



## SECOND ITEM ON THE AGENDA

### **AMENDMENTS TO THE STATUTE OF THE CENTRE, THE FINANCIAL REGULATIONS AND THE FINANCIAL RULES**

#### **Introduction of the Euro for budgeting, accounting and reporting at the Centre**

##### **Introduction**

1. In common with many other organizations belonging to the United Nations system that operated from outside the United States, the Centre decided in 1965 to adopt as currency of accounts a representative and worldwide used currency which was the United States dollar. Therefore, at present, the Centre's budgeting, accounting and reporting are done in United States dollars.
2. As from 1 January 2002 the euro replaced the national currencies of twelve European Union member States: Austria, Belgium, Germany, Greece, Finland, France, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain, thus creating a new currency used on a worldwide basis. Currencies of other members States have been linked to the euro and these States may be expected to accept the euro in future.

##### **Current accounting practice**

3. As the reporting currency at the Centre is the United States dollar, while most expenditures and revenues are in euro, certain difficulties arise due to the strengthening or weakening of the US dollar against the euro. These differences in exchange rates cause gains or losses which have an important influence on the Centre's budgets and reporting, and are more important than they would have been had the accounting and reporting currency been the euro. In fact over the past 10 years, exchange rate gains and (losses) expressed in US dollars are as follows:

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1996	(158,000)
1997	(259,000)
1998	44,000
1999	(395,000)
2000	(694,000)
2001	40,000
2002	315,000
2003	358,000
2004	45,000
2005	51,000

These exchange differences arise from two main reasons:

- a. Difference between the United Nations rate of exchange applicable at the time a transaction is recorded and the rate applicable at the time of payment. This is further complicated by the difference between the UN rate of exchange at the time of recording the transaction and the rate applied by the bank for the same transaction. This is equally true for payable (supplier) and receivable (customer) transactions.
  - b. Year end revaluation of balances of both assets and liabilities, held in currencies other than US dollars, at the United Nations system rate of exchange at 31 December of each year.
4. Other important differences arise between the US dollar rate of exchange used in the budget (for 2005 the budget was prepared at a rate of 1 US dollar equal to 0.831 euro – a rate considered appropriate at the time of the preparation of the budget in August 2004) and the actual monthly United Nations system exchange rate (the average rate for 2005 was 1 US dollar equal 0.801 euro, with a low of 0.737 and a high of 0.855).
- a. For example, in 2005 the fixed contribution from the Government of Italy was budgeted at euro 7,850,000, the equivalent to US dollars 9,446,000. The amount received, when converted into US dollars at the United Nations system rate of exchange, yielded US dollars 9,708,000 (a difference of US dollars 262,000), an increase of 2.8%. During the same period, the salary costs increased by US dollars 473,000 mainly due to the same phenomena.
  - b. An examination of the figures for 2005 shows that:
    - Some 63% of the global revenue of the Centre was recorded in euro (against 37% in US dollars). A detailed study of the amounts recorded in US dollars shows that a further 12% could have been invoiced in euro. This would have given a total of 75% in euro.
    - Some 86% of global expenditure - including remuneration - was euro based.
    - Operations in currencies other than the euro or US dollar are insignificant.

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5. The impact of many of the above mentioned exchange rate fluctuations would be greatly reduced if the reporting currency of the Centre was the euro rather than US dollar.
  6. Accounting practices generally recognize that when 60% or more of the transactions are recorded in one currency, the reporting currency should reflect this. Contacts with both the Treasurer of the ILO at Geneva and with the External and Internal Auditors have confirmed this opinion. In fact the Office of the Internal Audit and Oversight stated: "As the euro is the currency the ITC mainly uses to conduct its economic activity, the Centre should investigate the possibility of budgeting and reporting in euro" (GB.295/PFA/11, March 2006). The External Auditor recommended as follows: "We encourage the Centre to consider an evaluation of the reporting currency used by the Centre and to consider whether there may be merit in moving towards euro reporting" (CC 67/2/Add.3, November 2005).

### **Other United Nations Organizations**

7. Practices in United Nations and other international organizations are not uniform and organizations have adopted different practices depending on their requirements or decisions by their governing bodies. Based on the available information, the following international organizations apply a currency different from the US dollar for accounting and reporting: IMO (in GBP), ITU, UPU, WIPO, WMO (in CHF), UNIDO (in euro).

### **Summary**

8. The adoption of the euro as the Centre's budgeting, accounting and reporting currency would:
  - a. reduce currency exposure from the actual 63% of revenue and 86% of expenditure to a manageable estimated 25%;
  - b. allow for orderly implementation of the work programme by the Centre's management, without the disruptive potential of currency fluctuations;
  - c. facilitate the programme and budget review by the Board.

### **Statute of the Centre, Financial Rules and Regulations**

9. If the Board were to decide that the Centre should move to a system of budgeting, accounting and reporting based on the euro, certain modifications to the Statute of the Centre, the Financial Regulations and the Financial Rules would be required. These modifications are described below (proposed deletions are in square brackets [ ] and proposed additions are in **bold**):

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a. Statute of the Centre:

Amend Article VI.2 to read: “The budget of income and expenditure of the Centre shall be drawn up in [United States dollars] **euro** and contributions to the income budget of the Centre shall be payable in United States dollars or [Italian lire] **euro**”;

b. Financial Regulations:

Replace the terms “United States dollars” and “US dollars” with “euro” in Article 4, paragraph 2; Article 14, paragraph 3 and Article 15 (see Appendix I for the complete texts).

In addition, Chapter IV, Article 11, paragraph 2 should be modified to read: “The target level of the Working Capital Fund is **the equivalent in euro of United States dollar 2.7 million converted at the operational rate of exchange of the United Nations system at the date of the introduction of the euro as the accounting currency**. The Board of the Centre may adjust the target level subsequently so that it is compatible with the volume of the Centre’s budget”;

c. Financial Rules:

Replace the term “US dollars” by “euro” in paragraphs 7.70 (a), (c), (e), (f) and 10.20 (a), (b) and 13.50 of the Financial Rules (see Appendix I for the complete texts).

### **Staff Regulations and salaries**

10. No amendment to the Staff Regulations would be required, in order to maintain uniformity across the UN common system. Salary scales and related post adjustment for officials in the Professional category and above, as promulgated by the ICSC (International Civil Service Commission), will be maintained in US dollars and paid to the entitled officials either in euro or in US dollars, at the choice of the official. It should be noted that for officials in the Professional category and above, the combination of the base salary and the post adjustment, that takes into account exchange rate differences from one month to another, results in nearly the same cost for the Centre in euro each month. Salary scales and other elements of remuneration for officials in the General Service category are already established in euro and will continue to be recorded in this currency.

### **Voluntary contributions and other income**

11. Voluntary contributions such as those from the Government of Italy, the Government of France, the Piedmont Region (Italy) and the City of Turin would continue to be paid to the Centre in euro. The contribution from the ILO would continue to be paid in US dollars. Income generated from other sources should preferably be paid in euro.

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## **Computerized systems**

12. The practical implementation of such an important modification in budgeting, accounting and reporting practice requires very careful planning, testing and control. It will also require changes in the computerized financial and reporting systems, which will be made at the same time as the upgrade of the Enterprise Resource Planning (ERP) system. A detailed study of the modifications required to the ERP system has not revealed any major obstacle to these modifications. The cost and the implementation of the euro as the reporting currency of the Centre have been taken into consideration in the proposed Development Plan (see document CC 68/6/b).

## **Exchange rate for conversion of existing US dollar-based amounts**

13. All assets, liabilities, fund balances and reserves – which are presently shown in US dollars – would require conversion into euro at the operational exchange rate of the United Nations system at the date of the introduction of the euro as the accounting currency. The forecast date for its implementation is 1 January 2008.

## **Action required of the Board of the Centre**

14. With this forecast date, the related decision of the Board and of the Governing Body of the ILO are required well in advance, so that the necessary conversion and tests can be made before going live.
15. Concerning the procedure for modification of the Statute of the Centre, Article X of the Statute provides that: “This Statute may be amended at any time by the Governing Body of the International Labour Office on the recommendation or after consultation of the Board of the Centre.”
16. Article 31 of the Financial Regulations, implementing Article VI, paragraph 5, of the Statute of the Centre provides that: “These Regulations may be amended by the Board after consultation with the Governing Body of the International Labour Office.”
17. Consequently, if the changes are acceptable to the Board of the Centre, they could be submitted for consultation and decision to the Governing Body of the ILO, whose next session starts immediately after the present session of the Board. Subject to views expressed by the Governing Body and the adoption of the proposed amendment to Article VI. 2 of the Statute of the Centre, the Officers of the Board could be requested to adopt the amendments to the Financial Regulations under the power delegated to them in May 1993 by the Board of the Centre.
18. Furthermore, in accordance with Article 30 of the Financial Regulations, the Board of the Centre is also requested to approve the necessary modifications to the Financial Rules of the Centre. The Officers of the Board could be requested to approve these modifications subject to the amendments of the Statute of the Centre and of the Financial Regulations.

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**Recommendation**

**19. In light of the above, the Board of the Centre is invited:**

- a. **to recommend the Governing Body of the ILO to amend Article VI.2 of the Statute of the Centre as described in paragraph 9 above, effective 1 January 2008,**
- b. **to approve the amendments to the Financial Regulations proposed in paragraph 9 above, effective 1 January 2008, and submit them for consultation to the Governing Body of the ILO,**
- c. **to authorize its Officers to amend, subject to adoption of the amendments to the Statute, the Centre's Financial Regulations on the lines indicated above and taking into account any views expressed by the Governing Body, and**
- d. **to authorize its Officers, to approve the amendments to the Financial Rules as detailed in paragraph 9 above, effective 1 January 2008, once the amendments to the Statute and Financial Regulations have been made.**

**Point for decision: paragraph 19.**

## PROPOSED AMENDMENTS TO THE STATUTE OF THE CENTRE, THE FINANCIAL REGULATIONS AND THE FINANCIAL RULES

(proposed deletions are in square brackets [ ] and proposed additions are in **bold**)

### a. STATUTE OF THE CENTRE

#### Article VI.2

“The budget of income and expenditure of the Centre shall be drawn up in [United States dollars] **euro** and contributions to the income budget of the Centre shall be payable in United States dollars or [Italian lire] **euro**.”

### b. FINANCIAL REGULATIONS

#### Article 4, paragraph 2

“2. The estimates shall be expressed in [United States dollars] **euro**”;

#### Article 11, paragraph 2

“The target level of the Working Capital Fund is **the equivalent in euro of United States dollar 2.7 million converted at the operational rate of exchange of the United Nations system at the date of the introduction of the euro as the accounting currency**. The Board of the Centre may adjust the target level subsequently so that it is compatible with the volume of the Centre’s budget”;

#### Article 14, paragraph 3

“3. The accounts shall be kept in [US dollars] **euro**; transactions in other currencies shall be [translated] **converted** and recorded in the accounts at the current operational exchange rates of the United Nations system; gains and losses on exchange shall be recorded in the accounts”;

#### Article 15

“Financial Statements expressed in [US dollars] **euro** shall be prepared at the end of each financial period.”

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## c. FINANCIAL RULES

### Rule 7.70

#### “7.70 Currencies of Accounting and Currency Conversion Rates

- (a) The accounts of the Centre shall be maintained in [US dollars] **euro**. Subsidiary accounting records may be maintained in other currencies.
- (b) Except where otherwise provided in the Financial Regulations or the Rules, the conversion rates used for internal accounting purposes shall be the United Nations accounting rates of exchange applicable on the date of receipt or disbursement by the Centre of the amount concerned.
- (c) Exchange gains and losses resulting from the revaluation of assets and liabilities held in currencies other than the [US dollar] **euro** shall be recorded in the accounts.
- (d) When salaries and allowances are paid in a currency other than that in which they are expressed, the rate of exchange used for the payment shall normally be the United Nations system rate in force on the date of entitlement.
- (e) Advances relating to salaries, allowances and expenses of officials for which the entitlement is expressed in terms of [US dollars] **euro**, including advances on education grants, shall be recorded in [US dollars] **euro**; repayments will be so calculated as to effect full recovery of the amount recorded.
- (f) Advances relating to salaries, allowances and expenses of officials for which the entitlement is expressed in terms of a currency other than the [US dollar] **euro** shall be recorded in the former currency when the advance is made in that currency and in [US dollars] **euro** in other cases. The rate of exchange at which the recorded amount in [US dollars] **euro** is calculated shall be the United Nations system rate in force on the date of the advance. The rate of exchange at which the recorded amount of the advance in [US dollars] **euro** is recovered shall be the United Nations system rate in force on the date of the recovery.
- (g) When expenses incurred by officials or other persons to whom a payment is due from the Centre are reimbursed by the Centre in a currency other than that in which the expenses were incurred, the conversion rate used for the purpose of the reimbursement shall be the United Nations system rate in force on the date on which the expenses were incurred, except in the following cases:
  - (i) where the person concerned had to purchase the currency himself **or herself** at a given date and produces a bank slip showing the rate at which it was obtained, the conversion may be made at that rate;
  - (ii) where a related advance has been made in a currency other than that in which the expenses are reimbursed by the Centre, the expenses incurred up to the amount of the advance shall be converted at the rate of exchange at which the advance was secured;
  - (iii) final payments made by the Centre in respect of education grants at the end of a scholastic year, after taking account of any advances made during the course of the year, may be calculated at a special exchange rate.”

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## Rule 10.20

### “10.20 Competitive Bidding and Advertising

- (a) Except as provided in Rules 10.20 (c) and 10.30, whenever a single purchase of goods or services is likely to exceed [US \$] **euro 20,000** or the equivalent, tenders from at least three suppliers shall be sought by invitations to bid or by newspaper advertisement.
- (b) If a single purchase of goods or services is not likely to exceed [US \$] **euro 20,000** or the equivalent, such tenders may be sought; alternatively, an assessment of competitive prices shall be made whenever possible.
- (c) Rule 10.20(a) shall not apply to employment contracts or to external collaboration contracts with individuals or for the supply of the services of a particular individual. The financial criteria and procedures applicable to such contracts shall be approved by the Director of the Training Department for training and research collaboration contracts, and by the Director for all other contracts.”

## Rule 13.50

“13.50 Where a loss is estimated as [US\$] **euro 400** or less, the writing-off may be authorised by the Treasurer. The Treasurer or the Committee on Accountability, in cases referred to it, may authorize the writing-off of losses exceeding the equivalent of [US\$] **euro 400**. A statement of all losses over [US\$] **euro 400** which are written off shall be submitted to the External Auditor with the related accounts.”