance provided through 50 million transactions, resulting in a saving of $5 million in bank fees. Potential from this includes real time data, the ability to trace a dollar throughout the value chain and to track delivery to refugees directly back to donors. WFP is seeing the potential of blockchain in the crisis in Ukraine as a multi-agency platform by identifying entitlement data across agencies in Ukraine and have identified cases of unintended over targeting where two agencies, unbeknownst to each other, were helping the same person with cash. The technology is transformative and the UN system should decide to work together and leverage the potential of blockchain in a multi-agency environment by allowing entities to work independently using their own systems but pulling entitlement information together in a way that is neutral. Governance is at the heart of an effective blockchain network where every member is on equal footing and becomes an equal partner to drive the blockchain strategy. Beneficiary experience should be a key driver by integrating and streamlining the processes for beneficiaries. Better targeting is achieved by using the intelligence of identifying who needs to be helped and creating an entitlement value across agencies. The UN system can work together to serve the beneficiary in the best way possible with trust and accountability to donors and leverage this technology by having a deliberate intentional will to work together on equal footing on a platform that helps us invent the next generation. A Building Blocks task force has been created with several UN entities and it was encouraged that other entities should join.

f) UNHCR – Ms. Carmen Hett

Ms. Hett presented the concept of the UN Financial Gateway which is powered by the UNHCR Digital Hub of Treasury Solution (DHoTS) which provides integrated standardized payment rails for all payment types (disbursements and collections) to directly connect to the global financial ecosystem at all levels. The UN Financial Gateway provides upmost security supported through the integration of using best in class financial technology stacks, and is directly supported by UNICC for technical support and maintenance. DHoTS provides standardized and streamlined financial connectivity to directly access the global financial systems and marketplaces: Anytime, anywhere and on any modality and device. It provides full traceability and accountability at the individual transactional level, for all payments and collections, using value transfer standards and transfer protocol: to follow the money and follow the data with full traceability to all UN stakeholders. Moreover, DHoTS provides opportunities in financial inclusion and development for collaboration throughout the UN System using industry best practices in a fully optimized, efficient and effective way. Important to note: It promotes unique UN harmonization opportunities and scalability so that all UN Agencies can securely access the UN Financial Gateway through their own source systems. DHoTS is currently being implemented by two agencies (UNHCR and UNDP) where these entities are already leveraging synergies from each other. The DHoTS platform offers further opportunities in digital transformation, in areas such as automation (AI, ML), integration to shared service centers, providing a full set of operational tools are in place to provide Connectivity as a service. Additionally, blockchain applications can be further integrated as well, and in this aspect, UNHCR has now further advanced with a use case of providing digital wallet modality for beneficiaries funded in USD coin (USDC) e.g. cash assistance in Ukraine Emergency Situation. UNHCR is partnering with financial technology and financial service providers to enable delivery of this use case using blockchain for disbursements. The advantages of delivering assistance in this manner is the on-chain traceability, rapidity of delivery, low costs, secure asset issuance, compliancy, scalability and the ability to provide appropriate off-ramps for value transfer, including fiat cash out.

g) UNDP – Ms. Marina Petrovic

Ms. Petrovic presented how UNDP is using strategic innovation in blockchain technology to tackle some of the world's problems. UNDP started exploring blockchain five years ago but are still learning and growing as technology advances. UNDP is using blockchain as development challenges are growing in complexity and normal business solutions are not working. UNDP has recognized the value of innovation combined with technology and working with private sector and SMEs to find solutions and help those in need by implementing and developing these solutions. One of their first case studies is on track and trace and how to make fair trade more fair. Blockchain technology was used for tracking goods from farmers in a programme country focusing on cocoa, coffee and tea. They created the first blockchain chocolate bar by designing a premium bar and then creating a digital wallet. When consumers buy this bar they can trace every single ingredient thereby ensuring it was sourced fairly and sustainably. The price reflects the impact of the eco system and farmers receive a bigger share of the funds. Blockchain simplified the complex processes, provided farmers with more accessible information and connected the farmers directly to the markets without any intermediaries. The second case explored the opportunities that could arises from current crises by creating digital impact currencies. The aim was to connect the Lebanese diaspora with investment in climate change projects by creating a cedar coin. Once a person wants to invest and plant a cedar tree in return as a rewards token the person will receive a cedar coin where one cedar coin = $25. This can remain in the wallet or can be re-invested for other products e.g. redeeming for miles. Marina shared further examples of projects used by UNDP in blockchain and digital currency.

57. The FBN members continued discussions after the presentation and the topic of costs on crypto was addressed by UNICEF where it was indicated that costs on crypto currencies were carried by fund raising. The topic on verifications and KYC requirements on crypto current were covered and UNHCR indicated that they work with partners to ensure there is compliance with regulatory stipulations. Members expressed a need for the FBN to actively start working together by creating a working group which would benefit smaller and medium size entities to profit from the work

done by the larger entities and advance in this area of digital innovation. UNICC offered to package some of the use cases and share with the agencies.

Conclusion

58. The FBN *acknowledged* the importance of technological advancements and innovation in the areas of digital currency, tokenization and blockchain within the financial management of the UN system. The FBN endorses the need for increased collaboration between and among entities for leveraging the experiences of entities who have advanced in the area of digital finance. The FBN supports the need for further education and learning in the areas of crypto currency and blockchain for CFOs/controllers.

a) The FBN decided to explore learning opportunities that could be made available in the areas of digital finance in the form of training courses, workshops and seminars to benefit the UN system advancement in digital finance
b) The FBN agreed that entities that have advanced significantly in the areas of digital finance further elaborate their use cases to enable broader participation.
c) The FBN decided that the topic of digital finance continue to be a standing item on the agenda with continued involvement by experts in the field and sharing of lessons and experiences

V. Panel Discussion: UN External Panel, UN IAAC, IPSASB: Collaboration and supporting the UN system to address its challenges and opportunities.

Presenter: The session comprised a round table discussion

- IAAC Chair – Ms. Jane St. Laurent
- Member of the IAAC – Mr. Imran Vanker
- Executive Secretary IAAC – Mr. Moses Bamuwamye
- IPSASB Chair – Mr. Ian Carruthers
- Technical Group of the Panel of External Auditors as Convenor -Ms. Valentina Monasterio Galvez,
- Technical Group of the Panel of External Auditors Executive Secretary – Ms. Anjana Das
- Task Force on Accounting Standards Chair – Mr. Adnan Chughtai
- Task Force on Accounting Standards Co-Chair – Ms. Donna Grimwade
- Members of the Task Force on Accounting Standard – Ms. Johanna Clark, Mr. Jeriphanos Gutu

Documentation:

- *CEB/2022/HLCM/FBN/4 - Letter from the Chair of the United Nations Independent Audit Advisory Committee (IAAC), addressed to the Secretary-General regarding the sixth meeting of representatives of the UN system oversight committees*
- *CEB/2022/HLCM/FBN/5 - Letter from the Chair of the United Nations Panel of External Auditors, addressed to the Secretary-General regarding the meeting of the Panel of External Auditors*

Topics for the Panel discussion:

59. **Revenue Recognition**

a) Update on status from IPSASB on new Standard and estimated timing for issuance
b) Current working relationship with TFAS and FBN
c) Proposal for Interim Solution while waiting for new Standard
d) TFAS work with UN Entities and IPSASB for harmonized operationalization of new Revenue Recognition Policy across the UN System
e) External Panel of Auditors and IAAC views

60. **Financial Reporting**

a) Relevance to Stakeholders and impact of revenue recognition

b) Standardized reporting across UN System – UN Data Cube standards based on Financial Statements
c) Currently many UN Entities are maintaining two sets of reporting i) Financial Statements according to IPSAS; and ii) Management Accounts for Governing Bodies and Donors
d) External Panel of Auditors and IAAC views

61. **Future of Audit and Oversight**

a) How can TFAS and FBN work more closely with the External Panel and Oversight Bodies?
b) Likelihood of continued hybrid audits and oversight meetings
c) Lessons learned from past two years
d) Establishment of working groups and stakeholder surveys

Discussion:

62. Mr. Ramanathan welcomed the members to the panel and noted the new format of the interaction which will take the structure of a panel discussion. It was stressed that while there have been successes as a result of IPSAS implementation, entities are still experiencing challenges as the financial statements of entities in the system are becoming less and less comparable because of the different interpretations and resultant implementation of the standards. This challenge is further heightened when the Board of Auditors provide differences of opinion on similar findings within the audit community in their application of the standards. There were instances as well where the same audit office had different opinions across two agencies. These issues result in entities frequently changing their IPSAS policies thereby challenging the finance community in the efficiency around the preparation of the financial statements. It was also noted that member states, being the largest stakeholder of the UN system, are not relying on IPSAS financial statements but are requesting entities in certain cases to maintain another set of accounts and present non-IPSAS financial information for their purposes. He also highlighted the need for the oversight bodies to lend credibility with active intervention to entities proposals and build the trust the member states should have in the system.

63. **Questions on Revenue Recognition**

a) Update on status from IPSASB on new Standard and estimated timing for issuance.

64. Mr. Carruthers responded that the IPSASB has 3 different revenue recognition standards, two of which are based on the old IFRS standards and one which was developed specifically for the public sector (IPSAS 23). The aim of the revenue project is to update the two old standards and align with the new IFRS and to update IPSAS 23 due to the issues on transfers in that standard. The Board is also trying to write a new standard from the public sector side and the international organization side on Transfers.

65. The new IPSAS will be one standard as compared to three revenue standards previously and based on the core concept of a binding arrangement. The key question to be asked when applying the new standards is whether there is a binding arrangement and if it is enforceable with compliance obligations that can be enforced through legal or equivalent means which will then determine the pattern of revenue recognition. The plan from the Board is to approve the draft standard by the end of 2022 with the final standard approved by end of 2023. Effective date of this standard would be early 2026 but with early adoption encouraged.

b) Current working relationship with TFAS and the IPSASB

Mr. Carruthers commented that the UN system is recognized as an extremely important user of the standards. The UN system has been through a process of implementation of these standards and the proposed new standard has given the Board an opportunity to work with the system in the update of this standard and ensuring that the new guidance addresses the concerns expressed by the system. Both the Task Force and the Board have worked closely and having representatives in the group to develop the guidance has been extremely valuable. He noted that the various approaches of collaboration between the Board and the various counterparts in the UN system have strengthened and added value to the relationship.

66. Ms. Clark discussed the interactions she has had in the IPSASB drafting groups where she provides an advisory role providing comments to ensure clarity from the Board decisions and to ensure that UN system entities can apply it the way it is intended. The Task Force working group has reviewed the exposure drafts and will re-review if exposed again and look at any impact from the UN side. When the standard is finalized the working group will compile common policy decisions based on a common type of grouping of revenue transactions. Once the working group and task force have consensus on these positions in place, these will be shared with the UNBOA and the Audit Operations Committee for comments before it is finalized in the Task Force for proposed adoption by the entities. She suggested that FBN members ensure that their representatives in the working group ensure that individual feedback from each entity is brought to the group to enable the group to compile a solid position and a cohesive policy.

c) Proposal for interim solution while waiting for new Standard

Mr. Chughtai discussed the possibility of the auditors freezing the position on the revenue recognition polices in entities based on the fact that there is an upcoming new standard to avoid any further changes in the revenue policy.

67. Mr. Carruthers responded from the perspective of the IPSASB that with any change in guidance there is a risk that things may change or not and entities may need to go through an evaluation process as this may result in system changes, policy changes etc. It makes sense that entities do not make changes to these policies in anticipation of these new standards and that at the end of the year the consolidate exposure draft would give an entities a clearly good view of what the final standard would be.

68. Ms. Galvez responded that the auditors are members of their individual audit institutions elected by the member states. They are independent, external auditors and their mandate is to apply IPSAS as was the decision of the member states. She acknowledged that as auditors they can use their audit mandate to develop more trust from member states in the UN system in the way they communicate their reports to member states. In applying IPSAS the intention was not only for financial statements to be comparable but for the UN entities who have to comply with international legal frameworks and have mandates set up by member states to comply with IPSAS. Comparability is desirable but only to the extent that it is possible due to the unique nature of the different entities. When audits are conducted, the auditor has to apply IPSAS as it is currently applicable. While a new standard will be released on IPSAS 23, the principles of accrual accounting still need to be applied and the audits will be done in accordance with the current IPSAS standards.

69. Ms. St. Laurent reacted that the IAAC have discussed the issues of the different treatment in revenue recognition. To the extent possible comparability and consistency in the treatment of revenue in the financial statements is very important and an issue that need to be considered, especially in light of the data cube and the information that is consolidated therein. Mr. Vanker from the IAAC also commented that this is an area that continues to evolve. From an oversight committee perspective consideration could be made of a reference framework called the four T framework – a) *tension* on the subject of revenue recognition; b) *trends* resulting in a continual scrutiny of revenue levels due to its fluctuation; c) *timing* and the current issue that is being faced; and d) the *truth* that the entities are looking for with respect to revenue recognition. There must be an ambition from oversight committees and preparers to narrow the gaps that exist and he recommended that discussions take place in a smaller forum to discuss the idea of a moratorium on the application of IPSAS 23 but it should be recognized that external audit do have an obligation to audit in accordance with the current standards. If substance over form is a tangible goal there is a need to break the issues into smaller issues that can be resolved.

70. Discussions took place and FBN members noted that it is disappointing that there are still discussions around revenue recognition since the initial decision to adopt IPSAS and that in certain cases IPSAS may becoming a liability and irrelevant. Examples noted were how net assets in the financial statement is not representing an accurate financial representation of the entity especially due to the revenue recognition of future years revenue being recognized upfront resulting in readers of the financial statements misconstruing the financial information depicted in the financial statements. IPSAS may also be irrelevant as most member states rely more on the budget information rather than the financial information. The process around IPSAS adoption has been heavy and some of the detailed requirements of the standards are providing no value to the entities. Members noted that while the UN system is being pushed to harmonize on processes and policies, the Board of Auditors could in the same light work together and find some consistency in the audit approach especially in the area of revenue recognition. The CFOs are looking to the financial statements as a financial management and communication tool and the IPSAS financial statements do not appear to be achieving this

when you look at the response received from member states after their review of the financial statements. Members however did note that there have been benefits to IPSAS like the ability to review funding requirements based on the recording of liabilities, which was not done under UNSAS, and increased control of assets in the field offices. There should be joint accountability even from the preparers side to review the judgements applied in the recognition of revenue. IPSAS 23 has also contributed to these inconsistencies due to its broad approach in how revenue should be recognized. Mr. Chughtai also highlighted the importance of IPSAS 39 and the variation in employee benefits as a result of interest rates, mortality rates etc. and the impact that this has on the balance sheet amounts. He suggested that the Task Force need to review IPSAS 39 as well.

71. Ms. Galvez responded that the Panel in their letter to the SG highlighted it was in the interest of the panel to engage in a dialogue with the Task Force and the FBN and would like to continue these discussions on the application of IPSAS current and future standards so that the auditors can work together with the task force to address any concerns. She commented on the feedback that auditors have contradictions and inconsistencies amongst each other and suggested that this could be addressed in the group to be formed. She responded to the approach auditors use on contribution agreements and indicated that auditors review these international agreements on a case-by-case basis. The entities have various types of agreements that are different in nature and requires a case by case analysis and cannot be reviewed in groupings. When reviewing two identical agreements, there is a need to apply other elements (e.g. past experience) and the auditors may come up with different accounting treatment for two identical agreements but reiterated that together with the representatives from the UN, these issues can be discussed.

72. Mr. Carruthers responded agreed that there is a responsibility on all the parties on the issue of revenue recognition to limits these differences and focus on the economic substances of these agreements. He stressed that there is a need to understand how to achieve the level of detail that is required to get consistent application that does not result in significant disparity. He recommended that a forum should exist which brings auditors, preparers and the users of the financial statements together with some independent input and also recommended the compilation of an accounts manual for the UN system focusing on the rules and how they apply to the principles of the standards. The IPSASB could also offer to be an observer if such a forum is created. In terms of the current standards and what’s been seen in the draft standards, the system should inform the IPSASB of what principles within the standards that the UN system has an issue with and where inconsistencies have been noted. This would be the opportunity for the IPSASB to fix these issues and bring in appropriate application and implementation guidance.

73. Mr. Vanker commented that the Task Force should consider the framework proposed by Ms. Galvez in creating a forum to address these issues. He shared experiences from the private sector indicating that even in the private sector users of the IFRS financial statements do not necessarily raise extensive questions on their financial statements either.

74. **Questions on Financial Reporting**

a) Relevance to Stakeholders and impact of revenue recognition

75. The question posed by Ms. Grimwade was on the impact of revenue recognition and the relationship to the top ten donors lists publication. Depending on the revenue recognition policy, a donors’ position on the list may shift dependent on the revenue recognition applied by each entity and donors may not understand the impact of this. How do we ensure that our financial statements along with other reporting remains relevant to stakeholders.

76. Mr. Carruthers responded and echoed the sentiment on the relevancy of the financial statements. The solution lies in some of the suggestions from the previous discussion and ensuring users are clear on the principles and how these should be implemented in the UN context for various types of agreements. Some of these agreements have resulted in issues from an accounting point of view because of the nature of what is being required by the donors versus the understandings of the standards. He suggested that entities need to be clearer on the expectations of donors in these binding agreements and that there are appropriate mechanisms within the agreement to allocate revenue based on the compliance requirements of the donor. An upfront dialogue with the users of the financial statement could be beneficial in focusing on the key areas of sensitivities where gaps are identified and look to the appropriate mechanism to assist in these areas.

77. Ms. St. Laurent commented that the IAAC do find the financial statements useful and mentioned specifically the recognition of ASHI liabilities. She noted that there could be improvements in making the financial statements more fully reflect the accurate picture of the financial situation, be comparable to the extent possible form year to year and throughout the UN system and recognize the risks of the organization.

78. Ms. Galvez recognized that the upfront recognition of revenue poses a difficulty for stakeholders to understand and maybe misleading when reviewing deficits and surpluses on a year-by-year basis but this can be neutralized in the long term. It was noted that the entities however need to report to donors on an annual basis and agrees that we need to take time to explain to donors the reason and impact of the revenue recognition policies on the amounts reported to them.

b) Standardized reporting across UN System – UN Data Cube standards based on Financial Statements

79. Ms. Grimwade touched on a survey that was done on the revenue recognition policies and indicated that they identified four different ways of accounting for revenue impacting consistency and comparability but which also affects the information collected as part of the UN data cube standards. The IAAC in their letter to the SG referred to progress of the UN data cube initiative and drew attention to two issues which impacts the success of these initiatives. Ms. Grimwade requested some input from the IAAC members on these issues raised in the letter.

80. Ms. St. Laurent responded that these issues emanated from their annual meetings and felt that these were of an important nature to be raised in the letter. Two issues mentioned was the treatment of revenue recognition by UN organizations and its impact of the data cube which had already been covered in the discussions. The second issue was that the data from UN organizations is being uploaded into the data cube database through a variety of mechanisms and not necessarily automatically. It was recommended that this process could be more efficient if information could be submitted directly from the ERP to the data cube platform.

c) Currently many UN Entities are maintaining at least two sets of reporting i) Financial Statements according to IPSAS; and ii) Management Accounts for Governing Bodies and Donors

81. Ms. Grimwade mentioned the cost burden in maintaining different sets of accounts. She invited Ms. Clark on behalf of UNICEF to talk about the various reporting within her entity.

82. Ms. Clark discussed the processes within the UNICEF. She reiterated the issue that was raised by members in the earlier discussion on entities doing both budget and IPSAS reporting. UNICEF in addition has the donor reporting that is intended to match what the donors are intending to see which is not necessarily the financial information that is depicted in the IPSAS financial statements. There has been automation of these reports but UNICEF does add further indicators to cover the donor considerations e.g. contributions received in addition to revenue for multi-year earmarked revenue, and prepare donor rankings by the strategic planning period rather than annually. UNICEF uses SAP as their ERP and this allows for many flags, indicators, coding's etc. to be embedded in the system which can prove to be burdensome on country offices. Ms. Clark re-iterated the comments made by the IAAC on a more efficient system of uploading financial data in its various forms to the different data collectors.

83. Ms. Grimwade posed a question to the plenary requesting members to comment on how we can better standardize the financial reporting across the UN system to be more meaningful to the stakeholders and could this be achieved in a harmonized practice. Members acknowledged the excessive costs involved as a result of the various reporting requirements. A question was presented to the UNBOA about whether IPSAS depreciation could be charged to the budget and whether discussions could take place on things like amortization, spreading expenses etc. Consideration would need to be taken into account on the new leases standard and its impact.

84. Ms. Galvez responded that standardized reporting across the UN should be further discussed with the TFAS and offered to be involved in a discussion with the panel.

85. Mr. Vanker weighed in and noted that there may be a need for legacies and habits to break while at the same time highlighting that there is a patent difference between management accounts and the financial statements which has been

framed by entities as other accounts versus IPSAS account. There are parallel and lessons to be learned from those entities where that duality exists for the use of internal stakeholders versus the use of external stakeholders. He suggested that time should be taken by the preparers in enhancing and improving financial statements when the focus is not on the financial statements. Mr. Vanker indicated that the financial statements only tells one side of the story and it's the preparers responsibility to find the way to tell the rest of the story by other means so that the financial statements communicate the full picture.

86. Ms. Grimwade touched on the matching principle which could improve the clarity of the financial statements by reporting on the period in which the funds are likely to be delivered or used. Mr. Carruthers responded to the comment and opined that he did not consider the matching principle to be a valid concept. One needs to look at it from the point of view of the compliance obligations attached to the funding. He recommended that the system work together, identify what's going wrong and understand what would cause the differences between management and financial reporting and accept that in certain cases differences do need to exist.

87. **Future of Audit and Oversight**

88. Mr. Chughtai introduced the topic and touched on the topic of hybrid audits and for the FBN to assess lessons learned during the COVID pandemic and its impact on the audit processes. The following questions were posed to the panel:

a) *How can TFAS and FBN work more closely with the External Panel and Oversight Bodies?*
b) *What is the likelihood of continued hybrid audits and oversight meetings?*
c) *What are the lessons learned from past two years*

89. Ms. Galvez reacted to the questions on the future of auditing and indicated that it was possible to do online off-site audits but it proved to be difficult, was time consuming and posed some risks. The auditors expressed the need to perform on-site audits as soon as is possible. The ACABQ has explicitly requested that the UNBOA re-start on site audits. The Technical Group have been consistently reverting to more on-site audits while still doing some online audits. She noted that the virtual audits did consume a lot more audit time resulting from time differences, limited access to original documentation, questions on authenticity of documentation resulting in alternative audit procedures, and the shortcomings on the physical verification on property, plant, equipment and inventory. The audit methodology was adapted but stressed that these procedures took more time and in certain cases required different expertise in the audit teams. Overall the objective is for the auditors to go back to on-site audits as soon as possible.

90. Ms. St. Laurent commented on the oversight committees highlighting the importance of continued dialogue on financial and budget issues. She stressed the need for the IAAC to get communication from the organizations on the issues and challenges faced so that these can be appropriately raised and they can consider this in their report back to the SG. The IAAC sees these opportunities as a means of supporting organizations in their respective initiatives, and encourage momentum on certain issues. While there is an annual meeting Ms. St Laurent proposed that they may consider some out of cycle meetings for time sensitive issues or issues requiring more urgent focus as this helps to promote coordination and coherence among UN entities throughout the system. The IAAC is also looking at reverting to physical meetings. The technology available has been critical in enabling these meetings and in certain cases also provide advantageous by allowing greater participation in online meetings. She further noted that they were working in an environment that continues to be unstable and unpredictable and that there should still be consideration for back-up plans and continued hybrid approaches if necessary. One of the lessons learned by the IAAC is the possibility to now be more flexible and adaptable in how they work and how they can take advantage of holding more meetings virtually in addition to the fixed physical meetings thanks to the technologies that have made this possible during the COVID pandemic.

91. Mr. Vanker provided further input on the capability that technology is delivering to audit and the idea that the subject matter of audit is changing. From an entirely backward approach to financial audits the current debates taking place are around non-financial information and forward looking information. There are currently seven different exposure drafts from four different global bodies advocating proposals around sustainability reporting which the oversight committees and the UN system need to be cognizant of and its impact on the substance of audit and the focus on non-accounting type information. There is a need for entities to start assessing the posture that needs to be taken and how systems need to develop in response to this. He informed the members that the traditional financial statement audit

is going through a major change this year and all audit firms and audit institutions have on target as the 15th of December 2022 to adopt the new framework for Quality Management. Up until now audit has been conducted under the framework of Quality Control and from 15 December 2022 onwards the audit firms and audit institutions need to adopt a risk-based approach and entities need to start being aware of the impact of this new approach on the audit arrangements. He further noted that the UN system has significant funds dedicated to the subject matter of assurance, like JIU, OIOS, Internal and External Audit, Audit Committees etc., consideration needs to be made on how to enhance the subject matter of combined assurance and achieving a more holistic, confidence building picture to those who rely on assurance.

92. Mr. Carruthers remarked that all the work being done is dependent on the relationships that exist and the trust that is built. He reiterated the comments of Ms. St Laurent that there is work that can be done virtually and IPSASB has increased their internal level of engagement thanks to the online platforms available. He however stressed that there is a limit to this modality and there are still significant benefits from maintaining relationships when physically together.

93. In response to the panel's comments, members discussed the various bodies that deal with assurance in an entity and raised two issues. Firstly with the focus of audit now on performance and management evaluation, auditors find themselves out of their depth when recommendations are made in certain areas. It was suggested that if audit is to move in this direction, audit teams should be trained in these areas to then provide value to the entities on these performance recommendations. Secondly, members recommended that the various assurance bodies look to streamlining processes to audit duplication of work by ensuring that the audit committees have a mandate to review all audit workplans and ensure plan is coherent and avoids duplication where possible. Entities shared examples of the burden that had been placed on the finance units as a result of the online audits and had strongly urged their auditors to visit the entities to conduct their audits on-site which also proved advantageous when resolving issues and findings.

Conclusions

94. The FBN *acknowledged* the engagement of IAAC, the IPSASB and the Technical Group of the Panel of External Auditors with the FBN on important oversight issues and recognizes the importance of strong communication in maintaining a meaningful value adding relationship with all oversight bodies.

95. FBN members *noted* the progress on the new standard on revenue recognition by the IPSASB and in the Task Force on Accounting standards involvement in providing inputs from the perspective of the UN system in this process.

96. The FBN *encouraged* representatives from the various entities who are part of the Task Force working group on revenue recognition to provide inputs from each entity so that these will be taken into consideration during the continued interactions with the IPSASB drafting groups.

97. The FBN *acknowledged* the challenges faced by entities in the difficulties around the revenue recognitions policies which result in incomparability and inconsistency in entity financial statements. The FBN urges the Task Force on Accounting Standards group to continue providing inputs to the IPSASB prior to the finalization of the new Revenue Standards and ensuring that the issues faced by the UN system are taken into consideration.

98. The FBN *welcomed* the response of the IPSASB to take these issues forward in appropriate application and implementation guidance and the invitation from the Technical Group of the Panel of External auditors to work with the Task Force on Accounting Standards and the FBN to address concerns on the issues faced by entities in the audit of revenue recognition and follow up on the contradictions and inconsistencies that exist amongst auditors within the UNBOA and in the application of the standards.

99. The FBN *acknowledged* the IAAC comments on the importance of consistent information being reported as part of the data cube initiative and will review the possibility of a more streamlined approach in uploading data from the various ERPs for the purposes of the data cube collection exercise.

100. The FBN *welcomed* inputs from the oversight bodies on the value in moving back to on-site audits post COVID which would provide value to both the auditors and the UN organizations in the audit approach and in resolving audit findings.

101. The FBN *accepted* the recommendation from the IAAC that organizations ensure timely communication on issues

and challenges faced that can be addressed in the IAAC report to the SG.

102. The FBN *appreciated* the awareness provided on the new Quality Management Framework to be adopted in December 2022 and the proposals around Sustainability Reporting which will affect entities in the near future.

103. The FBN further *acknowledged* the need for more performance-based audit but *recommended* that the UNBOA ensure that auditors are trained to perform these audit to provide value to the entities. The FBN *suggested* that audit committees have a mandate to review audit work plans from the various assurance bodies to prevent duplication of work and coherent audit planning.

VI. Financial and operational impacts resulting from the Ukraine crisis.

Presenter: Ms. Melissa Buerbaumer (CTBTO) and Mr. Advit Nath (IFAD)

Background

104. The marked pick-up in inflation experienced in 2021, in particular towards end of the last quarter, has exceeded the officially published predictions. While this steep inflation trend was mainly driven by the surge in energy prices, it was also linked to a broad set of post-pandemic economic adjustments, localized wage pressures, the monetary policy responses in major economies and related trickle-down effects. Against this background of volatility and macroeconomic uncertainties, the Ukraine crisis has exacerbated the challenges in multiple fronts.

105. Geopolitical uncertainties highlight the critical importance of spending time envisioning the future and making scenario planning an ongoing, iterative process.

Discussion:

106. Ms. Buerbaumer introduced the topic and set out the objectives of the breakout groups for entities to share experiences on how they are tackling the issues arising from the Ukraine crisis.

107. She highlighted some of the areas that entities need to be cognizant of in dealing with crisis.

a) The impact of inflation is affecting budgets and forecasts.
b) Energy crisis and operational risks
c) Impact on revenue and the shifting donor priorities in funding
d) Impact of sanctions and challenges in making payments to staff and suppliers
e) Disruptions in supply chain and risk management

108. Mr. Nath shared some experiences from IFAD in dealing with the Ukraine crisis. IFAD reacted quickly with their risk management office and the financial controller's office independently performed an analysis and a paper was presented to the Executive Management Committee with both financial and risk perspectives. The policy on financial crime was established with various stakeholders and is supported by a unit and detailed processes. Mr. Nath offered to share the policies in the area of financial crime and discussed the fincrime software that is used.

109. Feedback from the breakout groups

a) Supply chain disruptions

Challenges	*Proposed solutions*
Distribution of commodities	Finding alternative suppliers, and repositioning
Banking side of suppliers, and ensuring uninterrupted	Explore blockchain as a solution

deliveries	
Challenges to assure monitoring of implementing partners	Still no solution

b) Inflation

Challenges	*Proposed solutions*
1. Fixed budgets, general ZNG approach to budgets – historical pattern of absorbing inflation, but at lower level 2. Inflation is at unusually high level that was not forecast during earlier budget discussions 3. Suppliers are having difficulties: a. The same money is getting lower quality, reducing the value for money proposition b. Suppliers are not providing detailed quotations or the quotations are only valid for a very limited time duration (e.g. 1 week) 4. Members don't understand the methodology UN organizations use for determining inflation factors and they question the accuracy of the forecast rates utilized – "Why should we approve an increase now if there is a likelihood the inflation rate is going to be different"? 5. Inflation is having an impact on contributions: a. Members paying assessed contributions are having problems due to their inflation which is causing liquidity issues b. Cost of similar extrabudgetary programmatic activities are increasing resulting in challenging discussions with donors for ongoing activities 6. Agreements to implement under extrabudgetary contributions, particularly long-term agreements, is coming under pressure to be able to deliver. This is causing friction with donors and/or need to renegotiate cost estimates and/or scope. 7. Impact is being seen across all types of expenditures, with particular impact on: a. Staff costs, particularly as we await the ICSC salary survey results b. Utilities, with between 50% and 300% increase in costs c. Travel	1. <u>Focus on Awareness building:</u> a. Communication with members / donors early and often in the right context to make them aware and facilitate future discussions (e.g. informal WG on budget, MS briefings, quarterly/on-line reporting to members, etc.) b. Develop risk and impact analysis c. Needs to be done internally (management), members and donors 2. <u>Absorption / Efficiencies:</u> a. Look at staff commitments (as often represent majority of cost for organizations and delay new recruitments as a short-term measure b. Utilities: i. Forward purchase of utilities to increase the known amount, even if at a higher than historical price ii. Move toward changing energy from historical carbon-based to renewables as members are more willing to invest c. Use of other resources i. WCF ii. Voluntary funding for certain activities 3. Additional funding: a. Consider different approaches for dealing with current approved budgets vs. future budgets as there is limited flexibility in current budgets b. For current, there is limited interest in attempting to get supplemental budget appropriations; therefore, focus is on absorption / cost containment c. For Future: i. Focus on awareness raising now ii. Coordinate inputs and assumptions: o Consistent inflation indicators (ECB, SNB, IMF) for organizations in the same location o Utilization of "contingencies" within the budgets iii. Be transparent about what can be absorbed and what will have significant impact on the programmatic activities

c) Energy and Cybersecurity

Challenges	*Proposed solutions*
1. Energy:	a. The solution can be seen in breaking the

a. increase in premises energy costs b. resulting increase in all operating costs due to increased production costs, costs of supplies and overall	overview by impact on core budgets and programmatic activities financed through voluntary contributions. The topic is closely interlinked with the discussion on inflation. b. While increase on core budgets will most likely have to be absorbed within approved budgets, the increase impacting programmatic and project activities may need to be brought to the attention of donors for action.
2. Cybersecurity The group noted an increase in the number of incidents in the last years aggravated by lockdowns and increased teleworking and working from home. The group members shared information on recent cyber incidents. The reasons for security breakthrough was driven by fun, political gain and money. One of the members noted political connotation/discussions in connection with using Kaspersky software	Members highlighted the need for raising awareness, and switching to multi-factor authentication and discipline.

d) Revenue

Challenges	*Proposed solutions*
Ukraine crisis is impacting the flow of voluntary contributions, less revenue channeled to development and more to humanitarian. At the same time, those organizations mostly involved in dealing with the Ukraine crisis, like UNHCR and WFP are dealing with large inflows of contributions, also in-kind contributions (services and goods) and from the private sector.	Need to plan for reductions of inflows.

e) Impact of sanctions

Challenges	*Proposed solutions*
Sanctions had a direct impact for those organizations with operations in Ukraine, RF and the region.	Suppliers and staff invited to open bank accounts with Institutions that are not under sanctions. Requires a more robust KYC Coordinate within the UN treasury network Work together to leverage local banking system

Conclusion

110. The FBN appreciated an opportunity to share experiences and proposals for possible solutions to mitigate risks and enhance awareness on a multitude of financial and operational issues. The CEB Secretariat will consolidate inputs received and key points that emerged from the breakout groups discussions and make it available to the FBN members for their reference.

VII. Presentation by CIPFA

Presenter: Mr. Drew Cullen, Director, Policy & Membership, CIPFA / Mr. Tommaso Scali, Senior International Lead – Key Accounts, CIPFA

Documentation:
🗐 *N/A*

Background:

111. UNDP are working with CIPFA to conduct a course review of the current International Public Finance Management (IPFM) Programme, with two focal aims:

a. Determine the extent to which learning acquired under the previous programmes has transferred into the workplace (both from the point of view of students and programme managers);
b. Inform the scope of the next phase of the UN's partnership with CIPFA.

112. Presentation by CIPFA on utilizing the **Learning Transfer Evaluation Model (LTEM)** methodology:

a. survey past and current students through a brief questionnaire focusing on key thematic areas to assess how the learners use what was learned to perform work tasks successfully;
b. facilitate a number of workshops with programme managers across the agencies whose employees are CIPFA students to evaluate the outcomes affecting learners, co-workers, and organisations.

113. The evidence-led feedback collected by CIPFA will provide data to update and improve the learning experience of the IPFM students; and will support the UN in designing a new *competency-based programme*, so that learners can acquire all the tools they need to enhance their performance.

Discussion:

114. Mr. Andrew Rizk (UNDP) introduced the topic and the contract that UNDP holds with CIPFA to provide the international public finance management programme. He mentioned that the syllabus had been recently updated and wanted to share the status of the programme with a view to contributing to talent management and development in the system.

115. Mr. Cullen offered some background on CIPFA in supporting government accounting, the management of good value for money and the public sector focus. The new syllabus focuses on the impact that digital is having on the accounting practice, management and interpretation of data, and sustainability. The qualification is delivered through the training and education center based in the UK and via online classes. He went on to discuss the detailed aspects of CIPFAs International Public Financial Management programme and the relationship with the UN.

116. Mr. Scali discussed the assessment performed by CIPFA on their programme with the UN to determine how knowledge was being applied in practice, and help inform the next phase of the relationship with the UN system. He indicated that the overall feedback was very positive and encouraging but feedback also included comments that the course was onerous and difficult to manage with the work schedule. He noted that study groups and support from the entities did assist the students in the study goals. Recommendations from the assessment included the need for more practical training alongside the theoretical aspects and CIPFA. Progress tests and mock exams conducted by CIPFA were appreciated by the students. For training courses in other languages and addressing difficulties in accessing live classes due to different time zones, CIPFA is looking at the possibility of partnering with other accredited training providers. CIPFA presented the suggestions for the next phase as part of their presentation which was as follows:

a. Differentiate the training and certification by including courses for non-finance staff
b. Contextualization by supporting implementation of learning to practices
c. Creating a Community of Practice

d. Developing a membership pathway
e. Live classes by exploring synchronous learning in more than one time zone and in multiple languages.

117. FBN members thanked CIPFA for the presentation and excellent collaboration with the UN system and recognized the success of a first-time qualification that is recognized in the UN system for finance staff. Members reiterated the need for the courses in other languages and if flexibility could be allowed in picking the courses. It was also requested whether CIPFA could complement the materials with additional study materials.

118. Members did express that in the past they found the CIPFA qualification being less international than other qualifications and that the syllabus was more UK focused but based on the presentation, CIPFA appears to be changing this. There was a high dropout rate in certain entities due to the difficulty in managing work and study. The members welcomed the approach suggested by CIPFA in combining a theoretical and practical approach and suggested CIPFA also consider some post-diploma study which would allow for specialization and possibly a CPD programme which covers financial and corporate governance relevant to the UN. There is a need for a training programme that it is created for field finance and not necessarily only IPSAS based with a focus on core finance - financial analysis, cost controlling, cost benefits, budget to actual, contract negotiations, working with banks etc. CIPFA welcomed the comments and offered to work with individual entities in assessing training needs.

Conclusions:

119. The FBN welcomed the presentation conducted by CIPFA to introduce the programme currently used for talent management and development by UNDP and to solicit feedback from UN system entities and ensure that the programme remains relevant, useful and a constructive tool for development of finance staff. The FBN took note of the changes to the syllabus and the suggestions for the next phase in the continued relationship with the UN finance community.

VIII. Update from the working group on harmonization of cost classifications and cost definitions

Presenter: Mr. Gurpreet S. Samrow (UNICEF)

Documentation:

- *CEB/2022/HLCM/FB/7 – Report from the Working Group on Harmonization of Cost Classifications and Cost Definitions*
- *Draft guidance note on direct and indirect costs*

Background:

120. The FBN endorsed the Working Group approach to (1) use the Standard II - UN system function, of the Data Cube Standards, as the harmonized cost categories with (2) further review and refinement of the definition of 'operating costs', (3) which should address the determination of indirect and direct costs for the purpose of cost recovery, and should provide a clear term and, most importantly, a meaningful definition that would allow application in the different organizational contexts.

121. The FBN members also agreed that separate reporting of 'operating costs', within the context of Standard II of the Data Standards, shall become mandatory with a timeline to be proposed by the WG. The FBN advised that for this phase of the work, the WG will develop a road map for implementation, and propose transitional arrangements to allow for changes in systems and processes and give due consideration to the small entities' concerns.

Risk management considerations

122. The UNSDG entities have made a commitment as part of the Funding Compact to develop a system-wide approach on cost definitions and classifications by 2021. As such it is imperative to demonstrate progress in addressing this commitment and finalize a proposal by year end.

Discussion:

123. Mr. Samrow presented the topic on the operating costs and the working group, comprising 20 different agencies who worked on the topic. He discussed the background and the two GA resolutions asking entities to formulate a harmonized cost recovery methodology and to build on cost classifications. In 2019, it was agreed with the Funding Compact that entities will improve comparability of costs and definitions to allow for greater transparency. The working group was established to address this specific request but not to review cost recovery as part of its mandate. The FBN, in November 2021, requested that the working group use the data standard mechanism and the data standard on functions to build and refine the definition of operating costs and allow for reporting through the data standard. The two key deliverables was to a) refine the definition of operating costs including a differentiation between indirect and direct costs and ensure applicability to the different organizations; and b) ensure separate mandatory reporting in the data standard on function.

124. The working group agreed in redefining operating costs it will be given the perspective on function that will form part of the data standards on functions. The survey originally launched by WHO on enabling services was used and circulated with the objective of looking at the completeness of the functions and reviewing location (HQ, field etc.) of costs. While some expressed a view that the template should be updated with all inputs, the value and time in doing that would not be worthwhile and a pragmatic approach was taken in agreeing what the operating costs in essence were from the template and to formulate a definition. The definition would not be perfect in its applicability to all but would establish a way forward in the formulation. The definition was shared with working group members and further refined based on inputs and comments. The definition was presented to the members as follows:

125. *<u>Enabling functions</u> relate to services and associated costs which are typically provided corporately by headquarter and regional level business units, including service centers, to promote the identity, direction and well-being of an organization to collectively enable the organization to deliver its mandated programmes and normative agendas.*

These indirect functions and associated costs cannot be readily or easily traced to specific 'progammes' and generally include the following corporate functions: executive direction, strategy, representation, external relations and partnerships; communications; policy and advisory services, legal affairs; oversight; audit, evaluation, information technology, finance, administration, procurement, security and human resources.

Note: Enabling functions exclude activities of country offices.

126. A decision was made to exclude indirect costs incurred at country offices due to the significant level of divergence amongst entities at country level. By including these, there would be a need to harmonize to ensure comparability in the data cube or accept reporting on it but noting that data will not be comparable.

127. The working group recommends adopting the term 'enabling function' and its definition for financial reporting by all UN entities within the Data Standard on Function within the Data Cube. It was noted that the definition is not intended to feature in the budgetary frameworks or financial statements of the entities. It will replace the current definition of 'operating costs' as a category in the data standards and reporting on this category will be mandatory and reported as a separate function and not prorated against the other functions. As part of the roadmap, it was recommended that those entities ready to report on the enabling functions can report in 2023 on 2022 financial data and other entities can start reporting in 2024 on 2023 financial data. It was also suggested that the UN data cube team coordinate inputs and update the data standards guidance accordingly with inputs from entities and that a guidance note be developed for reference for the classification of direct and indirect costs. A draft is currently available which can be further supplement the data cube guidance and addresses the objective of the Funding Compact to develop a system wide approach to cost classification.

128. UNICEF thanked the working group on the steps taken to formulate the definition and recommended that the working group continue to function in their capacity.

129. UNDP expressed a challenge in the definition combined with the geographic restriction as UNDP has representation offices in a number of countries which would be excluded from the definition due to the note on excluding activities on country offices. UNDP recommended that the phrase read 'typically or may exclude….' in order to agree on the definition.

130. IDLO discussed that their entity introduced a cost policy statement in 2019 that was approved and the objective was to introduce the definition of enabling functions which is driven by donors demands to reduce overhead rates and review of cost allocations. It was highlighted that the importance of the correct tools in place to collect and report data can be challenging and they introduced a time keeping system to collect data to support the charges against the enabling functions. The entity required about 3 years of data to reflect the accuracy of charges against enabling functions.

131. UNFPA endorsed the definition and support the continuation of the working group in the development of the guidance note.

132. IFAD responded that as funding has become more earmarked, it is becoming more important to allocate direct costs but expressed that the principle presented may not allow entities flexibility by going with a 100% functional basis. By indicating that finance, legal, IT for example, are indirect, entities may not be allowed to allocate some of those costs as direct where in certain cases those function directly support programme activities. It was suggested that some flexibility be introduced in the definition and including some wording that would suggest not looking at the cost function holistically but allowing for an allocation to direct costs where possible.

133. IOM supported UNDP's position of adding 'may or typically' to the definition as the entities has enabling functions like resource mobilization in various countries which are not typically country office locations but are enabling functions. IOM noted that the definition appears to align enabling costs with indirect costs and disagreed with this as there are indirect costs incurred in country offices as well. The guidance note is very useful and provides clarity on the meaning of the definition and recommends adopting the guidance note as this addresses the issue raised by IFAD on indirect functions that could be programme related making them direct costs and that indirect costs can be incurred at the field.

134. WIPO responded and endorsed the definition but required further clarification on the guidance note and the definition of indirect and direct costs and supported IFAD's proposition in requiring more flexibility in the definition of direct and indirect costs. The concern is that the guidance note may become mandatory and therefore requires more flexibility in allowing entities to report appropriately. WIPO supports the recommendation that the working group continues and encourage the group to reach out to the Specialized Agencies as much as possible to ensure that the guidance note has sufficient flexibility.

135. UNWTO commented that this is a challenging topic for small agencies to put it in practice. They support the recommendation for the continuation of the working group in enhancing the guidance but raised a concern about the implementation date which would be an issue for UNWTO and recommends 3 years in preparation for implementation. UNWTO recognized the support in the implementation of the data cube and recommends that the work on the cost classifications also include trainings and support as offered by the team on the data cube.

136. UNOPS noted that they would like to see the word projects added alongside programmes to ensure that it applies to UNOPS and reiterated the need for some flexibility in the definition of direct and indirect costs.

137. UN Women supported the request from other entities on the exclusionary clause and to include the word 'may' to the exclusion to be able to endorse the definition. It was recommended that in the communication of the guidelines it is stated that they do not prejudice or change cost classification frameworks by governing bodies or respective organizations and also supports the continuation of the work of the working group.

138. WMO questioned the guidance on how it will get communicated and the impact on the normative organization as strict compliance to the definitions will result in a significant amount of costs as enabling services which could distort the information reported in the context of a normative organization.

139. Mr. Ramanathan recommended that the guidance note should retain the flexibility allowing entities to interpret the guidance authoritatively to their respective business models.

140. Ms. Narayanaswamy suggested that where entities are ready to report these should be reported as part of the data cube and thereby allowing entities who are not prepared to review one cycle of information and assess how this could impact their organizations.

141. Mr. Samrow responded to the inputs received from organizations and commented on the definitions and the discussions that took place on the exclusions part of the definition in the working group. If entities report indirect costs at country level, this would result in incomparability of expenses as entities are not harmonized in the way indirect and direct costs are being classified at country level. He indicated that they did recognize the limitation of excluding this information and noted that there was never an intention that enabling costs represent the totality of indirect costs of an entity and this is where the guidance note allows for flexibility. The definition is the first step in having comparable data and recognizing that there is a need to build on other elements. He recommended that entities could start reporting through the data cube but not publishing it and this process may assist entities in practically applying the definition to their data.

Conclusions

142. The FBN *endorsed* the definition of 'enabling functions' for application within the context of financial reporting in the UN Data Cube on the data standard on UN Functions on the premise that the Working Group continue to review the definition and adjust as needed based on the practicality of the implementation.

143. The new definition will be as follows:

144. ***Enabling functions*** *relate to services and associated costs which are typically provided corporately by headquarter and regional level business units, including service centers, to promote the identity, direction and well-being of an organization to collectively enable the organization to deliver its mandated programmes, projects and normative agendas.*

These indirect functions and associated costs which cannot be readily or easily traced to specific 'progammes' and generally include the following corporate functions and executive direction, strategy, representation, external relations and partnerships; communications; policy and advisory services, legal affairs; oversight; audit, evaluation, information technology, finance, administration, procurement, security and human resources.

Note: Enabling functions exclude activities of country offices.

145. The FBN *supported* the need for the working group to continue refining and finalizing the guidance note with inputs from working group members which would support entities in the application of the definition for the purposes of reporting enabling functions in the data cube.

146. The FBN *noted* that the definition as endorsed in the meeting is for the purposes of reporting to the data cube and to meet the requirements of the Funding Compact to allow for more comparable reporting of similar costs across the UN entities. Entities are not required to adopt the definition for the costs classifications in the budgetary frameworks or financial statements.

147. The FBN also *noted* that the definition is not intended to represent the totality of the indirect costs of an entity. As 'enabling functions' is representing **only corporate functions** (HQ and regional), it is **only a subset of the total indirect costs** that an entity may incur. An entity may/will also have some indirect costs at non-corporate, decentralized (country) level.

148. The FBN *encouraged* the working group and the CEB Secretariat to provide training on the implementation of the definition of enabling functions for the purposes of the data cube.

Transitionary period

149. The FBN recommends that entities continue to report using the current data standards but with the new definition of 'Enabling Functions' that replaces the current definition of 'Operation Costs'. For the reporting period 2022, entities can optionally report on these new 'Enabling Functions', separately, as was done with definition of 'Operating Costs' in the current data standards. Entities are encouraged to report using the new definition and separately disclose these 'Enabling Costs'. These will not be reported but will be used to understand the practical implications in the implementation of the new definition, which would be used by the working group to enhance and update the definition and guidance, where needed.

150. The definition and guidance will be updated based on the 2022 reporting exercise, with agreement from all members of the working group and presented to the FBN for review and endorsement as separate reporting of 'Enabling Functions' will be mandatory in the 2024 data collection exercise (on the 2023 financial data).

IX. Report from the working group on operational reserves

Presenters: Ms. Marianne Roumain de la Touche (UNOPS) and Mr. Robert van der Zee (WFP)

Documentation:
🗐 *CEB/2022/HLCM/FB/8 – Update from the Working Group on Operational Reserves*

Background

151. The FBN at its last meeting requested the Working Group to develop a proposal for develop a guidance note on type IV: Long term capital investment needs (e.g. assets, IT systems). The FBN members also noted that more guidance on Type III: Long-term liabilities (e.g., staff-related, including after-service health insurance) is also needed but this work might be performed by a different and dedicated working group.

Risk management considerations

152. Reserves in general and operational reserves in particular are risk mitigation instruments. Further systematization of these instruments, and a deeper understanding of how they are currently used may serve to inform ongoing or planned exercises to establish new, or review existing, reserves under consideration of relevant factors, such as governance arrangements and funding models.

Discussion:

153. Ms. Roumain de la Touche discussed the working group which was formed to work on a guidance on operational reserves which had included four recommendations and now would like to expand the work on how to better define the long-term investments needs.

154. Mr. Robert van der Zee invited members to be part of the working group and to start with a review of the existing mechanisms to address long term capital investment needs including for infrastructure, IT systems and equipment, how these reserves are set-up, governed, reflected in the budgets, funded and treated in the financial statements. An option would also be to look at what other options exist to fund these investments which are not related to reserves.

Conclusions:

155. A time bound and voluntary based Working Group will be set up under the umbrella of the FBN to address the issue of how to best fund long-term/ capital expenditure investments. The outputs of the work will be structured around the 4 topics below:

a) **Existing mechanisms** used to address long-term investment needs, including for infrastructure, IT systems, and/or equipment
b) **Set-up** of such reserves, including analysis of how such reserves are reflected in budgets, subsequently funded, and treated in financial statements;
c) **Governance** arrangement for such reserves;
d) **Alternative set-ups** responding to the needs typically covered by CapEx reserves, if any, including such mechanisms as internal advances and external borrowing.

156. The draft terms of reference will be circulated to FBN members and volunteers will be invited to join the working group. At the meeting, UNDP, UNICEF, UNESCO volunteered to join the working group.

X. AOB – Use and management of Implementing Partners

Presenter: Mr. Chandramouli Ramanathan

Background

157. The use and management of IPs is both a programmatic and a financial oversight issue. It is a delivery modality that may have fiduciary issues, especially since the range of IPs (big and small) and the diverse nature of the business models of different UN entities calls for differing arrangements.

158. The Finance & Budget Network will start a discussion on this matter with a view to possibly conducting a holistic review, engaging with UNSDG for aspects related to Country Office operations, as appropriate. For country-level issues, the role of the Country Offices is indeed important. However, the development of a framework of policies and procedures within which to operate is beyond their remit.

Discussion

159. Mr. Ramanathan introduced the topic on the JIU report on Implementing Partners (IPs) that has ten time bound recommendations. Some of the recommendations are straight forward but drew attention to recommendation number four which refers to an update of policies by entities or establish new policies on how entities engage with and manage their IPs. He drew attention to the Partner Portal which entities have joined and which presents a good opportunity to deal with the policies and tools to implement those policies. He suggested that the group broaden their scope and entities join the group and the group formulate proposals to meet the recommendations of the JIU report (*JIU/2021/4 – Phase I: Review of the management of implementing partners in United Nations System Organizations)*, especially in recommendation four.

160. FBN members noted that many entities already have policies in place on IPs and that there is a common practice amongst the UNDG on IP management which can be shared with other entities for benchmarking.

Conclusion

161. The FBN *recommended* that recommendations of the JIU report which call for a common UN system wide approach, especially recommendation #4 be assigned to the Partner Portal Group (UNPP) and request that relevant recommendations be included in their workplan to address the JIU report. The CEB Secretariat to follow-up with the UNPP on the course of action to be taken to implement the JIU recommendation and report back to the FBN at the next meeting.

162. The FB *encouraged* entities that have not joined the Partner Portal Group to join the group and leverage from policies and practices that have already been established on Implementing Partners.

XI. Any other business

163. The CEB Secretariat will reach out to entities to find suitable dates for the next face to face meeting in 2023 taking into account financial statement reporting and governing body demands.

FBN 38th Session Attendees		
Organization	**Name**	**Title**
UN	Mr. Chandramouli Ramanathan	Controller
	Mr. Volker Turk	Under-Secretary-General for Policy (via VC)
	Ms. Sandra Canales	Chief, Financial Policy and Internal Controls Service
ILO	Mr. Adnan Chughtai	Treasurer and Financial Comptroller
	Mr. Fikri Gurzumar	Chief Treasury and Accounts Branch
	Mr. Nicolas Grumbach	Chief Strategic Analysis and Reporting Unit
	Ms. Stephanie Witschen	Senior Finance Officer, Strategic Analysis and Reporting Unit, Finance Department
	Ms. Bojana Sosic	Chief Budget and Finance Branch
FAO	Mr. Aiman Hija	Director of Finance
	Mr. Vasily Popov	Deputy Director, OSP
	Mr. Erik Van lngen	Digital Innovation Consultant (via VC)
UNESCO	Ms. Magdi Bona	CFO, Bureau of Financial Management
ICAO	Ms. Carmen Jimenez Gonzalez	Head, General Ledger and Reporting Unit
WHO	Mr. George Kyriacou	Comptroller and Director, Department of Finance
	Mr. Sushil Kumar Rathi	Head, Accounts and Financial Reporting, Department of Finance
	Ms. Charlotte Hogg	Head, Awards, Revenue and Donor Reporting, Department of Finance
ITU	Mr. Alassane Ba	Chief, Financial Resources Mgt Department
WMO	Mr. Brian Cover	Chief, Finance Division
	Mr. Krishnavarahan Adhivarahan	Accountant
IOM	Mr. Joseph Samuel Appiah	Comptroller and Director, Department of Financial and Administrative Management
	Ms. Andrea Verhas	Deputy Comptroller, Director of Finance and Accounting Division
	Mr. Amir Gashi	Chief of Budget Division
	Ms. Hind Kambal	Senior Finance Officer, Finance and Accounting Division
	Ms. Jordane Galasso	Chief of Global Accounting, Finance and Accounting Division
WIPO	Ms. Chitra Narayanaswamy	Director, Department of Finance & Budget (Controller)
	Ms. Maya Bachner	Director, Program Performance and Budget Division
	Mr. Steven Shepherd	Head, Financial Reporting Section, Finance Division
	Mr. Para Nematadzira	Assistant Controller
	Mr. Simon Bower	Risk Assurance and Internal Controls Specialist
	Ms. Shauna Chang	Associate Officer – Secretariat Program and Budget Committee
	Ms. Antonia Chapman Nyaho	Associate Officer
	Mr. Dennis Francis Murathaty	Chief Security Officer, Director - Security and Information Assurance Division
	Ms. Geneviève Hofer	Senior Administrative Assistant
IFAD	Mr. Advit Nath	Director and Controller, FCD
UNIDO	Mr. George Perera	Director, Department of Finance
	Ms. Liliya Sydorenko	Chief, Budget Division

FBN 38th Session Attendees		
Organization	**Name**	**Title**
UNWTO	Ms. Mónica González	Chief, Budget and Finance
IAEA	Ms. Helen Brunner De Castris	Acting Director of MTBF
UNDP	Mr. Andrew Rizk	Chief Financial Officer, Office of Financial Management
	Mr. Robert Opp	Chief Digital Officer (via VC)
UNHCR	Mr. Hans Barrit	Controller and Director,DFAM
	Ms. Ana-Maria Cristescu	Senior Policy Advisor (Finance), DFAM
	Ms. Carmen Hett	Treasurer
UNICEF	Mr. Thomas Asare	Comptroller and Director at UNICEF
	Mr. Gurpreet Samrow	Principal Advisor, Office of the Comptroller
UNRWA	Mr. Shadi Alabed	Director of Finance
UNFPA	Andrew Saberton	Director, Division for Management Services
WFP	Mr. Robert Vanderzee	Director, Corporate Finance Division
	Mr. Pierreguillaume Wielezynski	Deputy Director of our Technology Division
UNODC	Ms. Monica Hemmerde Echecopar	Chief, Financial Resources Service, Department of Management
UNOPS	Ms. Marianne de la Touche	CFO and Director of Administration
	Mr. Vilhelm Klareskov,	Deputy CFO, OiC
UN WOMEN	Mr. Aamir Awan	Chief, Budget Unit, Strategy, Planning, Resources, and Effectiveness Division
	Mr. Moez Doraid	Director of Administration and Management, a.i.
UNFCCC	Mr. Olaf Kandel	Acting Chief of FRMU
	Mr. Frank Rauch	Head of Budget
IMO	Ms. Annabelle Viajar	Head, Financial Services (FS), Administrative Division
UN ICC	Mr. Sameer Chauhan	Director (via VC)
	Ms. Milena Grecuccio	Chief of Staff and Chief, Management and Strategy Division (via VC)
	Mr. Anish Sethi	Chief, Clients and Projects (via VC)
	Mr. Yannis Arfaras	Head, Business Control Unit
	Mr. Shashank Rai	Chief Technology Officer, Solution Architecture Section
CTBTO	Ms. Melissa Dias Buerbaumer	Chief Budget and Finance
UNICRI	Mr. Kai Suelzle	Chief, Centralized Management Unit
UNJSPF	Mr. Karl-Ludwig W. Soll	Chief Financial Officer
CEB Secretariat	Mr. Remo Lalli	Secretary, High-Level Committee on Management (HLCM) / Chief, Geneva Office
	Ms. Ekaterina Zizekalova	Associate Expert in Budget and Finance
	Ms. Odette Anthoo	Senior Consultant
	Ms. Monica Abalos	Staff Assistant