FINANCIAL REPORTING AND BUDGET CODE SYSTEM

Background

For a long time, UN system organizations have reported to sister organizations or other donors for the use of funds entrusted to them. In many cases, these organizations have provided reports, based on the operating system in use and in response to the frequency with which financial data is extracted for external reporting. In other cases, the same organizations have prepared ‘tailor made’ reports in order to fully meet donor reporting requirements. In 2006, the UNDG, for the purposes of simplified and harmonized reporting on joint programmes, agreed on the budget code categories. However, at the time, these categories were endorsed only by a few UN organizations. These budget categories have subsequently been used for reporting on Multi-Donor Trust Funds.

In the course of the experience being gathered in the ‘Delivering as One’ pilot countries, the Task Team on Financial Issues was asked to look into the continuing validity of the budget codes and review the categories in the context of the upcoming adoption of IPSAS. The Task Team was tasked with preparing a paper on financial reporting and budget code system that would form the basis for common guidelines to be used by UN organizations in the future. As all these organizations come together as participating members of Multi-Donor Trust Funds or One UN Funds, there is an urgent need to streamline and harmonize the reporting of expenditures to donors.

Obstacles to Inter-Agency Reporting

There are obstacles to achieving an efficient and cost-effective inter-agency reporting system. In response to the growth in the funds administered and the expected reporting burden for both the lead organization and the participating UN organizations, attempts have been made to introduce easier and more efficient ways of reporting. There are several operational needs to be addressed before the inter-agency nature of the joint reporting requirements can be met. Some of these obstacles are:

- UN organizations use different financial systems with different charts of accounts, and as such direct system integration or raw data integration would be difficult;
- There is no automated tool to facilitate the development of integrated (i.e., financial and narrative) reports based on inputs from a multitude of UN organizations;
- There is no staging area for the required non-financial (results) information; and
• There is no automated mechanism to aggregate data for analysis and reporting purposes at the Project/Joint Programme, Theme, Fund, and overall level.

In the last few years, the same organizations have come together to find common ways of simplifying and harmonizing reporting in order to eliminate the need for additional work necessary to prepare ‘tailor made’ reports. At the same time, solutions have been found for organizations with different financial systems to access data on expenditures incurred by sister UN organizations using funds contributed by those organizations.

In this connection, the UN system is working to enhance the usefulness and efficiency with which the UN organizations that are called upon to play the role of Administrative Agent (AA) for Multi-Donor Trust Funds (MDTF) and/or joint programmes (JPs) can follow the procedures established by the UN system. In this case, the Administrative Agent is accountable for receiving and administering the funds, disbursing the funds in accordance with decisions made by the Steering Committees, consolidating the financial and narrative reports provided by the Participating UN Organizations, and reporting the consolidated figures to the Steering Committees and subsequently to contributing donors. At the same time another operating modality referred to as the One UN Fund at the programme country level has put more pressure on UN organizations in those countries to introduce common reporting to ensure that the inter-agency nature of joint programme reporting is captured in full.

Developments at Achieving Inter-Agency Reporting

1. Financial Reporting Categories

The reporting of programme expenditures on funds contributed under the MDTF and/or joint programmes to other UN organizations or to contributing donors require common financial reporting categories. Since UN organizations have differing financial reporting categories, the UNDG came up with a set of expense categories to be used. UN organizations must conform to the financial reporting categories approved by the UNDG Financial Policy Working Group in 2006. For more information, please see the UNDG explanatory note on the subject: http://www.undg.org/archive_docs/8746-Harmonised_Financial_Reporting_to_Donors_in_JPs_-_Explanatory_Note.doc.

The below expense categories 1 through 6 were to be indicated by the Participating Organization to identify the corresponding 2006 UNDG expense category as well as a line to indicate “interest earnings” as relevant.

<table>
<thead>
<tr>
<th>No.</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Supplies, commodities, equipment and transport</td>
</tr>
<tr>
<td>2</td>
<td>Personnel (staff, consultants, travel and training)</td>
</tr>
<tr>
<td>3</td>
<td>Training of counterparts</td>
</tr>
<tr>
<td>4</td>
<td>Contracts</td>
</tr>
<tr>
<td>5</td>
<td>Other Direct costs</td>
</tr>
<tr>
<td>6</td>
<td>Indirect Costs</td>
</tr>
<tr>
<td>7</td>
<td>Agency Earned Interest Income</td>
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2. The MDTF Office Portal

At the beginning of 2009, the MDTF Office introduced the MDTF Portal for inter-agency reporting using the above set of expense categories. Previously, the MDTF Office had relied on a manual process of receiving, processing, consolidating and analyzing the data and information received from the Participating UN Organizations (and reconciling with the records of the MDTF Office, as appropriate), so as to produce the consolidated progress reports. However, the volume and monetary proportion of funds being “passed-through” to Participating UN Organizations had reached a significant level. It is expected that the MDTF Portal will streamline and automate the reporting process to reduce costs, increase transparency, improve information sharing, timeliness and accuracy of reports, and facilitate the efficient archiving of data.

Several United Nations organizations have mapped their donor reporting to the one approved by the UNDG Financial Policy Working Group in 2006 and as a result have had no problems entering data in the MDTF Office Portal. The MDTF Portal is an easy-to-use web-interface system, consisting of three distinct components with interdependent implementation streams, explained below:

- **UNEX component.** An expenditure upload facility used by some Agencies for UNDP Funded Project Delivery Reports (PDRs). This interface will allow Participating Organizations to directly upload expenditure data for their pass-through financial reporting purposes. They will be able to upload a single excel spread sheet containing all data pertaining to projects and programmes administered by the MDTF Office.

- **Atlas component.** A new General Ledger Business Unit (GLBU) was established for the MDTF Office in Atlas, the UNDP corporate information and financial system, so that “pass-through” funds administered by the MDTF Office as Administrative Agent and held in trust by UNDP on behalf of Participating UN Organizations are recorded on a separate ledger to ensure the highest level of accountability, transparency and audit traceability. This will also reinforce the MDTF Office’s accountability as Administrative Agent of Multi-Donor Trust Funds and UN Joint Programmes.

- **Web-interface/database tool component.** The web-interface provides a single window for the collection, tracking and reporting of non-financial performance information, and will give MDTF Steering Committee members, relevant recipient governments and staff from Participating Organizations access to a simple and easy-to-use state-of-the-art interface to view and analyse the information pertaining to each MTDF and individual (Joint) Programmes.

The introduction of an automated system should rationalize current business practices, and also result in service improvements provided by the MDTF Office to the Participating Organizations, Donors, Steering Committees and recipient Governments.

3. Narrative and Financial Reports
In the case of Multi-Donor Trust Fund reporting, the MDTF Office as Administrative Agent is required to consolidate narrative and financial reports and provide them to donors, MDTF Steering Committees and the Participating UN Organizations. As the standard UNDG reporting is based on results based management, and there is an increasing demand to link resources with results, the MDTF Office has developed a standard set of services that respond to the growing request for quality financial and narrative reporting. As for funds administered by a lead UN organization on behalf of others for joint programmes, the former will provide expenditure data using the above financial reporting categories. In turn, the contributing UN organization will report to the respective contributing donors if necessary.

4. Templates for Consolidated Annual Workplans (CAPS) 2009

As one of the pilots, the ‘Delivering as One’ UN Office in Rwanda has considered the need to function as a coordinated unit and has instituted measures to ensure that Annual Work Plans are prepared in a uniform fashion by all the UN organizations in the country. Based on performance under the key UNDAF results, each organization is required under the coordination of the co-chairs of the UNDAF Theme Groups to complete planning for the Consolidated Annual Workplan. Each UN organization will complete a set of excel sheets to form a basis for the Consolidated Annual Workplans. This process was introduced for the 2009 annual work planning and it is planned at a later stage to build these excel sheets into a web-based online system so that every agency can complete the annual work plans remotely and also be able to access reports at any time.

5. Other on-going attempts to improve inter-agency reporting

Since late 2006 United Nations system organizations are involved in a process to implement the International Public Sector Accounting Standards (IPSAS) in place of the United Nations Accounting Standards (UNSAS). The World Food Programme adopted IPSAS in 2008. The World Health Organization and UNAIDS partially adopted IPSAS in 2008 and are planning full adoption in 2010. Some UNDG organizations are exploring ways aimed at adopting IPSAS compliant reporting to donors. The on-going efforts to agree on common donor reporting should also include the UN Secretariat, which has different reporting requirements from those of the Agencies.

The HLCM has moved to a new CEB website which now houses the financial statistics database and contains comprehensive data and charts on income and expenditures of organizations in the United Nations system. They will soon undertake a review of the database to further analyze the statistics which are now at an aggregate level to that of its components. It is intended to further analyze the resource distribution and utilization and the use of a widely accepted coding structure would facilitate this work.

Options for a Budget Code System

Financial reporting is facilitated by the monitoring of expenditures against budgets. For each participating UN organization, the budget codes used for setting up programme or project budgets should map to the accounting codes used for generating expenditure data. These should
in turn interface with the codes attached to the expense categories. As there are several financial systems used by the different UN organizations, creating an interface with the financial system of the lead agency with those of the participating UN organizations would facilitate the uploading of data and accessing of reports.

Using the example of the MDTF Office, this can be done through the use of a web-based budgeting/reporting portal through which the participating UN organizations are able to submit and view both financial and narrative reports related to all Multi-Donor Trust Funds and joint programmes administered by the MDTF Office. The budget codes used by the participating UN organizations would mirror the account codes for reporting as set up in the lead agency’s system so that the participating organizations can map the budgets and financial reports to these account codes.

**Recommended UNDG budget code categories for reporting to donors**

The Task Team on Financial Issues has considered the on-going efforts to achieve common donor reporting by the various organizations in the UN system. It is also to be emphasized that the introduction of IPSAS will have a major impact on reporting and that many organizations are in the process of finding solutions.

Since the above efforts are at different stages of development, the Task Team does not recommend any changes to the current common financial reporting and budget code system. Instead, it is suggested that this issue is revisited after 2012 when IPSAS is fully implemented by most organizations in the UN system. Therefore, it is recommended that all UNDG organizations reporting under joint programmes and MDTFs continue to do so using the current budget code categories.